MANUF. — WOOD & CORK

1991

TIMBER INDUSTRY FM 11/1/91 (199)

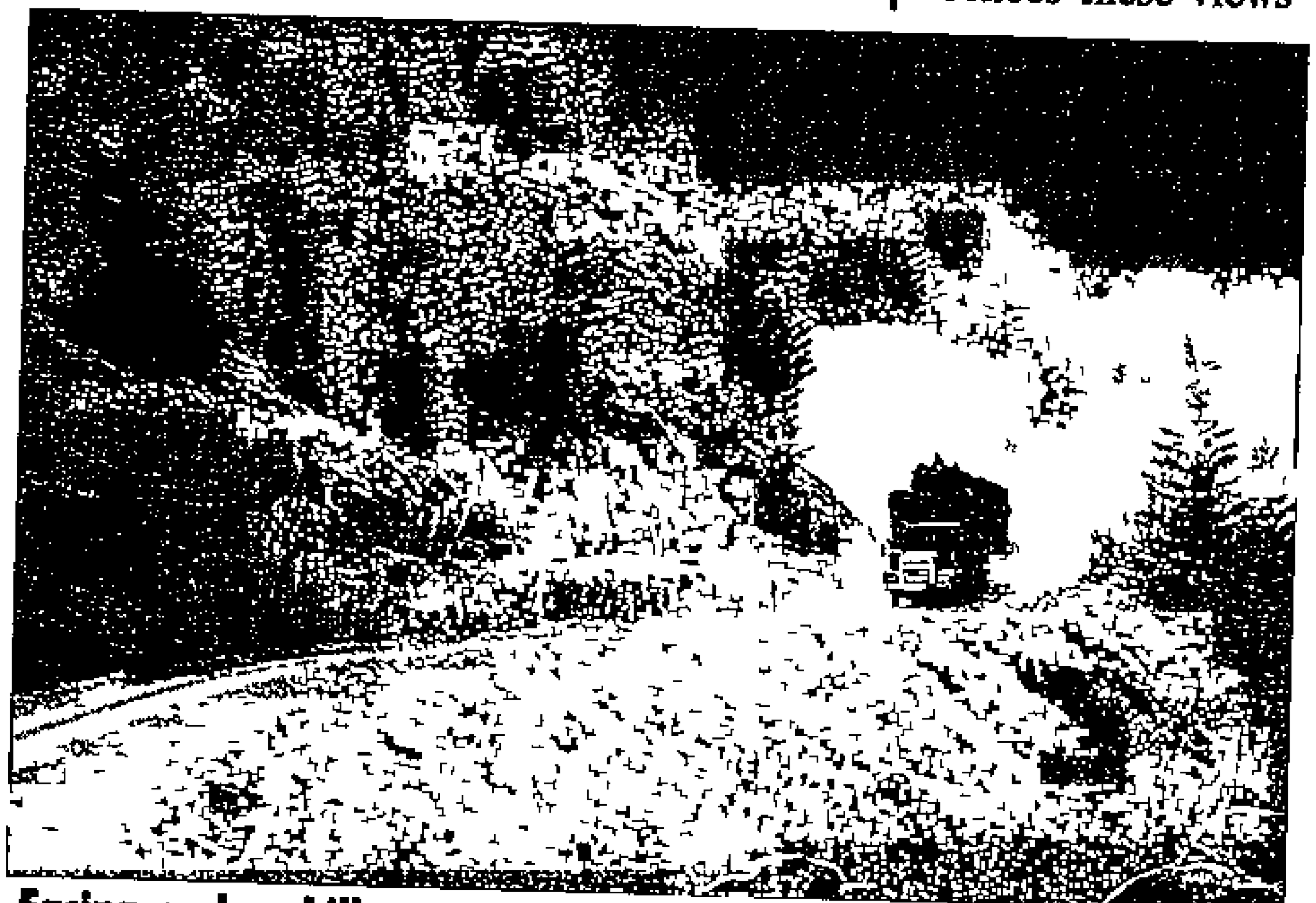
NOT STANDING TALL

The timber industry is facing a year of decline as it enters 1991

Forest Owners' Association director Mike Edwards says world pulp prices are already dropping SA Lumber Millers' Association (Salma) executive director Andries Swart adds that sales will decline unless something innovative, such as increasing sales in the black housing market, is done

Sappi Forests MD Ken Lechmere-Oertel paints an even bleaker picture. Consumption will remain at roughly the same level as last year but he believes consumers will pressure the entire industry, from growers through to processors and sawmillers, to reduce prices because of the 25% drop in the world price for pulp "This is worse than 25% in rand receipts when one considers what happened to the value of the rand against other currencies last year

"Paper prices are also down, but not as dramatically," he adds "Supply is plentiful but the slowing down of economies worldwide is affecting demand. The only bright spot is newsprint Demand is still reasonably strong The best we can hope for in 1991 is that prices will bottom "



Facing a downhill year *fewer logs will be going to market*

Mondi marketing manager Mike Stewart echoes these views He says there won't be much volume growth, competition will be tough and the industry will bleed more if the Gulf crisis lifts freight rates

Last year, the industry avoided losing ground, at best Swart says that when the final figures are in, there will be little difference between what was sold last year and the 1,37m m³ of sawn timber sold in 1989 Edwards also expects no difference in offtake

The Timber Growers' Association's Bruce Ferguson believes, however, that when the year's figures are totted up, they will show a decline on 1989 He predicts this year will be even tougher

The two benchmark prices in the industry were both increased last year by more than the inflation rate, which meant that producer profitability was up last year The cost of logs to processors was increased by 17,5% and the cost of sawn products by 17,1%. These increases came on top of a highly satisfactory 1989, during which the entire industry increased its turnover by 27,3% to R4,67bn (R6bn if paper sales are included)

Meanwhile, the costly promotional effort to boost sales by selling the concept of timber-frame houses as an alternative to brick-and-mortar dwellings has had only limited success Zany as it sounds, the focus now is to persuade squatters to clad their shacks with sawn timber rather than corrugated iron and other materials Salma's research shows that most material used to build squatter shacks is bought

"They use timber for the framework, and timber to clad their shacks works out at half the price of corrugated iron," Swart says. "In addition, the houses that have been clad with timber look much better than those clad with corrugated iron "

He argues that squatter camps would not be eyesores if timber were the preferred cladding material and if squatters were taught how to use it properly. Salma, which already has nearly 30 training centres, will establish eight more in squatter camps.

The potential market for sawn timber in black housing is large, Swart says. Research shows that while 65% of whites can afford starter houses in the R35 000-plus bracket, only 2,3% of blacks can A massive 60,7% of blacks served by the big housing groups cannot afford starter houses that cost more than R12 000 ■

Ex-director gets PGSI wood firm

S/Times 13/1/91 (199)

By HELLOUISE NORVAL

UK-BASED Tradelink Group, controlled by former PGSI director Conrad Schey and associates, has bought the foreign sawn timber assets and trading activities of PGSI's troubled Wood Products International.

An agreement to give a US and European consortium a 50% stake in WPI in return for an investment of $55-million was aborted last year after big changes in the international wood business. WPI's losses at the yearend last March were 208,8c a share.

PGSI's interim statement said a provision of R74-million for below-the-line write-offs should cover the costs of restructuring the international wood division

No price for the Tradelink deal has been disclosed, but industry sources believe the new group has taken control of assets worth about R70-million

Mr Schey will not comment on the figure

The deal specifically excludes PGSI's Southern African sawn timber interests.

Tradelink is an international commodity trading operation set up in London 18 months ago by the current managing director, Herman Schey (Conrad Schey's son) and Patrick Oppler — both former WPI executives

It already operates in Europe, the US, Brazil and South-east Asia

A restraint of trade prevents Tradelink from undertaking timber-related operations in SA until September 1991

PGSI apparently approached Mr Schey Snr and the deal went ahead because it meets his aim to expand Tradelink and PGSI's desire to reshape its wood division

Mr Schey says Tradelink provides expertise and financial, marketing, documentation and shipping services for many commodities, including timber and building supplies

Tradelink's turnover is projected to increase from R7-million a month to about R130-million a year, using the group's existing financial resources.

Contacts

Mr Schey says "We focus on promoting trade in a variety of products in areas where Tradelink has specialised knowledge, skills and contacts which enable it to compete successfully.

"We provide services which are necessary in increasingly complex trading conditions" It is difficult to operate from a distance and profitably control foreign ventures

"With notable exceptions, offshore businesses have not been too successful Top management needs to be on the spot"

He says international economic conditions, particularly in building, are tight

"The upside is that big trading opportunities normally present themselves after a recession Tradelink, as a independent conduit for suppliers and buyers, will take advantage of the opportunities"

The lifting of trade restrictions on SA will also provide new opportunities

Conrad Schey's roots in the wood business go deep In 1954 he and his wife Sylvia established Interwil, which was sold to PGSI in 1980 and became a leader in world hardwood distribution.

Mr Schey resigned from the PGSI board and as chairman of Interwil in April 1989 because of "irreconcilable differences" about the group's development

F M 1/2/91 (199)

DECOR F M 1/2/91

PLUMBING SOLD

(199)

Activities: *Markets and installs wall cladding and makes and distributes timber products*
Control: *Directors 74%.*
Chairman: *C Graham*
Capital structure: *17,5m ords Market capitalisation R3,5m*
Share market: *Price 20c Yields 10% on dividend; 14,5% on earnings, p e ratio, 6,9, cover, 1,5. 12-month high, 30c, low, 20c. Trading volume last quarter, 3 000 shares*

Year to June	‡'87	'88	†'90
ST debt (Rm)	1,7	0,5	1,8
LT debt (Rm)	0,3	0,2	0,4
Debt equity ratio	—	0,16	0,47
Shareholders' interest	—	0,69	0,54
Int & leasing cover	—	14,8	1,9
Return on cap (%)	—	37,3	*12,4
Turnover (Rm)	15	20	27
Pre-int profit (Rm)	1,6	2,8	1,6
Pre-int margin (%)	10,97	13,62	5,98
Earnings (c)	6,6	14,2	*2,9
Dividends (c)	—	—	*2
Net worth (c)	15,1	31,2	27,1

* Annualised
† 18 months
‡ Pro-forma

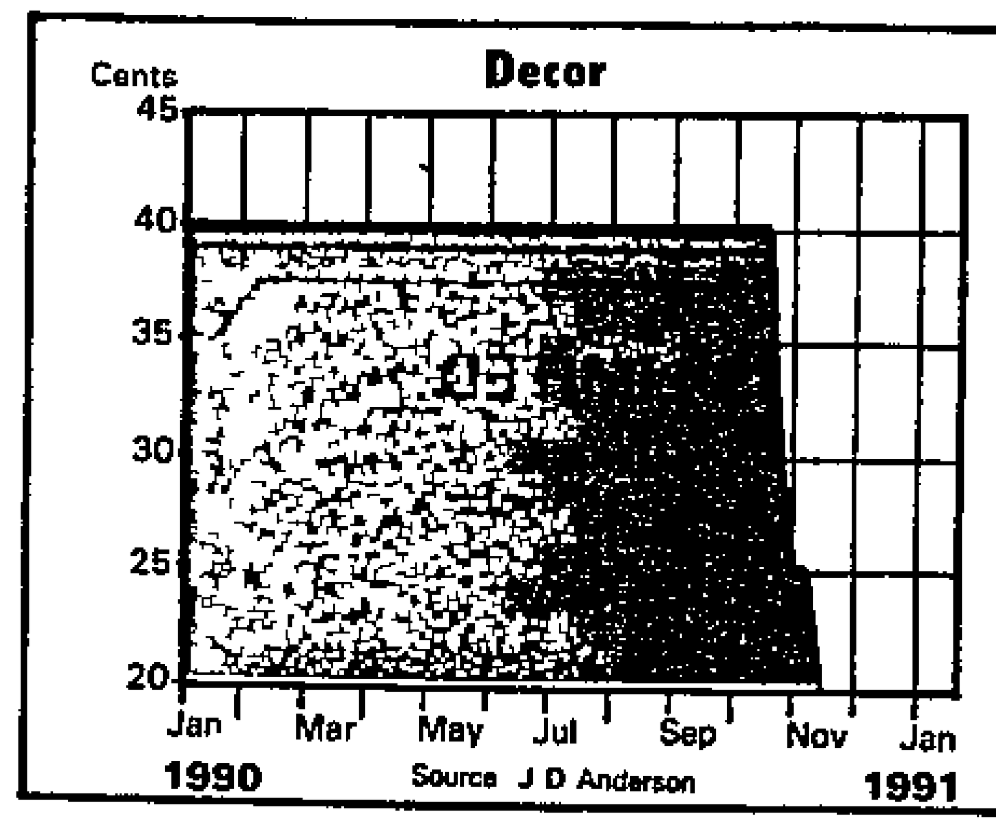
Decor is one of many small companies that came to the market and then burnt their fingers by trying to diversify too quickly

Flush with cash after its first year on the JSE, Decor decided to use funds from its exports of timber products to set up a plumbing merchandising business at the beginning of last year. Unfortunately, things did not go as planned

A slump in export revenues constrained ability to finance the new venture out of cashflow and the group resorted to debt. As a result, soaring interest payments severely eroded pre-tax profit. In the 18 months to June, attributable earnings plunged R1,3m to R729 000, while annualised EPS dropped nearly 80%

To reverse the slide in earnings and reduce borrowings, Decor sold its loss-making engineering and plumbing interests for a combined book loss of R1,2m.

Executive chairman Charles Graham says Decor will concentrate on its pine furniture and wall coverings businesses. Annualised EPS for these operations were 6c at the June year-end and Graham expects some improvement in the current 12 months. He declines to comment on whether Decor will declare a dividend at the end of the year —



an interim dividend of 3c a share, or the equivalent in bonus shares, was declared in October 1989.

However, growth will not be easy. Most of Decor's pine furniture is exported and this business has been hurt by the recession that has gripped much of Europe The group is turning to the domestic market to take up slack in its production facilities, but creation of a local distribution network for these products will require additional investment

The performance of the more profitable wall coverings business has been much more consistent. Even so, the tight economic conditions and flat property market are likely to make trading difficult.

Given the limited trade in Decor shares — only 3 000 changed hands in the past three months — it is difficult to get excited about their immediate prospects. *Simon Cashmore*

Forestry schemes out of the woods

(199)

S Times 3/2/91

By JULIE WALKER

FORESTRY still offers attractive investment opportunities in spite of a judge's ruling against certain tax allowances

Such investments have not been banned, declared illegal or undesireable by the tax man

The scheme in question was attacked under Section 103 of the Income Tax Act on the grounds of abnormalities, including contrived partnerships, structures, promissory notes, compound interest charges not yet incurred, dubious leases and excessive accounting charges

It was found that the scheme had been founded on tax evasion, not tax avoidance It is a dispute about tax — not forestry investment

Bond

One such scheme is offered by Farmgroup, whose managing director Stan Sherratt says it bears no similarity to the scheme involved in the court case.

Farmgroup's scheme is of a long-term nature, up to 22 years for pine pulpwood The forests are in the Drakensberg The costs of establishing plantations, followed by maintenance and insurance charges for the 22-year cycle, are funded by a guaranteed loan

Costs are based on a figure guaranteed against escalation, so the risk of profit or loss in respect of costs rests with Farmgroup

The risk of plantation profits or losses rests with the participants, but tax benefits accrue from the outset

The scheme involves

- An individual plantation investment, not a partnership,
- A lease payable in advance, but deducted from taxable income annually This is secured by a covering bond,
- A fixed and guaranteed cost for the 22-year growth cycle,
- A good return on investment, plus the benefit of farming Farmgroup estimates a gross return of up to R1,2-million a hectare taxed at a preferential rate,
- Unrestricted access to the farm

Farmgroup will arrange a loan to meet the the cost of the 22-year scheme to participants, repayable from tree proceeds Interest on the loan is charged at prime overdraft rate

As a concession and deferment of profits, Farmgroup will accept an annual payment of interest at 5%, plus a management fee. The balance of the interest will be paid out of the plantation proceeds The claim by participants against taxable income is based on the amount actually charged — prime

Mr Sherratt has guaranteed the cost of farming for 22 years at R105 000 a hectare Participants lease a minimum of four hectares This cost is funded by a loan through Farmgroup for settlement at the end of the cycle.

The leasing cost is R250 to R400 a hectare annually, payable in advance and tax deductible each year

Interest paid on the loan is at 5% a year, but there is a charge, and therefore tax deduction at prime An annual management and audit fee of R210 a hectare is also payable in advance.

Reasonable

A condition of the lease is that the plantation be professionally maintained The lessor and the management partnership are not the same

"That participants are plantation farmers is beyond dispute, and the forestry costs included are reasonable As the tax benefits are ongoing for the entire rotation, the participants' plantation interests may be disposed of at any time because the buyer will take over most of the continuing tax benefits," says Mr Sherratt

Yorkor earnings fail to match their target

B/Day 7/2/91 (199)

ZILLA EFRAT

FOREST products group Yorkcor's earnings a share fell 43% to 22,9c (39,9c) in the year to end-December in what was "a tough and turbulent year" characterised by a deepening recession and general social unrest.

The results are below the target of 25c a share forecast at the interim stage when earnings fell 92% to 1,5c (19,3c) a share. As a result senior executives could miss out on a performance bonus of 250% of a portion of their second-half salaries sacrificed in terms of a bonus scheme.

Chairman Solly Tucker says Yorkcor would have beaten its target had it not had the hurdle of getting the New York Pine operation off the ground in its first year. It cost Yorkcor over R1,65m — a loss in earnings of over 17,6c a share — to get this pine products manufacturer up and running. However, Tucker says the investment is well worth the cost.

In the annual report, released with the results yesterday, Tucker says management's target is earnings growth of more than 20% to at least 29c a share for the current year.

For the 1990 year, Yorkcor declared a final dividend of 8c a share, bringing the total for the year to 14c (13c) a share, an increase of 7,7%. It can be taken in cash or in the form of bonus shares on the basis of four for every 100 Yorkcor shares held. A dividend of 17c a share is forecast for the current year.

Yorkcor's turnover rose 2,5% to R36,9m (R36m), but operating margins more than halved to 7,5% (16,2%) leading to a 52% fall in operating profit to R2,8m (R5,8m).

The interest bill rose to R1,8m (R803 000), with interest cover down at 1,6 (7,3) times. The normal tax rate fell to R56 000 (R497 000) and there was a reversal of the deferred tax provision from the previous year of R1,2m (R752 000).

The group posted attributable profits of R2,2m (R3,8m). However, extraordinary items amounting to a loss of R1,4m (R905 000) relate to the closure of the truss fabricating and timber retailing branches at Cor Delfos, Pretoria.

Tucker says Yorkcor's gearing of 31% (19,5%) indicates it is substantially underborrowed and shows its capacity to grow.

Yesterday, Yorkcor was the first SA saw milling operation to receive the SABS 0157 listing. Tucker says this will open large local and export opportunities for Yorkcor, especially to Europe after 1992

Bad time for Yorkcor

Star 7/2/91

199

By Derek Tommey

Timber group Yorkcor faced an extremely difficult 1990, says chairman Solly Tucker

The timber industry was in a deepening recession throughout the year

The volume of structural timber sold in the second half for the sawmilling industry was the lowest for a decade.

Yorkcor's operating margins declined by more than half from 16,2 percent to 7,5 percent of turnover, which was up only 2,5 percent on 1989

Attributable earnings were R2,16 million, equal to 22,9c a share for the year to December

This was a drop of 43 percent on the R3,8 million — equal to 39,9c a share — earned in 1989.

Dividends for the year were 14c (13c).

Shareholders can elect to take their dividends either in shares or cash

Extraordinary items included a loss of R1,408 million (R905 000) on the close of the truss-fabricating and timber-retailing branches in Pretoria

A deferred tax provision of R1,19 million from 1989 was reversed

New York Pine, the company's furniture operation, cost R1,65 million — equal to 17,6c a share to get off the ground last year. But the expenditure was well worth the cost, says Mr Tucker.

Its export order book is full, at much enhanced prices, well into the second half of 1991.

Mr Tucker is forecasting a 20 percent increase in earnings in 1991 and dividends totalling 17c a share

YORK TIMBER FM 15/2/91 (199)

BUILDING AN EXPORT BASE

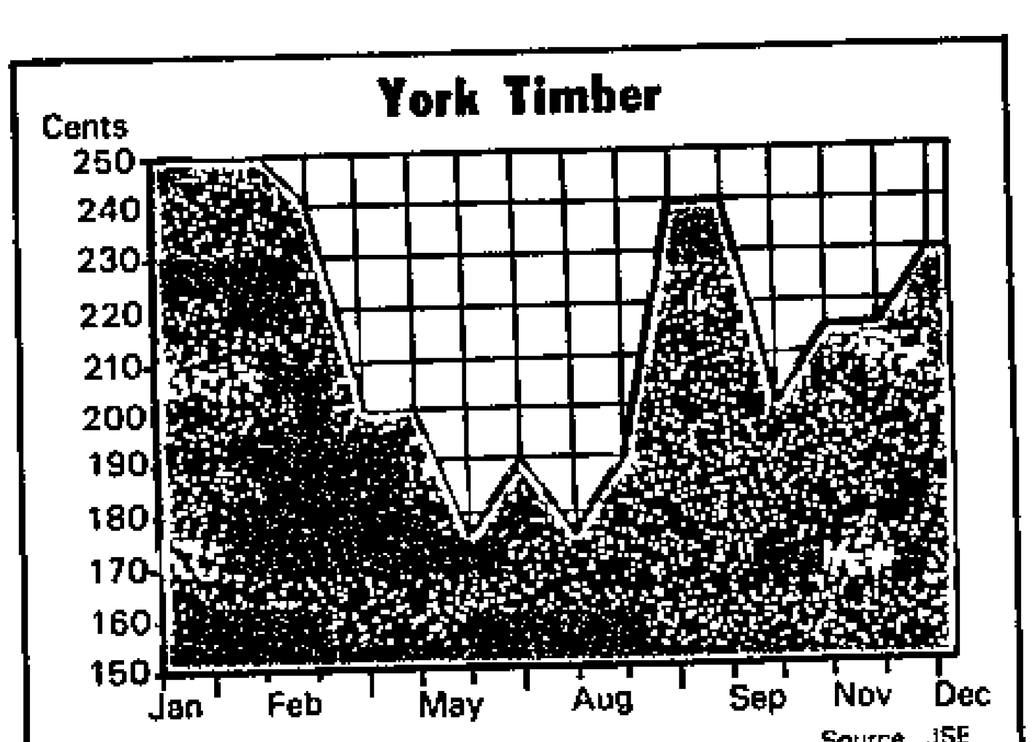
Activities: *Sawmiller and manufacturer of wood products, as well as property investment*
Control: *Tucker family*
Chairman and CE: *S Tucker*
Capital structure: *9,44m ords Market capitalisation R21,7m.*
Share market: *Price 230c Yields 6,1% on dividend; 9,9% on earnings, p e ratio, 10,1, cover, 1,6 12-month high, 250c, low, 150c Trading volume last quarter, 202 000 shares*

Year to Dec 31	'87	'88	'89	'90
ST debt (Rm)	0,5	1,1	1,7	1,8
LT debt (Rm)	9,5	4,4	8,1	8,4
Debt equity ratio	0,5	0,12	0,24	0,45
Shareholders' interest	0,58	0,59	0,52	0,56
Int & leasing cover	1,4	6,3	6,7	1,6
Return on cap (%)	5,5	15,6	13,9	7,0
Turnover (Rm)	28,5	33,8	36,0	36,9
Pre-int profit (Rm)	1,3	5,4	5,8	2,8
Pre-int margin (%)	4,6	15,9	16,2	7,5
Earnings (c)	4	31	42,1	22,9
Dividends (c)	1	10	13	14
Net worth (c)	153	223	244	237

Closure of one of its operations and the start of a new venture cut deeply into the profitability of York Timber Organisation (Yorkcor) last year With trading also hampered by declining domestic and export markets, the operating margin was halved and EPS dropped by just over two-fifths

The dividend was nonetheless increased by 7,7% Based on the declared EPS of 22,9c and the cash dividend of 14c, this gives a dividend cover of 1,6 times, compared with the previous year's cover of 3,1 times According to the company, the cover actually increased from 3,3 to 9,2 times, based on a three-quarter election by shareholders of the bonus share option.

Gross funds generated by operations fell by virtually two-thirds to R2,4m There was a net cash outflow of R4,7m, largely because an additional R3,8m was needed for working capital, which was affected by the establishment of the New York Pine furniture factory, reduced credit terms for State sawlog purchases and increased funding of inventories and debtors Additional sawmilling capacity absorbed R1m and the discontinuation of the Truss Fabricating division of York Timbers cost some R1,3m.




Yorkcor's Tucker
adding value to wood

Chairman Solly Tucker says it cost the group R1,7m to get the New York Pine operation off the ground in its first year of business This translates to an adverse impact upon Yorkcor's earnings of more than 17,6c per share "But for this hurdle," he says, "we would have comfortably beaten our proclaimed 1990 earnings target for Yorkcor of 25c EPS We do not doubt that our entry into this new field is well worth the cost"

Still, these developments had a marked effect on the balance sheet Cash holdings at year-end had dropped from R4,6m to R83 000, borrowings increased by R1,1m and — boosted also by higher rates — interest charges more than doubled to R1,75m

Capacity to grow

The December 31 balance sheet was in reasonable shape, but not particularly strong, considering current economic conditions, with the debt equity ratio up from the year-ago 24% to 45% More important, the interest and leasing cover dropped from 6,7 to a slim 1,6 times Tucker, meanwhile, is not particularly worried about debt He reckons the group remains under-borrowed and, with more than R10m in firm long-term bank credit lines available, there is still capacity to grow

He maintains that all Yorkcor's known legal expenses relating to proceedings against Herbert Rajak, a former executive director of a subsidiary (*FM* October 12), have been charged against current earnings as a normal business expense in the audited financial statements No exact figure is stated in the annual report, but Tucker tells me it is less than R200 000

He says the Rajak litigation had a negligible impact upon Yorkcor's 1990 results, though the events leading to the litigation "did cause a serious disruption in the business of Agentimber in 1990, and caused a financial loss"

Management believes the group's effort to add value to its sawmill products by making high quality pine furniture and other timber products should eventually increase margins and profit New York Pine manufactures mainly for export Tucker does not offer forecasts of earnings from this company (though the group's general level of disclosure is excellent) However, the export order book is full, well into the second quarter of this year

Overheads involved in the export drive are likely to be significant in relation to the 1991 year's income from this source, but New York Pine may reach breakeven during the year

For 1991, Tucker is targeting an EPS increase of just over a quarter to 29c and a dividend of 17c With reasonable results from New York Pine, a stronger turnaround is possible

Even if the earnings target is achieved that would give a prospective earnings multiple of 7,9 and the share, at 230c, does not look cheap, particularly considering the bumpy earnings record *Gerhard Slabber*

DATES TO REMEMBER

Last day to register for dividends:
Friday Feb 22: A Alpha 89c; Adcorp 7c, Adonis 20c, Amshoe 9c; Aries 2,5c; Bloch ■1,62c; Capital 16,05c; Cenprop 13,52c; Com Fund 130c, Crown 1,5c; Didata 13,5c, Distil 11c; Fedsure 15c, Hudaco 29c, Implats 80c; Johnnies 42c; KWV Bel 15c, Lenco 10c; Liberty 54c, Liberty ▲199,2c, Libhold 145c, Libhold ▲522,9c, Libvest 8,8c; Libvest ▲31,125c; McCarthy ▼10c, Methold 9c; M-Net 7c; MJM 2c; Mobile 8,2c, Ovbel ▲16,9c; Pals 1,8c; Picbel 100c; Pichold 100c, Pioneer 17,38c, Presmed 5c; Q Data 5c, Racy 1,5c, Remb Beh 14,43, Remgro 19,5c; SA Bias 19c; Sab Ind 11c; Sabvest 9,4c, SA Eagle 90c, Smithmn 5c; SFW 4c, Techire 3,5c, Tegkor 12,67c; TIB 13,43c, Toco 5c, Tolux 73,8c, Trans Hex 28c, Trans-Natal 22c, Trencor 35c, Walhold *12c; Waltons *12c, Yorkcor 8c.
Meetings:
Tuesday Feb 19: Tolux (Luxembourg)
■ = Net after non-resident tax.
▲ = Dividend in specie
▼ = Includes special dividend
* = Special dividend

Star 14/3/91

Yorkcor's new venture

199

By Derek Tommey

Timber product company Yorkcor may have another string to its bow It is negotiating with a listed exploration company to form a joint venture to prospect for platinum and rhodium in the vicinity of Rustenburg.

Should the prospecting prove promising, Yorkcor would participate in the development of the area, the chairman, Solly Tucker said yesterday

He told shareholders at Yorkcor's annual meeting that it was early days to speculate on the outcome of these prospects, and nothing might come from the current negotiations. However, these had reached the stage where lawyers have been called in to prepare documents.

Yorkcor has owned the land and mineral rights for several decades

Reviewing current operations, Mr Tucker said that the sawmillers had not yet reached agreement with the Department of Water Affairs and Forestry on this year's log price and the delay was embarrassing business operations. Log prices constitute more than 40 percent of the production costs of sawmillers.

The company's furniture manufacturing factory in the Eastern Transvaal, New York Pine, which cost the group over R1,65 million to get off the ground last year, is expected to break-even in the second half of 1991

He expects that Yorkcor's earnings this year will increase by 26 percent to 29c a share

Pulp, paper and timber

Harsh trading times take a toll on Sappi and Mondi earnings

199

B/Day 14/3/91

THE past year has been tough for the paper and pulp industry which experienced a cyclical decline after five years of strong growth

Mondi executive chairman Tony Trahar says the world pulp market is particularly depressed with many mills around the world either breaking even or losing money

The local paper market has been affected by the economic downturn Local prices have shown inflation related increases, but have not risen to the level seen in previous periods of high inflation

Demand for newsprint and magazines is weaker as a result of falling adspend

The industry continues to face inflation-driven cost pressures Softer prices and higher costs have eroded profit margins

In addition to high interest rates and a stronger rand, the industry is being affected by political and economic uncertainty

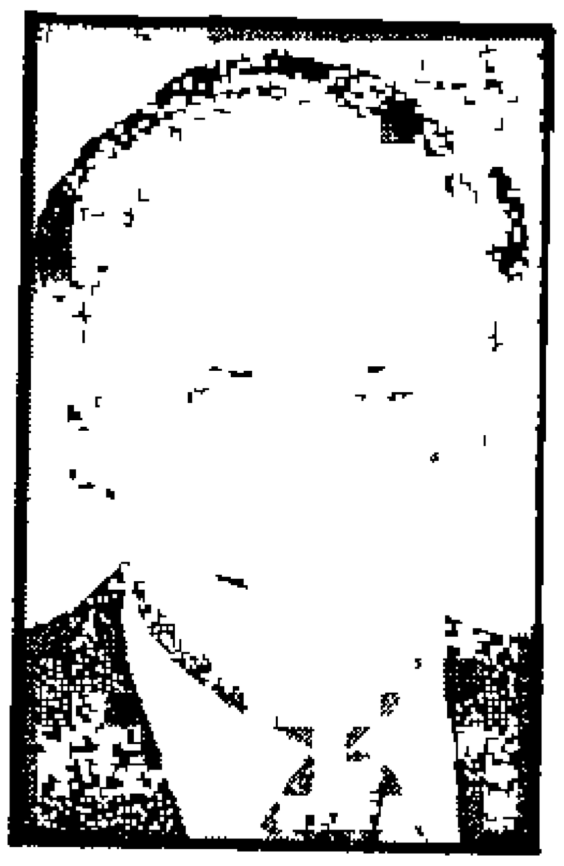
Dumping

Trahar says the weak international market has led to some dumping on the SA market of uncoated papers from countries like the USSR and Brazil

Unlike many of its trading partners, SA does not have import protection on uncoated paper

The industry has applied for a tariff protection of 15%, the same rate that applies to imported coated papers

Last year's harsh trading conditions left their mark on the earnings of the major paper and pulp groups Sappi and Mondi



TONY TRAHAR

According to Amic, which released its results last week, Mondi's results for the year to December 31 reflected a 43% decline in earnings to R89m

Directors attribute the slump to "substantially" weaker pulp prices in international markets The company also had production problems and prolonged strikes at some mills early in the year

For the six months to August last year, Sappi's earnings fell 44% The drop is largely attributed to the relative strength of the rand against the dollar and an adverse production performance caused by strikes and other exceptional events

The group also experienced softer export prices for its products, higher interest rates and the slowdown in the local market

But despite the market slowdown, Sappi and Mondi are involved in huge capital expansion programmes

Trahar says this year Mondi will complete a R1,3bn expansion and replacement programme which it started in 1987

Once this programme is complete, Mondi will consolidate, aiming at using its expanded asset base at full capacity

In its current financial year to Febuary, Sappi will have spent R350m to increase capacity and replace equipment

With the trend to rationalisation in the world industry, Sappi and Mondi gained strong footholds into Europe last year

Sappi, together with a consortium, acquired five UK paper mills for R500m to form a company which has a turnover approaching $300m

Consortium

Called Sappi Europe, it ranks as the UK's second largest speciality paper manufacturing group and its fifth largest paper company

In October, a consortium consisting of Mondi, Anglo American, De Beers Centenary and Minorco bought a 49% stake in Austrian papermaker Neusiedler AG for an undisclosed amount

Neusiedler, with an annual turnover of $350m, is Europe's third largest manufacturer of woodfree papers for the fast growing A4 photocopy paper and business forms markets

Trahar says the benefits of this acquisition are already being seen It has resulted in a large offtake of Mondi's pulp, the exchange of technology and knowhow and offers the local group a base to enter the European market

While still in a cyclical downturn, the industry's prospects are looking rosier for 1991

He says the easing of sanctions will give local producers a boost It will enable them to enter markets that have been closed for some time, to recruit foreign skills and to ensure supplies of machinery from Scandanavian countries

And when economic conditions on the local market improve, Trahar expects a steady resumption of paper consumption patterns An average real growth rate of 3% to 4% a year is expected in the paper and board markets

Planting stepped up to meet demand

OVER the last five years the forestry industry has stepped up afforestation to meet timber demand expected to rise by almost 60% over the next 20 years

Huge timber shortages in the early part of the next century were forecast, but many in the industry now believe shortfalls will not be serious

In fact, over the past 18 months the industry has moved from a shortage of hardwood, which pushed up prices, to a surplus B/Day 14/3/91

Sappi Forests MD Ken Lechmere Oertel says part of the reason for this was a drop of about 40% in mining timber consumption

Six years ago the industry began increasing its planting of hardwood, which accounts for half the timber used in SA, in the face of shortages

Oertel says this will result in a surplus in the market in years to come

He says the forecast shortages were based on the number of pulp and saw mills expected to be built If these are not built, there will be no shortage

Mondi executive chairman Tony Trahar agrees fears of huge future shortages of timber are abating

Surplus

199

"While Mondi and other companies are predicting a surplus in hardwoods, the future of softwoods is harder to predict"

Oertel says there may be a slight shortage of pine towards the end of the century

However, Forest Owners Association director Mike Edwards says long term forecasts of future shortages still stand

He says forestry is a long term business going through a slump because of the economic downturn

While demand for timber has eased and will remain slow possibly for the next few years, Edwards expects shortages in the future

As a result, the forestry industry must continue its afforestation programmes and improve planting methods

In recent years, all the major players in the industry have been accelerating their planting rate

Sappi has been involved in new afforestation and replanting of on average 22 000 hectares a year over the last two years

Trahar says Mondi's R110m seven-year programme to plant 60 000 hectares in the eastern Cape is well underway

Endangered bird finds a new protector

B/Day 14/3/91

SA's rare and endangered wattled crane has a new champion in its struggle for survival

Mondi is developing a project with the SA Crane Foundation aimed at encouraging the birds to breed in the Mooi River area of Natal

Permanent

The project, which Mondi group ecologist Ricky Pott expects to be finalised soon, will include land and housing for the SA Crane Foundation for permanent research work

Pott says the wattled cranes feed on several of Mondi's Natal plantations

One, which includes a vlei area on the Hlatikulu River, has great potential as a breeding site.

But Pott says this can only be realised if Mondi is able to reverse the vlei drainage process implemented when the land was being ~~commercially~~ farmed

As the new owner of the land, Mondi has begun operations to fill in all the canals and halt the drainage of the vlei areas

Shallow

This will re-create the shallow open waters that the wattled crane requires to breed successfully

Apart from the wattled crane, the rarest in Africa, the other two SA species, the blue crane and the crowned crane, are also in the area

"Our ultimate aim is to attract and retain breeding pairs of wattled cranes in an area where they will be safe and can be studied by the Crane Foundation," says Pott

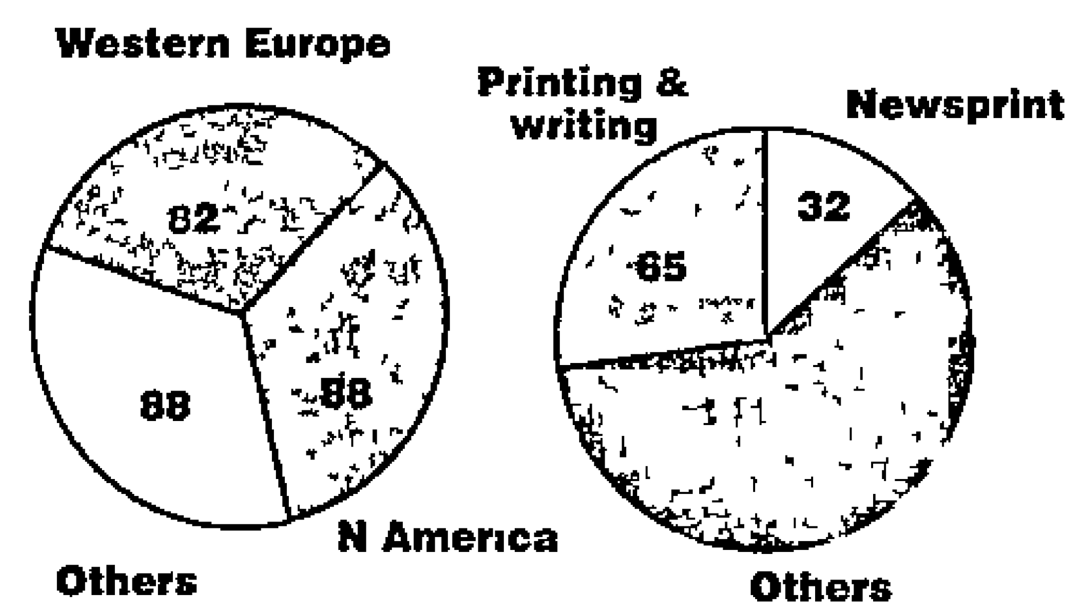
"In the past, cranes have been jeopardised by, among other man-inspired activities, poisoned grain, electrified cattle fences and destruction of breeding habitat"

Business Day SURVEY

*Last year's tough trading conditions left their mark on the earnings of pulp and paper groups Sappi and Mondi But despite the slowdown, both have embarked on huge capital expansion programmes. The easing of sanctions will give local producers a boost, enabling them to re-enter long closed markets. **ZILLA EFRAT** reports.*

Worldwide paper & board production 1989

238 million tons paper & board



Graphic LEE EMERTON Source 3rd INTERNATIONAL BUSINESS PLANNING CONFERENCE (PARIS)

Office technology boosts paper sales

(199)

A POPULAR belief is that new technologies will lead to a paperless society, but at the moment this is far in the future.

Mondi's Merbank paper division marketing and sales manager Mike Stewart says new technology in office equipment, particularly laser printers and telefaxes, has boosted demand for paper

Demand for Rotatrim photocopy paper has increased with the widespread use of laser printers and telefaxes as business communication systems.

Stewart says·

"High demand growth for cut papers is coming from the trend to link high-volume, high-speed laser printers to mainframe computers, replacing impact or dot-matrix printers using continuous forms

"In lower volumes, this is also happening where laser printers are coupled to PCs."

Stewart says laser printers are also essential to desk-top publishing, an increasingly popular medium by which companies can produce their own product, marketing and sales literature.

The overall effect of this trend is that the photocopy paper area of Mondi's business is growing strongly in volume terms

There are several other factors boosting demand. Telefax machines provide only an original copy and if the document requires inter-office distribution, it has to be photocopied.

As telefaxes operate on thermal paper, it is also common practise for the original document to be photocopied for long-term filing or archiving.

Colour

Also, some originals, particularly those printed in colour, can only be faxed in photocopy form.

Stewart says high-value telefax machines operating on ordinary photocopy paper are also becoming popular and are also contributing to increased photocopy paper demand.

Other growing areas in office papers include A4 sized note pads, self-adhesive note stickers and stylised security access and egress forms

Consumption is expected to show steady growth

(199) B Day 14/3/91

PAPER and pulp consumption is expected to show steady growth this decade, which could be boosted by developments in Europe

According to Ekono's studies, the average growth rate to the year 2000 for pulp will remain at 1,5%, while paper will grow at about 2,6%

Davis Borkum Hare analyst Pierre Greyvensteyn says that since 1970 world paper consumption has been growing at an average of about 3% a year

In the '80s, however, growth accelerated to 3,6% in spite of the recession

The US is the leader in per capita consumption of paper, at 310 kg

Asian

But densely populated Asian countries, which are net importers of paper and pulp, are coming to the fore in world paper consumption

Greyvensteyn says an important development for the paper industry is the European market in 1992, which is set to become the world's largest market

European per capita paper consumption today is only 45% of the US's

Worldwide, paper and board production is estimated at 238 tons, with North America the largest market, followed by Western Europe

Slow down

Greyvensteyn says growth has averaged about 3,6% a year during the '80s, but is forecast to slow down to between 2,6% and 2,9% in the '90s

However, with the advent of a single European market in 1992 and following the developments in Eastern Europe, Europe should emerge as the largest market for paper and paperboard consumption

Greyvensteyn says environmental pressures and increased usage of recycled paper have resulted in an immense change in the circuit of raw material

As a result, growth in market pulp should be lower relative to paper and board

Portuguese started the logs rolling

B/Day 14/3/91

TIMBER has been part and parcel of SA everyday life for centuries

The first recorded use of indigenous wood dates back to 1630 when a Portuguese caravel was wrecked at what is now known as Plettenberg Bay

Marooned on an unknown, inhospitable coast, the 20-man crew of the Jose Santa Rita used timber from the local forests to build two boats in which they returned to Portugal and civilisation

Two decades later, Jan Van Riebeeck arrived at the Cape and woodcutting began in earnest As the colony grew, its surrounding forests were soon depleted and woodcutters moved into the forests of the southern Cape

Exotic

The early rulers of the Cape realised the indigenous forests would not be able to support the colony's timber requirements and that exotic species would have to be planted

The common oak, followed by the fast growing cluster pine and stone pine, were first imported more than 250 years ago

In the 18th century, timber from the Cape was often exported to the Dutch East Indies where it was fashioned into "ball and claw" furniture, much of which was re-exported to the Cape Colony

The legendary George Rex is reputed to have built SA's first sawmill at Knysna in 1802

In 1876, SA's first commercial plantation, consisting of eucalyptus trees imported from Australia, was established at Worcester to supply fuel for railway locomotives

A decade later, the first wattle plantations were established in Natal to provide extract for the leather tanning industry

During the depression in the late 1920s and early 1930s, 17 white labour forestry camps were established in various parts of the country

Apart from providing a lifeline to thousands of impoverished families, these settlements increased the area of state plantations four-fold to 140 000 ha by 1938

According to a special report on the forestry industry, the initiative to develop commercial forestry on a really large scale was taken by the state after the First World War

German submarines had made importing difficult during the war, which left government to decide SA should strive to become self-sufficient in construction timber within 50 years

That decision, and the afforestation that it produced, was vindicated when similar import difficulties were experienced during the next world war.

After the Second World War, hundreds of thousands of hectares were planted following a shortage of imported timber

Encouraged

Sawmills sprang up around the country and the booming mining industry encouraged entrepreneurs to establish eucalyptus plantations for mining timber

In 1920, SA got its first paper mill at Klip River near Johannesburg — laying the foundation for the modern multi-billion rand pulp and paper industry

By the late 1940s, the private sector decided that the timber-growing industry was worth investing in

The state, however, remains the largest single player, although three companies — Mondi, Sappi and Hunt, Leuchars and Hepburn (HLH) — together account for over 40% of the total area of afforestation, and over 50% if Swaziland is included

Farmers are urged to grow trees

B/Day 14/3/91

THE SA Timber Growers' Association (Satga) is urging farmers to include trees in their mixed farming patterns to help meet the expected increase in the country's roundwood timber needs

Not only will this result in better land use, but in better profits for the farmers over the long term, ultimately promoting rural stability, the association says.

Satga's appeal, made in its latest annual report, says some 500 000 ha must be planted to trees in Natal alone over the next 20 years to meet the country's projected timber needs

If farmers themselves took part in the programme, they could help keep some 1 000 individual farmers on the land over the long term.

Satga, which is based in Maritzburg, represents 1 800 timber growers throughout SA Most of them are farmers who have stands of timber among other agricultural activities

Sappi sees potential in adjacent countries

B/Day 14/3/91

THE opening up of southern Africa in the wake of political changes in SA could present the local forestry industry with large opportunities in the future.

While Sappi is already involved in afforestation programmes in southern Mozambique, good timber lands exist in northern Mozambique, Zimbabwe, Malawi and Angola.

Sappi Forests MD Ken Lechmere Oertel says there are opportunities to exploit these in partnership with local interests. 199

Expertise

Forest Owners Association director Mike Edwards adds that SA has the expertise and technology, the markets and processing facilities to become a major force in developing the southern African forestry industry.

Oertel says Sappi's arrangements in Mozambique are close to finalisation and it expects to start trial plantings in June, this year.

Over the next 10 years Sappi hopes to plant over 30 000 ha in the area.

Sappi has the rights to the timber it grows in Mozambique, but no commitments have been made as to where the timber will be sold, he says.

However, the Sappi's timber lands in Mozambique are in close proximity to Sappi's Ngodwana Mill in the eastern Transvaal.

Pulp, paper and timber

Pine timber is used extensively in the building industry.

Mondi scheme will aid KwaZulu development

B Day 14/3/91

A COMMERCIAL afforestation programme developed by Mondi with the people of KwaZulu will create jobs and bring prosperity to a large area from the Tugela River to the Mozambique border in the next six to eight years

This is according to Mondi Forest Division GM John Quy.

The project will help the Zulu people to develop areas previously used for less productive purposes like grazing

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Quy says "Average grazing land in the coastal areas up to our Richards Bay pulp mill yields an income of perhaps R20 a year per hectare

"By growing trees, the farmer can see a net income of about R500 a year from each hectare over the six to eight years the trees take to mature"

Mondi is providing know-how, tree seedlings and advance cash payments to assist the farmers through the growing period.

It is looking to develop several hundred hectares a year under woodlots

The woodlot scheme is being developed in the higher rain fall areas near the coast from the Tugela River as far as Hluhluwe

Further north in Maputaland, Mondi hopes to assist in developing afforestation on a more extensive basis as the population density is much lower

"The overall plan envisages production up to 400 000 tons of eucalyptus timber a year to help meet the needs of the expansion planned for our Richards Bay mill," says Quy

Mondi's conservation experts, working with the Natal Parks Board, the Institute of Natural resources and others, are carrying out an environmental study of various effects of afforestation in Maputaland.

Forestry industry is quiet giant of the national economy

B/Day 14/3/91 (199)

SA's forestry industry has often been called the quiet giant of the national economy.

In 1989, the forest and forest products industry contributed 3,4% to SA's GDP — almost double its stake in the national economy of just four years ago

Its contribution to the national manufacturing GDP was 13,7%, larger than that of the motor industry

Some 122 000 people are employed directly im timber growing and processing, many of them in the rural areas where jobs are sorely needed

Over R13bn is invested in the forestry and forest products industry, in which the private sector is the major player

Last year, timber growers were paid R900m for their products with the value of finished industrial products sold amounting to around R6,8bn

The industry's star performer in recent years has been the pulp and paper industry with an annual turnover nearing R6bn

Sawmilling and mining timber were the other main contributors, with a combined annual turnover of R850m

Surplus

In 1981, imported timber products exeeded exports by R133m Just four years later this has been turned around to a net surplus of R500m and last year export earnings stood at a staggering R2bn — a net surplus of R850m

Few South Africans realise just how diverse and important SA's forestry industry is, because only 1% of SA's land surface, covering 1,2-million hectares, is planted in timber

SA produces more than 17-million cubic metres of timber a year, entirely from man-made plantations, making it one of the world's foremost plantation forestry countries

SA's plantations are located in an arc stretching from the northern and eastern Transvaal, through Natal, Zululand and Transkei to the southern and western Cape

Because of favourable climatic gowing conditions, SA is able to grow trees on much shorter rotations and with yields comparable to those achieved elsewhere in the world

Of SA's 1,2-million hectares of plantations, half is dedicated to growing softwoods SA pine has become the staple product of the local softwood forestry industry and has found its way into virtually every facet of SA industry and life

Pine timber is used extensively for building purposes, largely roofing timbers SA is only starting to follow the world-wide trend towards timber frame housing

In the industrial sphere, pine timber is used for the manufacture of doors, furniture, cable drums, crates and pallets

The other major timber species planted in SA are eucalyptus and wattle, both native to Australia

Mining

Eucalyptus is used primarily in the pulping industry, from which many grades of paper and board are manufactured, and by the mining industry as the major form of underground support

Wattle growing accounts for some 11% of plantation production, most of it concentrated in Natal The tree's bark is one of the most important ingredients in the leather tanning process, while the wood is mostly pulped

Merchants expecting tougher times

B/Day 14/3/91 (199)

PAPER merchants have been experiencing harsh trading conditions and things could get tougher this year

Graphtec CE Frits Waldeck says the local recession has affected nearly every facet of the paper merchants' market

Reduced adspend has dented the print advertising market and business form sales are down Many of the smaller and medium sized printers are struggling and a few have gone out of business

With the market declining, the merchants face increased competition which resulted in price cutting and has placed pressure on their margins, erroding their levels of profitability

However, Waldeck says to counter the drop in their markets, merchants are concentrating on controlling costs and improving their productivity

Demand for paper in 1990 remained static and he expects it to show a decline of between 1% and 3% this year

While 1991 will be a tough year for paper merchants, Waldeck does not expect any shakeout in the market place This is because all the paper merchants have the support of three large groups, Gencor, Barlow Rand and Anglo American.

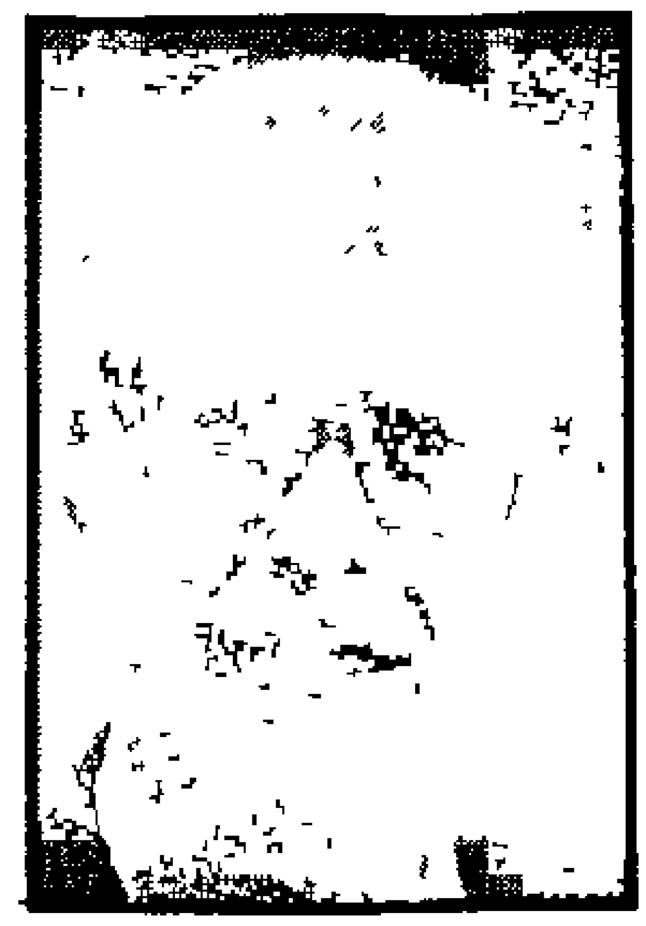
He hopes to see an improvement in the market in the second half of 1992 as the SA economy moves out of the downturn

Waldeck says long-term prospects for the paper merchanting business are sound Once normal patterns of paper consumption resume, he expects the market to show an average yearly real growth of around 4,5% for the decade

This growth will come from a broad range of factors in a changing SA such as increased spending on education, more people entering the work environment and a higher level of skills

Lumber millers are waiting for word on forestry corporation

BDay 14/3/91. 199



SOLLY TUCKER

LUMBER millers, in tough negotiations with government over log prices, are awaiting an announcement on the formation of a National Forestry Corporation.

At the end of 1989, government gazetted draft legislation for this corporation from the state's forestry interests

The government controls 29% of SA's planted forests and is the largest grower of softwood timber

Prompted by widespread opposition to its draft legislation, government commissioned an investigation into the possible "commercialisation" of the state's timber production interests

The report was recently submitted to government, and Water Affairs and Forestry Minister Gert Kotze is expected to make an announcement about it in his Budget speech in Parliament

The sawmilling industry, which has a turnover of R700m a year and employs about 50 000 people, is likely to be the most affected by any move

It relies on state forests for more than half its sawlog intake and takes up about 70% of the state's log output

During 1990, a team representing lumber millers and silviculturalists visited a number of overseas countries which had recently dealt with similar problems with varying degrees of success

Misnomer

While lumber millers are reluctant to discuss the matter, their views are represented by Yorkcor chairman Solly Tucker in his company's annual report, in which he says "Commercialisation by means of a giant state-owned corporation is a misnomer"

He says a case for privatisation in SA has been made out, but not of the state's timberlands

These should remain in custodianship of government

The best way to commercialise the state forestry's undertakings would be a business-like transfer of its various ancillary operations, like planting, harvesting, pruning and road making, to entrepreneurs

However, he says whatever model is finally accepted by the cabinet, none can deny that tampering with the sawmiller's security is tantamount to tampering with unsubsidised jobs where they are most needed — in the platteland

Sawmillers are convinced that a National Forestry Corporation could become a new Goliath that would destroy competition he says

However, Forest Owners Association (FOA) director Mike Edwards says his organisation supports the principle of the National Forestry Corporation as long as it operates on business principles and is profitable and productive

His views appear to be supported by the pulp and paper industry which believes there should be no hidden subsidies that give the Corporation an advantage

At the same time as the draft legislation relating to the forestry corporation was gazetted, the authorities announced their intention to increase the log price by as much as 29 6% on average and bring about about changes to security of tenure entrenched in the long term sawlog contracts.

Some observers believe these steps are being taken to make the proposed new forestry corporation more profitable so that it can be privatised in future

Depressed

In his annual report, Tucker says these moves depressed timber demand and prices and confidence in the lumber milling industry But the industry took up these challenges

Renewals of existing state long term sawlog contracts have been negotiated effectively providing security of tenure of not less than 10 years and access to guaranteed timber quotas from government forests.

There is also an understanding that the standard contracts will be renegotiated on a basis of mutuality and modern commercial principles

Also agreed was an increase of log prices, not by about 29% , but by 19,5%. But sawmillers had to accept a material reduction in payment terms

Tucker says this was a tough deal, "but we were still in business, although the fundamentals are as yet far from settled".

A new and intense round of negotiations for another log price increase is currently underway

Tucker says there are reasons why the industry should not accept such significant price increases as last year

About 40% of the state's plantations is not and probably will never be commercially viable There can be no justification for loading the price of sawlogs to cope with the losses sustained in unprofitable plantations, he says

He adds that any injudicious rise in the log price would seriously hurt SA's international competitiveness which does much for the the stability and growth prospects of the sawmilling industry

In the past, the lumber millers were guaranteed a minimum quota but got more . They now get the minimum and the rest goes into open tender at much higher prices

Yorkcor looking for 'decisive improvement'

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Star 25/3/91.

Diagonal Street
LYNNE PEACH

The past year was a difficult one for Yorkcor due to the severity of the economic downturn and high costs associated with the newly acquired furniture factory

Despite continued uncertainty and tough business conditions, chairman Solly Tucker believes group operations will show a decisive improvement this year

In the latest annual report he forecasts earnings will grow 20 percent to 29c a share with the dividend rising from 14c to 17c

Yorkcor is a vertically integrated forest products enterprise with interests in timber, furniture manufacture and property The core business is sawmilling

In the year to December, group turnover increased a marginal three percent from R36 million to R36,9 million while operating income more than halved from R5,8 million to R2,8 million

Mr Tucker points out that these results were achieved in the face of the slump in house building and other timber consuming sectors of the domestic economy.

In addition, it cost the group R1,65 million to get furniture manufacturer New York Pine into operation The interest bill more than doubled from R800 000 to R1,8 million which resulted in pre-tax profit falling from R5 million to R1 million.

After a taxation benefit, attributable profit amounted to R2,2 million This is 43 percent lower than the previous year's profit of R3,8 million

Earnings a share decreased from 39,9c to 22,9c while the dividend for the year was raised from 13c to 14c,

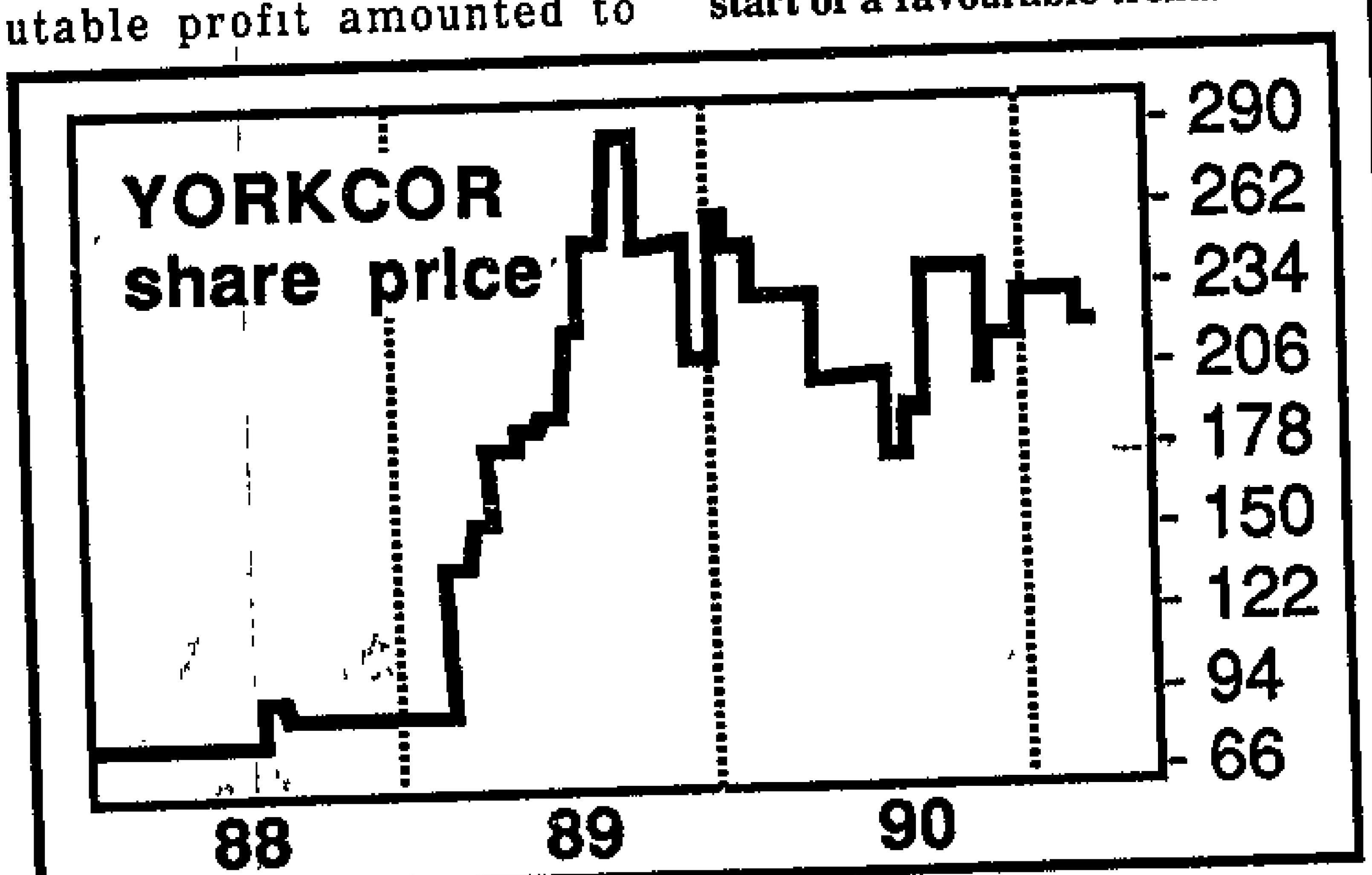
Mr Tucker says the New York Pine operation had an adverse impact on group earnings of more than 17,6c a share

The balance sheet discloses an increase in gearing from 19,5 percent to 31 percent Mr Tucker comments that despite this significant increase the group is substantially under-borrowed He says Yorkcor has more than R10 million in firm long-term bank credit lines as yet unused

Net asset value decreased three percent over the year from 244,1c a share to 237,2c.

Yorkcor, priced at 220c, is trading on a price earnings ratio of 9,6 and provides a dividend yield of 6,4 percent. The thinly-traded share has above-average prospects and is worth holding.

Comment: Yorkcor's share price reached 290c in the second half of 1989 before falling back to bottom at 175c in mid-1990 The price will have to rise above 230c before the charts confirm the start of a favourable trend.



IESS

Top designers launch new Sappi range

SAPPI Fine Papers has invited six SA design studios to create posters for the launch of its six new generation papers.

Each design studio was asked to interpret a specified paper with free creative reign

B/Day 16/4/91.

Webb White design studio used a collection of paper windmills using seven colours, while Gerhard Schwekendiek's poster uses typography and a specially designed alphabet.

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Grapple Group gave a feeling of a Chinese silk painting on its paper, China Embossed.

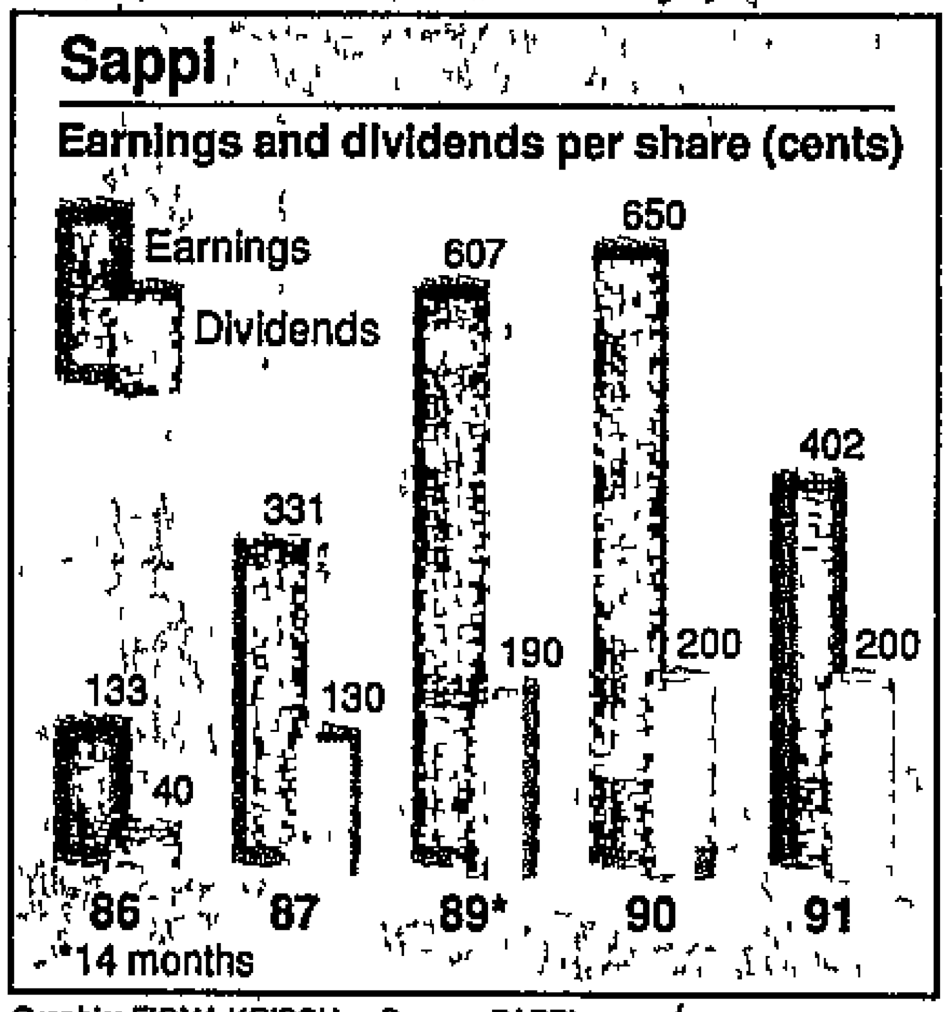
Stable Graphics used embossing, foiling and die cutting to reflect the story of the new Dukuza Gloss paper, and Rose Dendy-Young Studio created a new board game based on snakes and ladders.

A high-tech computer feel coupled with old etchings of traditional printers — combining ancient skills and the high technology of today — was the thrust of Promotional Campaigns' poster.

Pentagram UK will exhibit its internationally acclaimed posters called "Pentagram on Poster" at the launch

Sappi earnings down 38%

BDay 17/4/91 (199)



Graphic: FIONA KRISCH Source SAPPI

ZILLA EFRAT

PAPER and pulp giant Sappi's attributable earnings fell 38% in the year to end-February, with lower international selling prices, a depressed local market, a stronger rand and high interest rates contributing to the slide.

Attributable profits of R374,7m (R605m) or earnings of 402c (650c) a share reflect a stronger second half following a 44% fall in earnings at the interim stage.

Sappi group MD Eugene van As says "The world markets were against us, with steadily declining selling prices in international markets, a depressed market at home and we had to contend with a full year of a stronger rand and high interest

☐ To Page 2

Sappi banks on foreign interests

Star 17/4/91

Industrial relations problems, declining selling prices in international markets, a depressed local market and a full year with a stronger rand and high interest rates combined to knock Sappi's earnings by 38 percent to 402c (650c) a share in the year to February.

The dividend is unchanged at 200c a share.

While MD Eugene van As did not avoid discussion of the grimmer aspects of Sappi's trading environment in his presentation to the Investment Analysts' Society yesterday, he did emphasise the stronger-than-expected performance from Sappi Europe and the bullish expectations on this front.

This is the sort of talk that the local investment community usually likes to hear and it may be sufficient to hold the share price at R38 in the face of the weak '91 results and the prospects for just a modest increase in financial '92.

At R38 the share is on an historic P/E rating of 9,6 times, which is pretty demanding, given, among a number of grim considerations, the weak state of the international paper and pulp market.

The heavy debt load — gearing of 68 percent and finance charges covered only 1,7 times by operating income — would also seem to be more appropriate to a lower rating.

That Sappi does enjoy its current high rating is an indication that investors see it as a blue chip with solid long-term prospects.

These prospects are now heightened by the overseas operations which, if all goes according to bullish plans, are expected to help convert Sappi into a global player by the end of the decade.

Diagonal Street

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ANN CROTTY

At present Sappi is regarded as a world class SA company involved in the international market.

The results for the 12 months to February saw turnover down two percent to R2,67 billion (R2,72 billion) and operating profit slumping 34 percent to R482,3 million (R730,5 million).

The turnover performance was affected by the severe competition in some markets (in the face of weaker commodity prices and excess capacity), which meant Sappi's strategy of holding onto market share could only be achieved at the cost of reduced selling prices.

The sharp drop in margins — down from 26,8 percent to 18 percent — reflects the combined impact of lower sales and rising costs.

Finance costs shot up 37 percent to R280,9 million (R205 million).

Mr Van As attributed the steep finance costs to the high level of interest rates, the maturing of some favourably priced fixed interest financing and the increased level of general financing required.

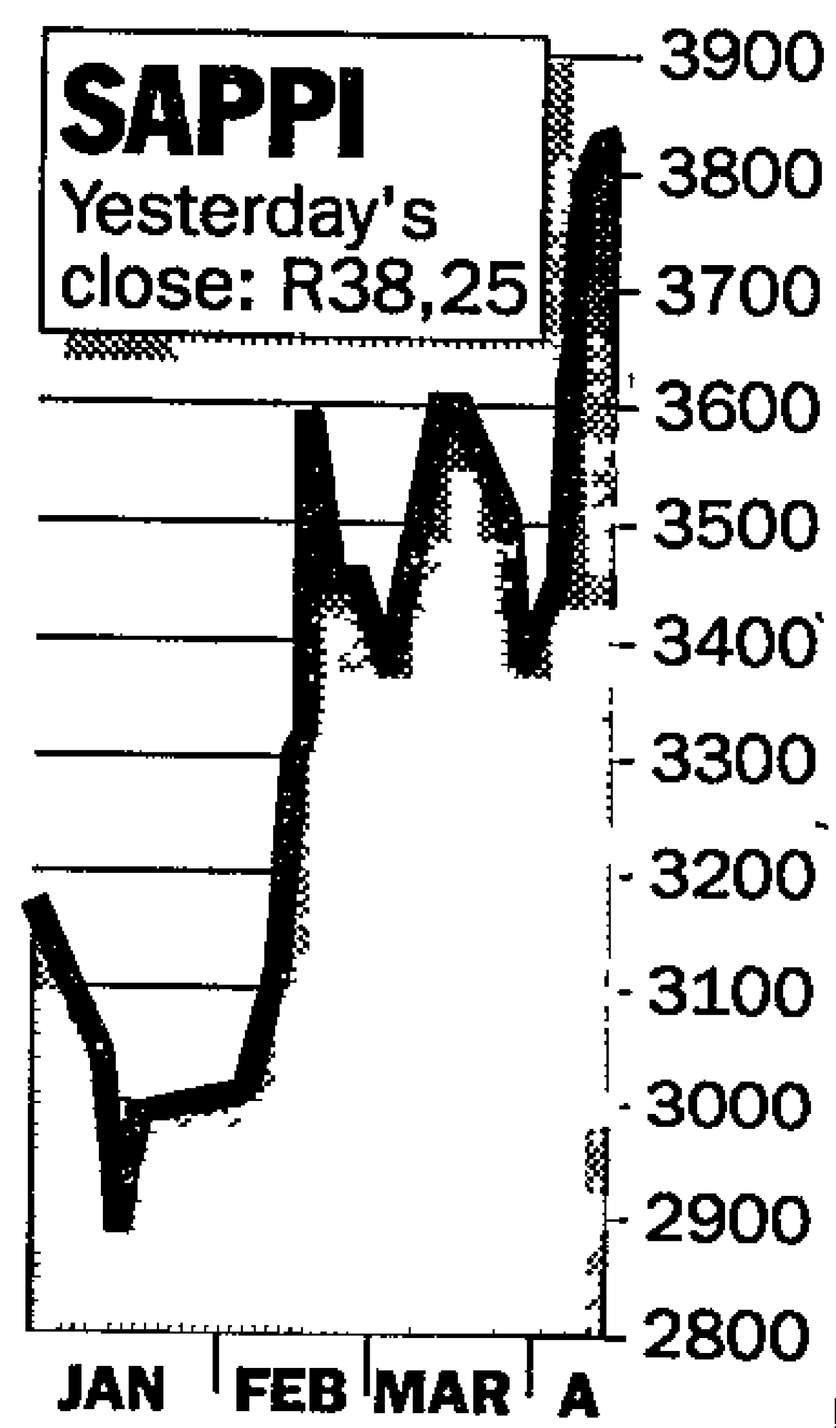
These finance charges include the costs associated with the funds borrowed to buy Sappi Europe in the review year.

In addition, there were R109,7 million of finance costs which were capitalised.

Pre-tax income was down 46,7 percent to R347,7 million (R652,1 million). There was a tax charge of R2,1 million (R13,5 million).

Mr Van As does not expect Sappi to be facing a much steeper tax charge within the next two years.

Retained income from associates (Sappi Europe, SPT and Usutu) shot up to R69,3 million (R17,9 million), taking net income up to R374,7 million (R605 million).



FM 19/4/91 199

SAPPI FM 19/4/91.

PROFIT TORN 199

Tumbling commodity prices, production problems and labour disputes marked a disappointing 1991 financial year for pulp and paper producer Sappi

Hopes of a significant recovery in earnings in the second half proved too optimistic Net income for the year to end-February plunged 38% to R375m — the first drop in five years This was better than the 44% decline at interim, but below management's forecasts at that time Management blames further weakening in international pulp prices for much of the shortfall

Measured against the group's long-term financial objectives, Sappi's latest performance pales significantly Not only did the group fall far short of real earnings and dividend growth, but its operating margin of 18% and returns on shareholders' funds and total assets of 12,4% and 8,6% respectively were well below target But the group can take consolation in the fact that rival Mondi reported a 45% drop in attributable earnings for the year to end-December

Like many large exporters, Sappi found it difficult to contend with the cyclical fall in international commodity prices without the cushion of a depreciating rand While US$ prices for main grade pulp and paper have fallen about 19% in the past year, the value of the rand has remained stable and even firmed at times Management appears to have been particularly caught off guard by the fall in world dissolving pulp prices, which eroded Saiccor's earnings contribution

"Dissolving pulp prices are usually more stable than paper pulp prices but proved to be more volatile in this cycle," says Sappi MD Eugene van As Sales from Sappi's other three main products — bleached softwood pulp, newsprint and Kraft linerboard — are also thought to have dropped sharply

The depressed domestic market, which last year contributed about half the group's sales, was unable to compensate for the plunge in export earnings Turnover fell 2% to R2,67bn Sales were also hampered by strikes at the Ngodwana and Enstra mills as well as production problems at Ngodwana, Tugela, Usutu and Novobord

Operating income, down 34%, was further diminished by a sharp rise in finance costs brought about by high interest rates, the maturing of favourably priced fixed interest financing and higher borrowings At year-end, long-term debt had shot up 46% to R1,3bn

Sappi's R500m acquisition of five paper mills in the UK — which now form the kernel of Sappi Europe — was funded using financial rands and offshore loans, and this added to pressure on the balance sheet The group also bought, for an undisclosed sum, Speciality Pulp Trading in Hong Kong Gearing increased from 56% to 68% and interest cover slipped from 3,6 to 1,8

Van As expects a further, though slight, reduction in world pulp and paper prices This, with depressed international and domestic demand, will ensure trading remains difficult He expects only a modest increase in earnings

Before release of the results, the share was trading at 3 825c, giving a p e of 9,5 times on the latest figures With this performance and the 1992 year's outlook, the share is unlikely to appreciate much in the short term

Simon Cashmore

A dismal year, but Sappi's set to climb off the bottom

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S1 Times (Bus IT) 21/4/91

SAPPI shareholders stayed aboard in spite of a 38% drop in the company's earnings for the year to February 1991

"The results are pretty dismal," chief executive Eugene van As said in a presentation to the Investment Analysts Society this week. "But I'd say we are close to the bottom"

Earnings of 402c a share and a maintained dividend of 200c were in line with analysts' expectations, but the prospects outlined by Mr Van As exceeded them

In the year Sappi bought five paper mills in England, all afflicted with fragmented management

"We got five mills and four of everything else The mills have been structured into a cohesive unit divided into two product ranges"

They make value-added paper products in the £1 000-a-ton price bracket

Sappi Europe was also launched — in Rome Mr Van As says that even in its first year in the group, and after the cost of financing the acquisitions in which Sappi had to use the financial rand to export capital, Sappi Europe makes a positive contribution to the bottom line

Employee numbers have been cut and productivity has been increased by 28% a head in the few months since Sappi took over the English mills

"We have to increase the return on assets, make them work harder, to achieve an acceptable return for shareholders," says Mr Van As

Annual production days have jumped and output has been increased because a small amount of money well spent has unplugged some bottlenecks Consequently, costs have fallen

An oversupply of pulp was the reason for low prices Even a 1% rise in capacity gives an effective tenfold increase in market supply because integrated paper mills use 90% of their own pulp production

The rate of increase in paper-grade wood pulp capacity has averaged 3,2% a year for the past three The pace should slacken this year So will paper and paperboard, which has grown at 4,4%

Mr Van As says that in spite of a price war in dissolving pulp — it resulted in the liquidation of one competitor and the closure of two more — Sappi was not willing to relinquish any market share It was able to maintain market share because of its low production costs

Prices have recovered by about $100 a ton in the Far East Mr Van As will be happy if they do not climb too fast and so relieve pressure on some of the world's high-cost producers

He showed the 1990 results of 10 North American and five Swedish companies in the same business as Sappi The earnings declines in most cases was worse than at Sappi, and three Canadians and a Swede incurred losses

The group's turnover of R2,7-billion was 2% below the previous year's, but the 1991 figures do not equity account Sappi Europe, Hong Kong acquisition Speciality Pulp Trading and Usutu in Swaziland If they did, turnover would have exceeded R3,6-billion

Interest cover fell to 1,8 times, but Sappi never wants to see it covered more than six times by earnings

The debt-equity ratio is close to 70% — higher than last year's but not extraordinary for the group Mr Van As is aware that interest rates have meant a high cost of funds, and says that in the next six months the position should ease as rates fall and product prices increase

Capital will be spent judiciously in that time on expansion, and shareholders will not be called on to cough up unless a perfect opportunity arises

European growth will be both organic and by the proper acquisitions, as well as the growth of SA products exported

At home, there are opportunities for white-top liner at Ngodwana, for which the mill was originally designed and commissioned

Croxley fine paper products will also be imported, and the Timber Industries division has ironed out the problems with the production of medium-density fibreboard

Sappi's mills score a big plus because they fall well within the pollutant levels environmentalists seek to impose Canadian and American producers in particular will have to spend between 7% and 15% of their turnover on effluent controls to meet the criteria

Expansion of R400-million at Saiccor, the dissolving pulp business in Natal bought from Courtaulds two years ago, will bring its emissions into line

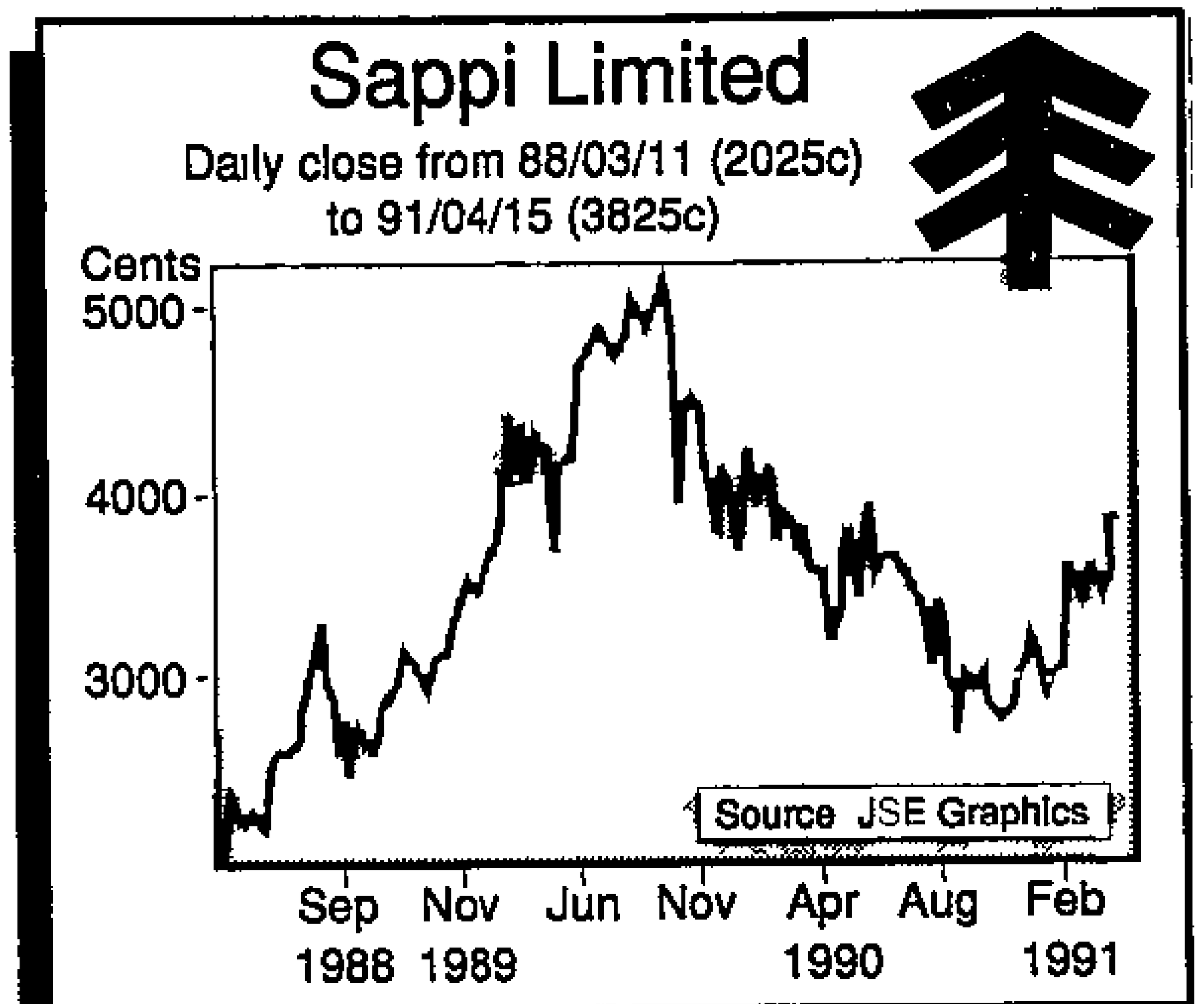
"We are really bullish on dissolving pulp," says Mr Van As

The same sum will be spent at Enstra, R250-million at Tugela and R100-million at Usutu

Non-rand earnings will account for more than half of Sappi's earnings in the current year Financial opportunities hinge on interest and exchange rates

Mr Van As hopes for a global SA-based Sappi organisation by the end of the century His presentation to analysts on where to from here makes the potential look realisable

The shares yielded a rand to R37,25 on Wednesday after the results were announced, but it was hardly an exodus Those with the longer-term view will sit tight



EUGENE VAN AS: A world player in pulp his ambition

Timber for houses

S| Times (Bus|T) 21/4/91

SA LUMBER Millers Association is training people to build houses with timber in a move to relieve the critical low-cost housing shortage (1/2023) (199)

It has set up 20 training centres and another six are planned in urban areas where the need is greatest

The next step will be to establish depots providing construction timber at the right price, says Salma executive director Andries Swart

Sappi sets its sights on the global market

B Day 22/4/91

199

ZILLA EFRAT

SAPPI's strategy is to become a global player in the paper and pulp market by the turn of the century, says Sappi group MD Eugene van As

The group already made two acquistions in this direction last year It bought five UK mills, from which it established Sappi Europe, a producer of high quality labelled products

It also acquired the Hong Kong-based international pulp and paper trading house, Speciality Pulp Trading (SPT), which holds contracts to distribute Sappi's non-rand denominated sales

And Sappi is on the lookout for further European acquisition opportunities

Van As says already 25% of Sappi's turnover is from non-SA assets and non-rand sales account for more-than-half of Sappi's total business

While the five UK mills acquired largely concentrated on the British market in the past, they will now be focused on the European market

To give it a European identity, Sappi Europe was launched in Rome

Sappi Europe MD Kim Jokipii adds that Sappi is looking to form a European network through which it will market products produced both in SA and the UK as one package

Sappi's Ngodwana mill is set to launch new improved products this week which it will be able to sell into the European market And from Europe, Sappi is bringing the Croxley range of products into SA

Sappi Europe, which was previously run by four different management teams, has been rationalised This operation is settling down and was profitable in the year to Febuary 1991 It is expected to make a reasonable contribution to earnings in the current year

Its first step will be organic growth in Europe as there is still capacity potential after bottlenecks have been removed, extra shifts introduced and the opportunities to improve its product mix maximised

Sappi is also looking for new acquisitions in Europe, aimed at niche markets and brand name products, to fill out the opportunities, says van As

SPT, which is also expected to make an important contribution to Sappi's profits, is to continue its third party trade in pulp, as well as handle all Sappi Europe's exports

First step taken to freeing state timber

BDay 30/4/91

199

ZILLA EFRAT

CABINET has approved the formation of a steering committee as a first step towards commercialising the state's forestry and sawmilling interests — a move which could result in their privatisation

Government controls 29% of SA's planted forests and is the largest grower of softwood timber

The announcement was made by Water Affairs and Forestry Minister Gert Kotze in his departmental budget vote in Parliament last week

Kotze said the committee, which would be formed as soon as possible, would create a company which would eventually take over the state's forestry interests

Kotze envisaged that the company would eventually be subject to the commercial disciplines of a public company and that through a dynamic group of directors the state's forestry interests would be expanded to compete with the private sector

He believed that if privatisation eventually took place, the company would be very attractive to investors

Cabinet's decision follows draft legislation on the proposed formation of a state forestry corporation gazetted in 1989

After some opposition to this draft legislation, Ernst & Young was commissioned to investigate the possibility of commercialising the state's timber interests

Kotze said negotiations and discussions had been held with the forestry board and private sector players in the industry The possibility of creating a private company had been positively received

He added that any changes affecting personnel would be done with great care Organised personnel bodies had been given the chance to state their case during investigations and would have further opportunities in the future

SA Lumber Millers' Association executive director Andries Swart said his organisation was studying the Minister's speech

However, he was pleased to hear Kotze had recognised that sawn timber was of strategic importance in solving SA's housing crisis and had therefore given the assurance that the creation of the company would not result in higher sawlog prices

Rise in log prices to hurt hard-hit lumber millers

199

ZILLA EFRAT

LUMBER millers, already hit by the economic downswing, will be further hit by the state's latest increase in log prices, says SA Lumber Millers' Association (Salma) executive director Andries Swart.

The Forestry Council recently announced a 12% across-the-board rise in the basic roadside price of softwood sawlogs effective from March 16. A further 2,5% increase would come into effect from September 16

B Day 30/4/91.

The latest increases follow a confrontation last year when the state, which controls 29% of SA's planted forests, attempted to increase log prices by 29,6% on average. After negotiations with sawmillers, the increase was settled at 19,5%.

While reluctant to comment, Swart said lumber millers, already hit by a slump in the building and construction market, would find it difficult to pass the rise on to their customers.

He said sawmillers believed that a price increase between 6% and 8% under present conditions would have been more realistic

The latest increase has come as good news to the SA Timber Growers' Association.

In its latest newsletter it says it appreciates the Forestry Branch's achievements relating to these prices, as they form the basis of any sales agreements concluded by the private individual grower

Officially, this support was halted in 1984 with the signing of the ... outrage and a posting to

Tree plan revived

199

S Times (Bus Times) 5/5/91

SAPPI Forests will start planting forests in southern Mozambique later this year to meet the growing demand of its SA paper mills

Because of land pressure in SA, Sappi is looking at less costly land for forests

Sappi Forests managing director Ken Lechmere-Oertel says 30 000ha in Mozambique has been identified as suitable for trees.

"We found the land suitable for pine and eucalyptus in the early 1970s, but because of the political and security situation we put the project on ice An agreement with the Mozambicans is being drafted"

Back to square one after Frelimo destruction orgy

S Times (Bus Times) 5/5/91

199

ON GAINING power in 1974, Mozambique's Frelimo rulers destroyed environmental studies which had been painstakingly compiled over many years

The result was that virtually no geological or mineral surveys of the interior could be presented to prospective developers

The reason? The studies were seen to be the work of colonial oppression.

This thirst for self-immolation is particularly poignant given the almost total reversal in the government's Marxist policies in the past three years

A significant amount of surveying and planning of natural resources was carried out by Johannesburg-based environmental consultants Loxton Venn & Associates before independence

Its work was to have provided a blueprint for Mozambique's agricultural and mineral development.

But virtually no environmental development has taken place for 15 years The country remains a land of "enormous potential" — a euphemism for wholesale economic sabotage

Aerial photographs of Mozambique's countryside show a frightening sociological catastrophe the land has been denuded of human habitation

Sappi

Hundreds of thousands of refugees have fled to Maputo, Beira, Nacala and other towns, as well as Zimbabwe, Malawi and South Africa

All that remain are isolated villages scattered among the thick forest of the north and the bushveld Virtually no farming takes place away from the towns

Loxton Venn environmental consultant Frank Merryweather says the firm retains the only plans and maps of the interior.

"We are working with Sappi on a forestry project south of Maputo, and with Mondi on another near Xai-Xai, north of Maputo We map fuel wood resources No work can be done on the ground because of the security problem All mapping is done by aerial photography in co-operation with people who had ground knowledge in colonial times"

The Zambezi valley is fertile, and was the most studied and farmed region of the country Sugar estates which existed in this area until the 1980s bore yields double those achieved in SA because of the excellent soil and temperature conditions Today it is doubtful that even subsistence farming takes place

SA and other companies are keen to become involved in agriculture in this region because the returns are likely to be high The Zambezi valley is ripe for irrigation, having a wide, flat flood plain.

Two problems threaten environmental development in Mozambique The first is the security problem, which has prevented projects such as Sappi's and Mondi's from advancing

Irony

The government tells potential investors that they are responsible for their own security outside of the major towns

Security arrangements in Mozambique are not as simple as requesting the army to move into an area and flush out the bandits

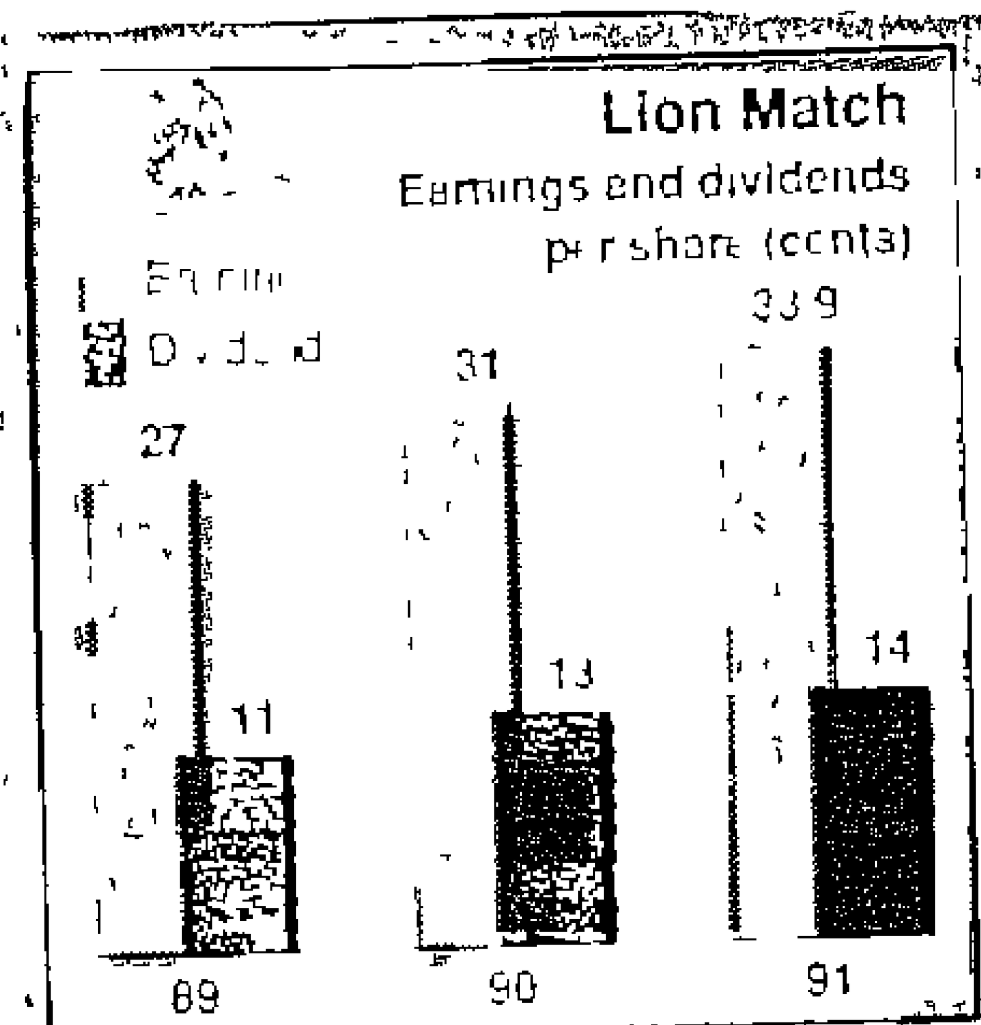
Mr Merryweather recalls an incident where he was involved in ground surveying with an army patrol — the soldiers refused to leave the road

The second problem is Mozambique's poverty, which appears likely to result in desertification of large parts of the country Various projects awaiting the go-ahead involve cutting down ancient forests of indigenous trees without any plans for re-planting

Mr Merryweather says that much of his recent work arose out of a dispute between the Mozambican government and the World Bank about whether the ancient indigenous trees could be used for firewood and then replaced with faster-growing non-indigenous eucalyptus.

One irony is that much of the work originally done by Loxton Venn on behalf of the Portuguese played into the hands of Frelimo Loxton Venn was commissioned to map areas with a view to shifting peasants from scattered areas into protected villages

Ideal locations for these new villages were found The protected villages then became the basis of Frelimo's policy of collective farms



Graphic: FIONA KRISCH Source: LION MATCH

8 Day 7/5/91

SAB's Lion Match comes up to scratch

(199)

MARCIA KLEIN

LION Match, one of the first SA Breweries' (SAB) subsidiaries to report for the year to end-March, increased its earnings by 9,4% to 33,9c (31c) a share on a 18,1% rise in turnover to R330,6m (R280m).

The Durban-based 70%-held SAB company's modest increase in earnings compares with a 15% growth in financial 1990 and unchanged interim earnings

Lion declared a final dividend of 7,5c (6,5c) a share, bringing the full year dividend to 14c (13c) a share.

Lion's results were in line with market expectations Analysts last week predicted little growth for Lion Match and Amrel, and decreased earnings in SAB subsidiaries Afcol, Southern Sun and Da Gama.

However, they said SAB's foreign interests, its beer division, Edgars and ABI would boost the group's results They were also optimistic about OK Bazaars Forecasts for the group varied from an 11,5% to an 18% growth in earnings

Mondi may make bid for Portuguese mill

Star 10/5/91

199

By Jabulani Sikhakhane

Mondi, Anglo American Investment Corporation's pulp and paper subsidiary is reported to be working on a deal to acquire a pulp and paper mill in Portugal.

According to sources the deal, believed to be worth between $200 million and $300 million, will be financed by a loan from Minorco

The mill had initially been offered to Sappi which turned it down, sources added

Mondi's commercial director, Grahame Perrins confirmed yesterday that some early discussions had taken place with the UK-based Wiggins Teape about their pulp and paper mill in Portugal

He added that Wiggins Teape had initially sold off the Portugal mill to a Swedish pulp and paper company, but the deal had been cancelled

"Then there were reports in a Portugal newspaper to the effect that the Anglo American group (because it has an office in Portugal) was doing this deal," Mr Perrins said

One market analyst said the deal — if it comes off — would be a cash drain on Mondi

Plan to give squatters house-building skills

B/Day 16/5/91 (199)

WILSON ZWANE

SA's sawmilling industry is set to launch a training programme to help squatter communities acquire the necessary skills to build themselves timber houses

The programme will be launched next Tuesday and, says SA Lumber Millers' Association (Salma) CE Andries Swart, Salma will spend R1m of its own funds on the programme

Swart said in a statement yesterday research had shown timber was the most widely used material in shack constructions

Salma, "as the custodian of timber construction technology in SA", had decided to tackle the housing problem by training squatter communities in timber-frame construction

"Salma has developed a series of excellent short courses of two to three weeks' duration People thus trained will be able to erect good-looking, durable and effective timber houses which comply with the national building regulations," he said

Salma marketing chief Peet Simonis stressed that his association would not be building houses for squatter communities "We only teach people how to build the timber houses and it is up to them to take the initiative and build themselves houses," he said

Simonis said the association was in the process of establishing seven training centres in urban areas. The first such centre was already running at Crossroads in the Cape, while another was being established in Tembisa

"Fifty people will be accommodated at each of the centres for the duration of each course and Salma will charge those who are able to pay R30 for a course Those who cannot afford the fee will be taken on free of charge," he said, adding that Salma was promoting wood

The Urban Foundation and the Manpower Department — through its training schemes — were also involved in the programme, he said

He cautioned, however, that the training programme alone would not solve the squatter housing problems

"What is also needed is building materials at affordable prices Timber dealers often found it insufficiently profitable to supply this market due to the risk factor

"However, the sawmilling industry has started a process to set up a direct distribution channel in cooperation with communities in informal settlements," he said

Directors happy with Woodrow

ROBERT GENTLE (199)

WOODROW Holdings, the industrial company with operations in fluid handling, hydraulic, combustion and associated equipment, has boosted attributable income for the year ending February by 40% to R2,64m (R1,88m).

The strong showing, achieved on a 22% rise in turnover to R40,5m (R33,2m), was described by the directors as "most satisfactory" given what they say were difficult economic conditions

A dividend of 6c (5c) was declared. BDay 16/5/91

Marring an otherwise fine set of operating results was a 73% hike in the interest bill from R1,04m to R1,79m.

The directors say the high figure, which included convertible debenture interest of R716 000, should fall substantially in the year ahead, after planned stock reductions

However, the balance sheet structure and liquidity have strengthened "considerably", and the debt to equity ratio is now within the group's target range of 50%.

On the prospects, the directors say all group companies are trading well and real earnings growth is expected

MERVYN HARRIS

Sale of company HQ helps bottom line

BDay 22/5/91

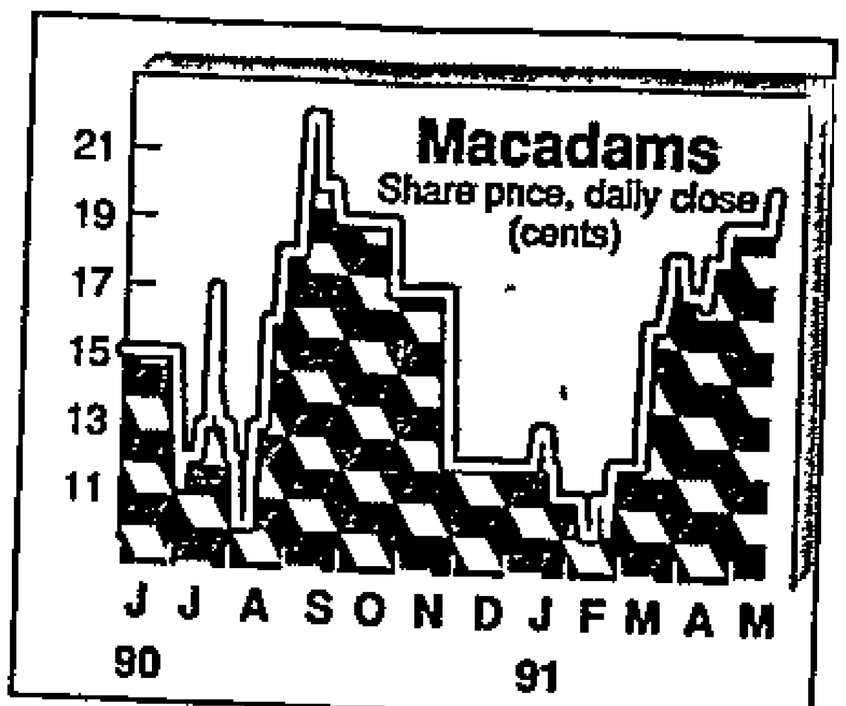
MARCIA KLEIN

CAPE-based bakery and confectionery equipment manufacturer Macadams benefited from the realisation of R2,01m through the sale of its factory and head office building, to turn in a bottom-line profit of R2,45m for the year to end-February

The company's earnings compare with a net loss of R3,10m in the previous financial year, where extraordinary losses of R3,98m were incurred in discontinuing operations of its Aloe catering division

The disposal of Aloe saw turnover for the year decline from R37,7m to R28,9m MD Raimund Pouliart said the comparitive turnover for the previous year, excluding Aloe's contribution, would have been R28,0m. However, the small increase in sales revenue "was not indicative of the higher volumes actually achieved"

He said that Macadams focused on its own products rather than on the sale of more expensive imported equipment, which resulted in a drop in turnover even though volumes were up on last year



Graphic: LEE EMERTON Source: INET

The interest bill increased by 6,7% to R1,59m (R1,49m), which Pouliart said did not reflect the full benefits of the property sale, and net income was halved to R442 000 (R888 000)

Earnings, including the extraordinary item, were 15,9c a share (a loss of 20,1c a share)

Gearing was down from 255% to 74%, but no dividend was declared in line with management's commitment to reduce gearing to 50%

While Pouliart did not expect positive earnings to be maintained in financial 1991, he said he did not expect "any major fluctuations in performance" in the current year

Analyst: Sappi may start picking up in 1993

BDay 22/5/91 (199)

ZILLA EFRAT

SAPPI should start showing real earnings growth in its 1993 financial year as world paper and pulp markets are expected to firm by the middle of next year, says Davis Borkhum Hare analyst Pierre Greyvensteyn.

In the year to February 1991, Sappi's attributable profits declined 38,1% to 402c a share The paper and pulp giant was affected by softer local and international markets and strikes at two mills

However, Greyvensteyn forecasts earnings growth of about 4,5% in fiscal 1992 and 25% in 1993

Dividends, however, are expected to remain at 200c a share

Earnings in the 1993 year will be boosted by firmer prices and increased plant throughput and efficiency following the ongoing capital expansion programme.

However, in the short term Sappi will be under pressure to improve earnings in fiscal 1992, especially against the background of tight margins and high finance costs.

Greyvensteyn expects international prices to remain depressed for the next 12 months because of slower international consumption coupled with excess installed capacity and more to come in both 1991 and 1992

In the current year, Sappi could also face competition from imported papers because of the excess capacity abroad, as well as some dumping on the local market

As a result, price increases are expected to remain below the inflation rate this year But the group could benefit if the rand weakens against the dollar

Greyvensteyn says Sappi's return on total assets has deteriorated sharply from 16,1% in 1985 to 8,6% in 1991 This suggests that since 1987, efficiency at plant level has seriously deteriorated

HL&H sees a new fibre export gap

199

B|Day 28/5/91

MARCIA KLEIN

HL & H Timber Holdings, in the Hunt Leuchars & Hepburn (HL & H) group, has formed a new company which is expected to export fibre worth R200m a year on full capacity.

The company — Silvacel — would produce and export hardwood chips to the Pacific Rim markets, which were the fastest growing markets in the world for paper consumption at 6% a year, chairman Colin Sawyer said yesterday

The Pacific Rim region had traditionally been a major importer of hardwood, and the increasing demand would not be met from the existing sources as many of the traditional sources were drying up, he said

As fibre was often obtained from natural forests, environmental pressures were causing this source to diminish, and the region needed to look elsewhere.

Sawyer said this was the first step in the company's diversification, and there were many other opportunities including further beneficiation and looking at the rest of Africa.

A new R40m plant for the new venture into the value-added market would be constructed in Richards Bay, and phase-one production is scheduled for the first quarter of 1993. The chipping plant would be working at full capacity by 1996 The process would beneficiate raw material.

Sawyer said Japan had shown "tremendous interest", and discussions were in progress with some Japanese principals and trading houses to set up a trading relationship Japan's interest in SA fibre was due to its competitive pricing and because SA plantations were man-made and renewable

Timber from the Silvacel plant would be surplus to local requirements and would "not prejudice other SA timber companies"

Sawyer said there would be a surplus of timber in the shorter term as volumes were already down by 10%

He said there were still short-term problems in the market, and "it would be tough for a year or two" until production came on stream.

COMPANIES

Sappi hopes for rise in earnings

Business Day Reporter

SAPPI is budgeting for a small increase in earnings in its current financial year after a sharp fall in the year to February, in spite of little prospect for a dramatic improvement in trading conditions 199

MD Eugene van As says in the pulp and paper company's latest annual report that world markets for pulp and paper remain soft and local demand will improve only slightly in the second half

"Although we expect further reductions in world prices we do not expect them to be significant There has been an encouraging upward trend in dissolving-pulp prices after the collapse of one competitor and the permanent closure of another"

Despite the uncertain outlook in the short term, Van As and chairman Tom de Beer remain optimistic in the longer term De Beer notes that world prices for most of Sappi's products have almost bottomed out and for some grades the company is anticipating minor price increases A fall in earnings in the first half of the financial year would be followed by a large enough increase in the second half to announce a moderate rise for the year as a whole

Outlining plans for the year ahead De Beer said "Our efforts in the domestic market are being concentrated on unlocking the latent potential which still exists in some of our manufacturing facilities without investing in significant capital expenditure In general our manufacturing facilities are in good shape and debottlenecking can yield impressive results

"Capital development programmes are well advanced for the expansion of Saiccor and for the upgrading of Tugela and Enstra mills, and much work has been done on the expansion of Usutu We will plan these programmes for commissioning to coincide with our best judgment of the time when we can expect the market to turn"

Sappi facing softer market for its paper

Star 12/6/91.

Diagonal Street

199

ANN CHOTTY

Sappi management is looking for a "modest" increase in earnings in financial '92

According to the latest annual report it is unlikely that earnings in the first half of the current financial year will match those of the first six months of financial '91 but "we are expecting some improvement in the second half"

The first half of financial '91 was pretty disastrous for Sappi as a variety of local and international developments reduced earnings by 44 percent to 181c a share.

That management is expecting a continued decline from this level is indication of the weak conditions in the local and international pulp and paper industry

The performance in the first half of financial '91 was badly hit by factors such as strikes at Ngodwana and Enstra which lasted for nine and 11 weeks respectively. In addition there were labour disruptions at Novobord in Eastern Transvaal and Port Elizabeth. While there may be some recurrence of this sort of activity in financial '92 it is unlikely to be of the same extent

This suggests that management is looking to a significant earnings drain on another front

The annual report states: "The world markets for pulp and paper remain soft. Although we expect further reductions in world prices we do not expect them to be significant.

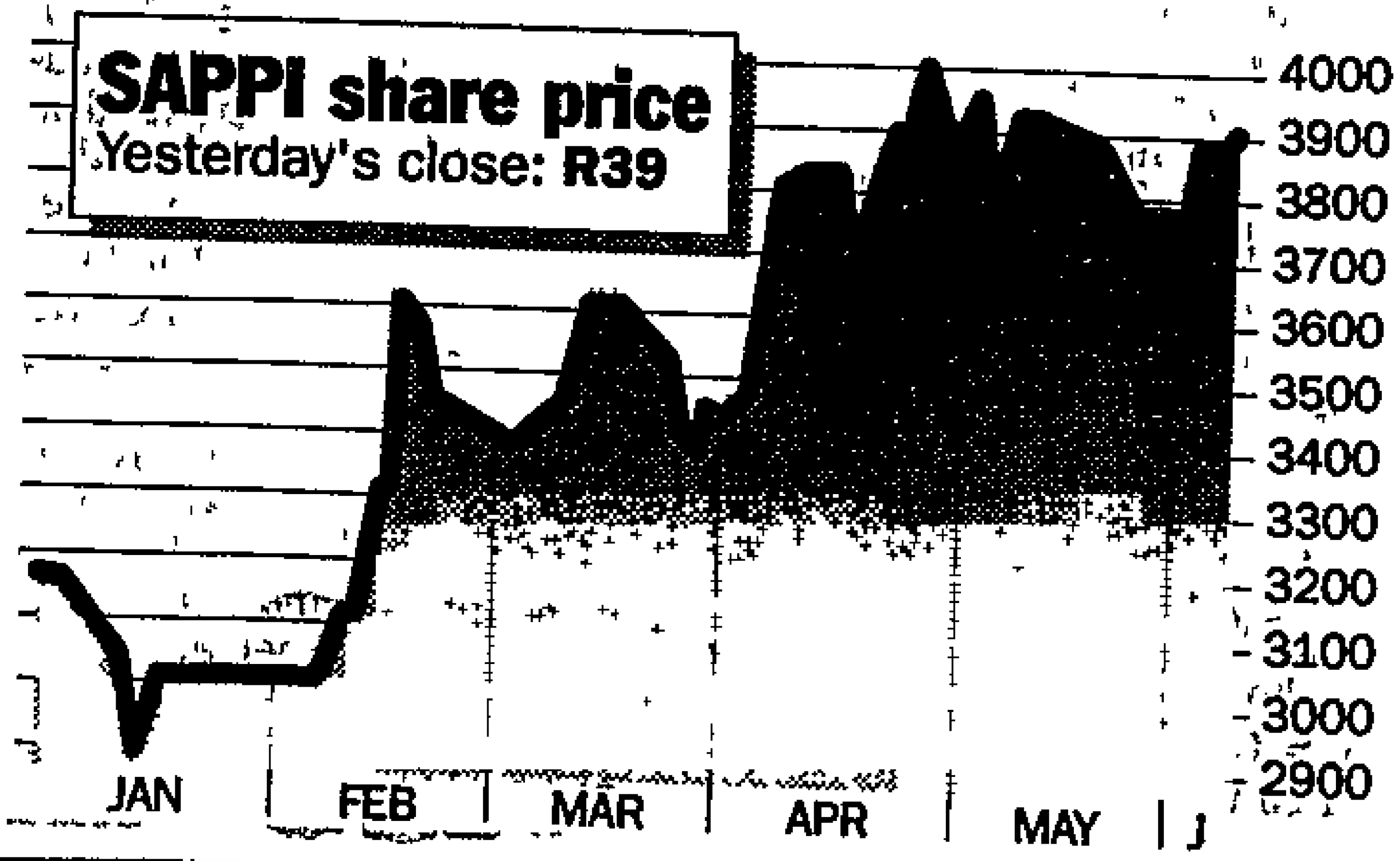
"There has recently been an encouraging upward trend in dissolving-pulp prices after the collapse of one competitor and the permanent closure of another However, international markets remain difficult and hard to predict in the aftermath of the Gulf War and the socio-political and economic changes taking place in Eastern Europe and China

"The demand for the group's products in SA should improve slightly in the second half of the year, along with a slowly recovering economy, but we face increasing competition from imports because of depressed demand overseas, especially on uncoated printing and writing paper where we have no duty protection."

This far-from-wildly-exciting outlook makes it difficult to justify, on Sappi-specific grounds, the current strength in the share price which yesterday closed at R39 (Part of the strength can be attributed to the general market demand for blue chips)

Back in November '89 the high of R51 seemed justified by a number of years of solid earnings growth and a return on equity of 20,6 percent The current R39 seems an overgenerous rating given the 44 percent drop in '91 earnings, a return on equity of slightly over 12 percent and an unexciting outlook for the current financial year

Since November '90, when the share reached a low of R27, the price has been on an upward trend Analysts feel that this has been helped by expectations for the group's international operations which were significantly expanded through the acquisition of five UK paper mills in June '90



Timber firms need more softwoods

(199) Sowetan? Argus 15/6/91.

TIMBER processing companies are pulling out all stops to get private foresters to plant softwood trees

As well as loan schemes to plant fast-growing softwoods like pine and gum, the big firms are offering incentives for small growers to plant hardwoods like wattle so that they can convert more of their estates to softwoods

SA Timber Growers Association (Satga), which represents about 2 000 independent growers, says in its 1990-91 annual report "an extremely serious backlog is developing in softwood afforestation, particularly in Natal"

Growers appear to have caught up the backlog of hardwood afforestation identified a few years ago — although new planting in Natal has since the mid-80s slipped further behind the shortfall increased from about 2 000ha in 1986-87 to 11 045ha in 1988-89

Surplus planting, particularly in the Transvaal, however, is believed to have taken up the shortfall

In softwoods, the country needs a further 56 218ha, Satga estimates, 38 945ha of it in Natal

On the basis that new forests should be sited as close as possible to where it is processed, 80 percent of new planting is required in Natal

Hard times for timber growers

B/Day ZILLA EFRAT 24/6/91

INDEPENDENT timber growers had a tough time in 1990, the SA Timber Growers' Association (Satga) says in its annual report.

After a few years of outstanding demand for roundwood and buoyant timber spot market prices, demand declined towards the end of 1989 and remained low in 1990. 3 Timber

Satga says although the downward trend was rapid, the supply position remains finely balanced. 199

Low-cost timber a viable choice

C/Press 30/6/91 (199)

THE South African Lumber Millers Association (Salma) has launched a programme to train people in Reef squatter communities to build their own timber frame homes

The three-week training course will be free for people chosen by community organisations to attend the courses and return to their communities to build timber houses.

Salma executive director Andries Swart says timber frame homes could revolutionise low cost housing.

"Our research shows the material costs for a double storey timber frame home can be as low as R102 a square metre. This is vastly cheaper than high class conventional housing," Swart said.

Using materials from the Salma depot, the cost of materials for a one-roomed nine square metre timber house – the size of most shacks in squatter settlements – is R1 000. This includes a concrete floor slab and all the timber for the frame and the walls, one door, one window and roof tiles. It does not include labour costs or improvements like ceilings and plumbing.

Announcing the training scheme recently, Swart said those who wanted to help themselves to build homes should be afforded every opportunity to do so

"There is a shortfall of 900 000 homes in South Africa. Sixty percent of the black community could not afford to pay R12 000 or more for a home – where it becomes viable for the formal home building industry and financial institutions to become involved. The result is squatting on a massive scale," Swart said.

Salma is establishing several urban training centres, some in conjunction with the Urban Foundation, where community representatives are given three weeks' basic instruction in building wooden homes. A pilot scheme has already been run at Crossroads in the Cape and training has started on the Reef.

The provision of training was not enough to solve the promblem and Salma was also looking into the provision of building materials at affordable prices, Swart said

"At present, shanty builders pay exhorbitant prices for scrap materials. For various reasons, timber dealers do not have outlets in squatter areas where poor people can buy timber at affordable prices."

Swart said the plan was to establish community-run materials depots at places where site and service schemes were in operation. This would enable the very poor to erect basic housing of a decent standard.

Grist for Richards Bay mill

B/Day 1/7/91

PAUL ASH

THE Mondi Paper buyout of Shell SA's forestry assets in northern Natal would provide an important additional source of hardwood timber supply for possible future expansion of the Richards Bay Mill, group fibre resources manager Andrew Thompson said on Friday

The timber resources were ideally situated for processing at Mondi's Richards Bay mill, he said

The Richards Bay region was set to expand as a timber-processing growth point

Thompson predicted that future demand for SA timber would be steady in the short term, despite rumblings in the US timber industry caused by conservationists and the evolution of new kinds of manufactured wood products, such as Parallam

Mondi had a responsibility to look after conservation aspects in its forests, which included the sound management of non-forest areas, he said

Last Wednesday Shell announced the sale of its forests, operated by wholly owned subsidiary Loring Rattray since 1985

The two forests at Gingindlovu and Richards Bay, making up about 4 000ha in total, had been consolidated under Loring Rattray, which was being bought by Mondi

Loring Rattray would continue to operate as a wholly owned subsidiary of Mondi, Shell spokesman Terry McCulloch said

The sale of the Shell assets did not signal any change in Shell's attitude towards SA, McCulloch said, adding that the company viewed SA's prospects "with confidence"

(199)

Sappi hopes for improved second half

PAPER manufacturer Sappi hoped to see an improvement in market conditions towards the end of the year, chairman Tom de Beer said yesterday

199

Speaking at the Sappi annual general meeting in Johannesburg, De Beer said there were expectations of an improvement in conditions in the second half of the year

BDay 2/7/91

Earnings for the full year should be similar to those of last year

"Trading conditions in the first four months of the year have been disappointing and below budgeted levels

"The local market remains weak for most of our products and domestic customers have reduced inventories drastically in the first four months of the year"

He said the weaker rand against the dollar would benefit the company by reducing the threat from imports

"If the government implements the recently announced tariff protection, the threat of imports will be further reduced This is particularly so for fine paper products which enjoy no tariff protection at all" — Sapa

Timber growers in bid to raise productivity

(199)

By Des Parker Star 2/7/91

Squeezed between rising operating costs and an uninspiring domestic market for wood products, the SA Timber Growers' Association is introducing a programme to raise productivity on the plantations of its members

Back from last week's Satga annual convention in Nelspruit, association deputy director Dave Dobson said from Pietermaritzburg yesterday that the 2 000-odd members had given the go-ahead for introduction of a National Productivity Institute system for monitoring and improving the output of workers on farms The computer model was expected to be up and running within about a year

"Our guys have realised that we cannot continue relying on price increases for ever and a day to offset the staggering input cost increases they face — particularly in the areas of machinery and vehicles," said Mr Dobson.

"We are one of the cheapest producers of round wood in the world, largely due to our superiority in technology and farm-management, but to maintain our competitive position, we must maintain efficiency

"There is a lot of room for improvement in productivity, and the guys realise that if they can save two, three, four or five rand a ton in costs, it is like effectively adding that much to the price

"The financial figures of Sappi and Mondi, the two pulp millers in the country, show there is little room for manoeuvre on prices with them, and it's no secret that the mines are in trouble, so mining timber isn't in great demand"

Exports were the logical area to look for succour Timber growers had stepped up sales abroad — the shipping of hardwood chips by Central Timber Co-op to the Far East through Richards Bay being a prime example.

Other opportunities were seen in recent acquisitions by both Mondi and Sappi of paper companies in Britain and Europe, moves likely to increase their demand for wood fibre

Carl Seele, chairman of Satga, said in Nelspruit the world market for SA wood exports was practically unlimited, provided pricing remained competitive

Sappi upbeat over outlook for future

Star 2/7/92

(199)

Finance Staff

Although current market conditions for Sappi are gloomy, the future outlook is better

Speaking at the Sappi annual general meeting yesterday, chairman Tom de Beer said there were expectations of an improvement in the second half of the year and that earnings for the full year should be similar to those of last year

He told shareholders that, as reported in the annual report, the immediate future of the group's business was uncertain because of difficult international markets and increasing competition from imports locally.

"Trading conditions in the first four months of the year have been disappointing and below budgeted levels

"The local market remains weak for most of our products and domestic customers reduced inventories drastically in the first four months of the year."

He said the rand had weakened against the dollar in recent weeks.

"This will benefit the company in the months ahead and has reduced the threat of imports in the lcoal market.

"If the Government implements the recently announced tariff protection, the threat of imports will be further reduced. This is particularly so for fine paper products, which enjoy no tariff protection at all," he said

Bertie's wood hope goes up in smoke

S/Times 7/7/91.
(Bus Times)

199

By DAVID CARTE

PLATE GLASS's Bertie Lubner saw much of a lifetime's work evaporate when it sold or closed most of its wood division this year.

Mr Lubner had built the division into the biggest wood trading operation in the world. In January 1990 a consortium of US and European investors offered \$55-million for only half of it, valuing the entire operation through the financial rand at R410-million.

The proposed deal with Whitestone Corporation fell through, losses mounted and now the division has been closed after an R84-million below-the-line write-off

Mr Lubner has stepped down from executive responsibilities and is now non-executive chairman of holding company Placor

Ronnie Lubner, who stays on as PGSI executive chairman, pays tribute to his brother in the annual report "It would be trite and also unnecessary to attempt to chronicle the important and varied contributions he has made to PGSI and to the wood division in particular Suffice it to say his influence on the development of PGSI has been immense "

Best

Ronnie Lubner said from London this week. "Bertie's efforts were far from in vain We retain the best parts of the wood operation in PG Bison and the Central African operation, which is still doing well."

Mr Lubner said he had no regrets that the Whitestone transaction fell through

"It would have brought in some cash, but we would have been committed to a partner in an industry with long-term problems We would have had to ration cash between wood, which is not growing, and glass, which is "

After withdrawing from building glass in the UK and Australia, PGSI will remain active in this market only in SA Internationally it will focus on auto glass

PGSI bought 145 auto glass outlets in Germany and France from St Gobain and simultaneously sold its building glass operations in the UK to St Gobain

He believes specialist shops will grow there as they did in SA, the UK and Australia

Spectacular

Chopping and changing the international portfolio entailed spectacular below-the-line provisions — 90% for goodwill Goodwill of R83-million on buying glass outlets was offset by a capital gain of R179-million on the sale of the UK building glass operation

This favourable R96-million asset write-up, in turn, was outweighed by asset write-downs totalling R172-million mostly in respect of Wood International, Interwil SA and Belron International Shareholders' funds were reduced by a net R76-million by these transactions, debt fell by R202-million and gearing from 78% to 40%

In the past PGSI hid foreign subsidiaries This annual report discloses them all The subsidiaries are all named and breakdowns are provided of the sources of earnings and losses, also of capital write-ups and write-downs

After the changes, PGSI is more dependent on its glass activities in SA than ever Last year Glass SA accounted for 29% of group sales and 60% of operating profit. How lucrative the market has been in SA can be gauged from the operating margin of 28% The glass division made R227-million on sales of R800-million.

Pressed board maker PG Bison was the second-biggest contributor, accounting for 22% of sales and 23% of operating profit. After SA, the UK was the biggest source of earnings, contributing 114c a share in gross earnings (before losses) of 840c.

Losses of 79c in Europe, 99c in the US and 104c in debt and head office expenses meant declared net earnings were 427c a share.

PGSI hopes to match these earnings, but Mr Lubner cautions that much depends on SA. At R50, the share is 11,7 times earnings and yields 4,4%, so retains its blue-chip rating

SAPPI FM 12\7\91 (199)

BECOMING A WORLD PLAYER

Activities: *Pulp and paper manufacturer, producing more than half SA's total paper requirements*
Control: *Gencor 50%*
Chairman: *T L de Beer, CE E van As*
Capital structure: *93,2m ords Market capitalisation R3,91bn*
Share market: *Price 4 200c Yields 4,8% on dividend, 9,6% on earnings, p e ratio, 10,5, cover, 2,0 12-month high, 4 200c; low, 2 675c Trading volume last quarter, 1,2m shares*

Year to Feb	'88	*'89	'90	'91
ST debt (Rm)	220	303	557	349
LT debt (Rm)	520	457	868	1 263
Debt equity ratio	0,77	0,67	0,56	0,68
Int & leasing cover	9,7	8,7	4,2	2,2
Return on cap (%)	10,6	11,5†	13,3	8,4
Turnover (Rbn)	1,31	2,47	2,73	2,67
Pre-int profit (Rm)	281	618	731	482
Pre-int margin (%)	21,4	25,0	26,8	18,1
Earnings (c)	331	520†	650	402
Dividends (c)	130	190	200	200
Net worth (c)	1 839	2 398	3 154	3 345

* 14 months
† Annualised

Like other commodity producers, Sappi showed last year that its profit can slide as well as climb steeply Shrinking demand on international and domestic markets, production problems in certain divisions and escalating finance charges contributed to the 38% drop in earnings

Gearing has increased markedly and the market outlook remains uncertain That leaves the current year's earnings prospects looking unexciting, though the potential for recovery and return to real growth over the next few years is good

Inventories reduced

Chairman Tom de Beer (who was succeeded by CE Eugene van As after the AGM last week) says world pulp and paper markets weakened considerably from the very buoyant conditions of the previous year, and prices declined sharply In the domestic market, further reduction of inventories held by customers curbed demand for Sappi's products and materially affected performance

Turnover dipped by 2,1% but lower margins depressed operating income by 34% Turnover from pulp products was worst affected, declining from R964m to R853m; most other products generated higher turnover This partly reflected price trends but production problems played a role Performances of the Ngodwana (Sappi Kraft) and Enstra (Sappi Fine Papers) mills were "severely affected" by industrial action and the difficulty of re-establishing disciplines and productivity after strikes were settled

The retiling of the bleach plant towers at Ngodwana while the plant was operational made it extremely difficult to maintain planned output levels, production of bleached pulp production thus fell below budget levels The new Novobord plant at White River (Sappi Timber Industries) has been a great disappointment, as serious design faults were uncovered in the equipment These have been largely rectified by the supplier and the plant has reached design output

Total borrowings (including redeemable prefs) amounted to R2,043bn (R2,034bn), having been affected mainly by the R291m drop, to R691m, in cash generated by operations At year-end debt equity had increased to 0,68, which was still below the average for the past 10 years Until last year, however, there was the advantage that both product prices and output were generally rising or at least holding firm. In present conditions this level of gearing is a weakness

In the first quarter of 1991, the US$ price for fully bleached southern pine pulp was about 23% lower than at the same time in 1990 Dissolving pulp prices were 17% down and linerboard prices had fallen by more than 10%, newsprint prices remained stable at the previous year's levels

International markets for pulp and paper remain soft but any further reductions in world prices are not expected to be significant There has recently been an encouraging upward trend in dissolving-pulp prices after the collapse of a competitor and the permanent closure of another

Local demand should improve slightly in the second half of the year, along with a slowly recovering economy, but there is increasing competition from imports, especially on uncoated printing and writing paper, where there is no duty protection

Sappi has continued to strengthen its position as an international player in pulp and paper markets Last year it established Sappi Europe after buying five British fine paper mills for R500m, and management is confident of a substantial improvement in earnings by Sappi Europe this year

The international trading division acquired control of Speciality Pulp Group (SPT), an international pulp and paper trading company based in Hong Kong SPT has been responsible for world marketing of all Sappi products, and represents Usutu Pulp The division expects prices to begin to improve late in the second half of this year, and if the rand continues to follow its recent trend, export earnings should show a "substantial" improvement

De Beer told the AGM Sappi is continuing with its programmes to expand Saiccor's dissolving pulp production capacity and to prepare for the upgrading of Tugela and Enstra mills, so that the company is in a good

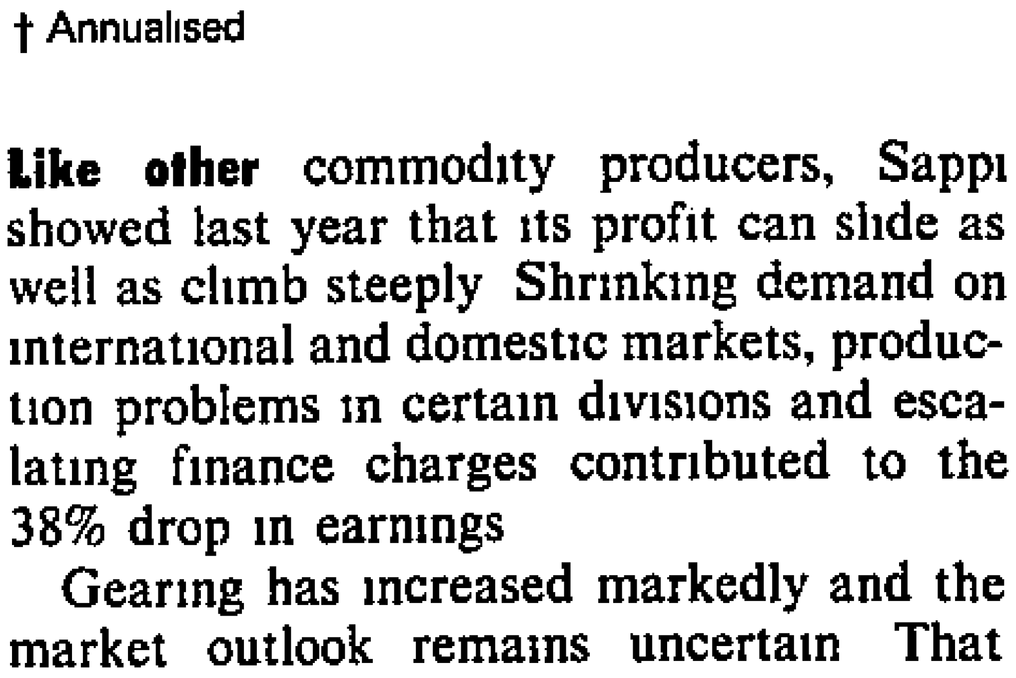
position to take advantage of the next upturn Strict cash controls are being applied, and capital expenditure restricted, so as not to increase overall borrowing

Earnings in the first half of the 1992 year will be well below those of last year, but improvement is expected for the second half Management expects roughly maintained earnings for the full year De Beer says he is confident Sappi will show real growth in the near future, and long-term aims will be met, these include an average return on equity of 20%-25%, an average operating margin of 25%, dividend growth in excess of the real growth of the economy and a cover of 2 5

Over time, benefits could be seen from rising sensitivity of earnings to hard currencies, continued expansion abroad, and rationalisation of production and marketing operations But, with the cover cut to 2,0, it's likely the dividend will again be pegged at 200c Solid growth could resume by next year The share has risen 57% since reaching the 12-month low was reached in November, and should now be bought only on a long-term view

Andrew McNulty

Sappi's De Beer .. *expansion programmes continue*



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PAPER INDUSTRY FM 19\7\91

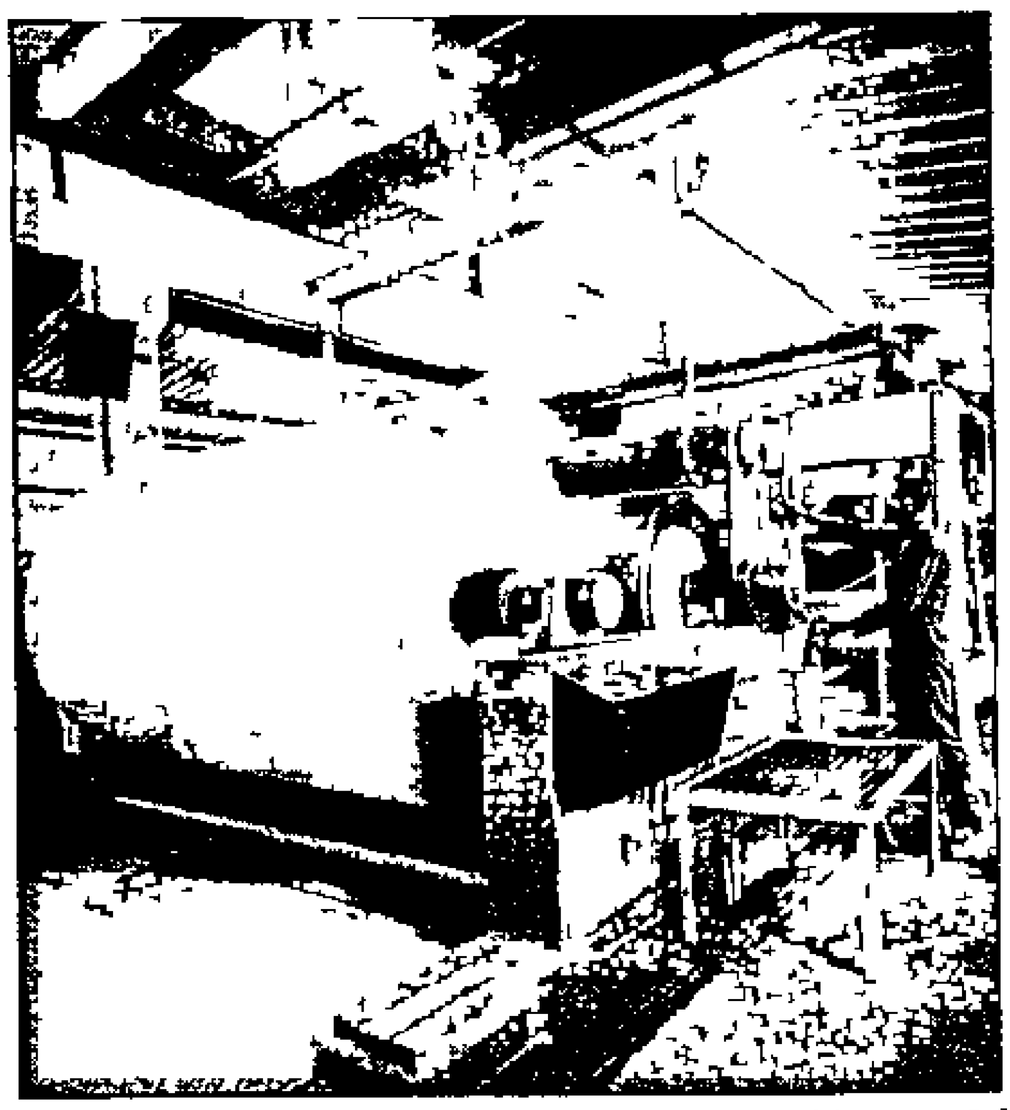
GIMME SHELTER

(199)

Does the Board of Trade & Industry merely rubber-stamp the applications for tariff protection submitted by the country's powerful business interests?

This charge has been made before and it was made again last week by the Newspaper Press Union (NPU). Responding to the board's proposal last month to slap a 10% tariff on imported uncoated paper, the NPU challenged the board to state publicly whether it conducted an independent investigation to come up with its recommendations or just gave the seal of approval to the tariff request by paper manufacturing giant Mondi in February

Mondi, whose key business is uncoated paper, asked the board for a 15% duty on uncoated paper, getting in line behind the steel, glassware, textile and other primary industries looking for government shelter during the recession One week after the board made its proposal, Mondi withdrew its application, apparently feeling it would get most of what it wanted.



Sappi and Mondi . *higher tariffs could make them paper tigers*

Rejecting suggestions that the move is the result of widespread opposition to the proposed tariff — more than 700 objections from the printing, packaging and paper distributing sectors have been lodged with the board — Mondi manufacturing director Ian Halliday says the application was withdrawn largely for technical reasons

What happened was that at the same time Mondi was asking for more protection, the board was revamping its paper tariff system. The board's proposal last month, in addition to imposing a 10% tariff on uncoated paper and raising other tariffs, would reduce the paper tariff headings from 477 to 212. While the industry welcomes the simplification, it has sharply attacked provisions that would impose duties on types of paper that never had tariffs before, including some types that are not even made in SA

Board chairman Lawrence McCrystal denies that the proposal will raise tariffs on average; he says the revamp is so complete that it's impossible to say whether the average level would go up or down. But Mondi and Sappi, the two paper giants that dominate the local market, seem satisfied enough that they're getting more protection

Sappi has said that if government implements the board's proposal, the threat of imports will decrease Halliday says "We favour the proposed 10% though we still believe 15% would be more appropriate "

If the board's proposal means an increase it will be counter to the recent IDC report urging that tariff protection be reduced to make companies more competitive and export-orientated. Says the IDC's Flip Kotze "There is a danger that tariffs can be used to create monopolies "

Mondi's justification for government protection is the usual story Says Halliday "In First-World European countries, we face fairly substantial duties, but these same countries are exempt from duty in SA — still a developing country " Halliday says Brazil imposes a 25% duty

He dismisses arguments that Mondi and Sappi enjoy a great deal of automatic protection because of SA's great distance from competitors and the low value of the rand. "We are a capital-intensive industry and there is no incentive for capital investment for initial investments SA's tax on interest on capital raised is one of the highest in the world Without a viable local industry, the alternative is a monopoly of European suppliers in SA."

Rejecting these arguments, the NPU says the paper manufacturing industry in SA is not merely viable internationally, it is thriving "No losses have been made for at least the last 10 years," says the NPU in its formal objection to the board's proposal It argues that Mondi and Sappi are well established manufacturers and ultimately owned by the largest mining house (Anglo American in Mondi's case) and the largest insurance conglomerate (Sanlam in Sappi's case)

"They in no way deserve any form of protection for poor-quality goods or for having failed to produce a proper range of goods that are required locally," says NPU GM Syd Pote "If it is not economic for local paper producers to provide a full range, then that is precisely where they suffer a relative disadvantage compared with manufacturers in broader-based economies overseas. But the local paper-consuming industry should not be penalised for that " He argues that a tariff is also not justified simply because it is low "This would mean that there's a justification for a low general tariff in every country, thereby negating its effect and leading to a tariff war and reducing world trade."

If approved, the tariff will have a considerable effect. Magazines, books, packaging and many other items may cost more

Says Roy Paulson, Deputy MD of Times Media Ltd, the *FM*'s owner. "We will be hard hit as will Nasionale Pers Over the years we have been loyal in supporting Mondi, even when its paper has been inferior. There shouldn't be a duty on any paper. The market should be free to choose."

The deadline for objections to the board's proposal is today The board will make its final recommendation to the Trade & Industry Minister, who will decide the issue The numerous jobs that are lost whenever tariffs are raised hang in the balance *Mirryèna Deeb*

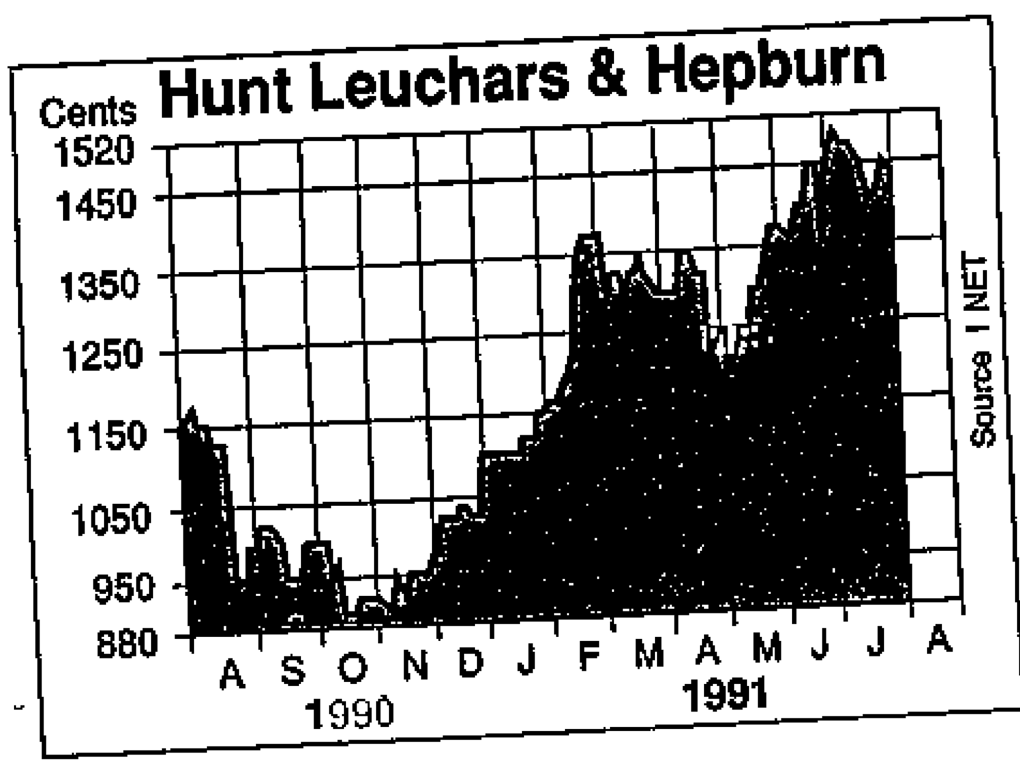
Fm 9/8/91 (199)

HLH Fm 9/8/91 (199)

More investments

The decision to focus more on value-added differentiated products, and less on HLH's traditional commodity-based product range, was evident from investments made by all four divisions in financial 1991

CGP, which houses Robertsons — the manufacturer and distributor of spices, flavour enhancers, pasta, as well as insecticides and household cleaners — acquired the Bovril, Marmite and Monate Acha brands MD Neil Morris says this provides access to the



Activities: *Produces, manufactures and distributes timber and food products*
Control: *Rembrandt via Huntcor's 77,4%*
Chairman: *L F Rive, MD N J Morris*
Capital structure: *149,3m ords Market capitalisation R2,2bn*
Share market: *Price 1 450c Yields 2,2% on dividend, 6,3% on earnings, p e ratio, 15,9, cover, 2,8 12-month high, 1 525c, low, 900c Trading volume last quarter, 810 000 shares*

Year to Mar 31	'88	'89	'90	'91
ST debt (Rm)	12,9	16,7	26,7	17,3
LT debt (Rm)	4,6	41,3	24,4	84,0
Debt equity ratio	0,82	n/a	0,06	0,11
Shareholders' interest	0,74	0,86	0,82	0,77
Int & leasing cover	6,1	17,3	n/a	7,2
Return on cap (%)	10,6	15,5	12,5	13,1
Turnover (Rm)	301	371	464	587
Pre-int profit (Rm)	53,3	99,9	114,7	141,3
Pre-int margin (%)	17,6	20,4	20,6	20,1
Earnings (c)	48,4	66,8	81,4	91,2
Dividends (c)	18,0	24,0	28,8	32,5
Net worth (c)	302	498	582	617

rapidly growing spread market Robertsons performance last year is described as "remarkable," with sales up 30% on the previous year, it contributed 21% of total attributable earnings

Transvaal Sugar (TSB) — the third largest sugar mill in the country, and supplying about a tenth of total output — overcame the pressures on international sugar prices It boosted its sales by 23% and contributed 32% to attributable earnings

The intention is to develop value-added products, but TSB has just completed a R32m expansion at its Onderberg sugar mill in the south-eastern Transvaal It has the contract to build a new R300m mill in the same area, which will target another 150 000 t of sugar for the local and export markets Good news is that SA's 50 000 t sugar quota to the US, where prices exceed world spot prices, will be reinstated in October Though this should benefit TSB, management is cautious on prospects for this year

HL&H Timber Holdings, held 50%, suffered from the contraction in the mining and construction sectors Certain operations were rationalised, and 500 employees were retrenched A 50% stake was acquired in knockdown furniture manufacturer Bailey's, most of whose output goes to Europe

There are plans for a new venture, Silva-Cel This is to be dedicated to chipping fibre for export to the Pacific Rim market which Morris says is growing at about 6% a year Construction of this R50m plant will begin this year, and production is expected to start in the first quarter of financial 1993 Turnover in the first year of operation is estimated at R200m, with full output of 1 Mt in 1994

HL&H increased its exposure to the food sector, and particularly the chicken market, through subscribing for additional shares in Rainbow Chicken's rights issue This, says Morris, is of strategic importance since white meat, as a source of protein, has high growth potential The holding in the enlarged Rainbow is now 40,3% (25%)

Investments made last year will not immediately boost earnings Morris expects trading conditions to remain difficult, with rising unemployment and shrinking consumer spending Growth in earnings is expected to be lower than last year, when EPS advanced by only 12% This was not the result of a poor trading performance, as turnover increased 26% and operating income by 24% It was caused by higher finance costs and an increase in the weighted number of shares in issue

To fund its increased stake in Rainbow, HLH held its own rights issue in June It raised R223m, and an additional 19,4m shares were issued at 1 150c each This will help cut interest-bearing debt from the year-end level, which had climbed with the acquisition of new brands and other investments

Despite the lacklustre outlook for this year, HL&H is positioning itself for strong growth in the future Its share price — at a large premium to NAV and offering fairly thin yields — is reflecting this potential

Pam Baskind

HLH's Morris *expects trading conditions to remain difficult*

Sappi buys Rand Mines' forests

Star 19/8/91

By Jabulani Sikhakhane (199)

Pulp and paper producer Sappi has teamed up with an unnamed institution to buy Rand Mines' Lotzaba forests for R150 million.

The unnamed institution is providing the finance which will be repaid in early 1994 through the issue of Sappi shares

The managing director of Sappi forests, Ken Lechmere-Oertel said in statement yesterday that Sappi will issue the shares subsequent to the start of the expansion programme at Sappi's dissolving pulp mill Saiccor in early 1994

Mr Lechmere-Oertel said the acquisition will contribute materially to the additional timber required for the planned R600 million plus expansion of Saiccor

The expansion programme will increase Saiccor's output by at least 100 000 tons per annum — all the for the exports.

"It is important to be able to secure long-term timber supplies The Lotzaba acquisition not only gives Sappi additional forests currently yielding about 300 000 tons of timber per annum, but also makes us a more important player in the mines support business, increasing our market share to more than 20 percent," he said

Lotzaba owns hardwood timber plantations at Lothair, Tzaneen and Barberton and five mills which produce mine support products and sawn timber. The majority of the timber is processed and sold as mine support products

He added that the synergy between the two companies is excellent and will increase as Lotzaba's substantial new afforestation reaches maturity

The acqusition will have no material impact on Sappi's net asset value or earnings per share

The sale of the Lotzaba forests is part of Rand Mine's programme to sell its non-core business activities.

Sappi pays R150m for Lotzaba Forests

B Day 19/8/91 (199)

ANDREW GILL

RAND Mines has sold its wholly owned subsidiary Lotzaba Forests to Sappi for R150m as part of its strategy to shed under-performing and non-core assets.

An unnamed local institution will get additional shares in Sappi and in the process finance the pulp and paper manufacturer's purchase of Lotzaba.

Lotzaba owns hardwood timber plantations at Lothair, Tzaneen and Barberton and five mills which produce mine support products and sawn timber.

Sappi said in a statement the acquisition was part of its long-term strategy to increase its raw material resources. It would also contribute materially to the additional timber required for the planned R600m-plus expansion of Sappi's dissolving pulp mill, Saiccor, in Natal, and to increase the mill's output by at least 100 000 tons a year for export markets.

Sappi Forests MD Ken Lechmere-Oertel said: "It is important to be able to secure long-term timber supplies. The Lotzaba acquisition not only gives Sappi additional forests currently yielding about 300 000 tons of timber a year, but also makes us a more important player in the mines support business, increasing our market share to more than 20%

"The majority of the Lotzaba timber is processed and sold as mine support products. The synergy between the two companies is excellent."

The purchase price of R150m will be settled by way of an issue of Sappi shares to the institution after the start-up of the Saiccor expansion early in 1994 It would have no material impact on Sappi's net asset value or earnings per share, the statement said.

The sale follows Rand Mines' consolidation of its mining interests Witbank Colliery (Witcolls) has taken on the group's coal mining interests while Rand Mines' investment portfolio is in the process of being liquidated.

Its platinum interests (Barplats and Barmine) are now controlled by Impala Platinum, although Rand Mines retains a significant stake (43%).

Mondi changes lumber sizes

MARC HASENFUSS

199

MONDI Timber Products has converted the dimensions of its sawn lumber to internationally compatible metric sizes to comply with customer needs, it said in a statement yesterday.

BDay 3/9/91

Mondi Timber marketing manager John Mortimer said the conversion offered a clear volume advantage to many customers in that they would receive more lineal metres per cubic metre of lumber

A secondary reason for the conversion was that Mondi had growing export markets for production not absorbed by domestic demand

"It is essential our products meet internationally accepted dimension standards," he said

He said Mondi would continue to make original size boards for some time to meet market demands and allow customers to plan any adjustments

New plantations 'will meet roundwood demand'

PAUL ASH

RECESSION had led to a 7,2% decline in roundwood consumption in the past year against a 4% drop the previous year, but afforestation was taking place at a rate which would meet SA's projected domestic timber needs by the year 2020, the Forest Owners Association said in its annual report. B Day 3/9/91.

The report, which reviews the industry's growth over the past decade, says roundwood demand by 2020 is expected to be 34-million cubic metres compared with a potential supply of 25-million cubic metres from existing plantations

To meet this target, about 15 000ha of new plantations will be needed every year The association believes, however, that if the current afforestation rate is maintained, the target will be exceeded, creating a surplus of timber for continued expansion of the wood processing industry.

A challenge the industry faces is the need to remain competitive in the face of an inflation rate higher than most of its foreign competitors

Over the decade, the area of plantation has increased by 13,2% to 1,24-million hectares and growth in sales 199 ex-plantations has been boosted by 34,6% to 15,99-million cubic metres

Real growth in capital investment rose 25,5% to R6,8bn Growth in value of output increased 43,8% to R898,7m

The association said the contribution of the industry to SA's GDP rose from 1,2% to 2,5% while that of forest product processing to the total manufacturing GDP increased from 5,4% to 9,5% over the decade

The SA timber industry was now export-orientated with the balance of trade rising from a net outflow of R110m in 1981 to a net inflow of R850m in 1988

Boustred: SA needs big groups

B\Day 4/9/91.

199

SHARON WOOD

SA needed more Anglo Americans if the wealth-creating ventures necessary for the country's economic future were to be developed, Anglo deputy chairman Graham Boustred said yesterday.

Speaking at the opening of the R220m improvements to Mondi's Merebank Mill paper machine in Durban, he said that unless more such development could be brought about to create jobs and generate exports and domestic growth, the economic future was bleak.

Criticism levelled at Anglo for being too big and too monopolistic was quite wrong, he said.

"Political leaders who have never been part of the wealth-creating process should realise that large projects ... can only be created by powerful groups with the necessary management, technical skills and financial resources," Boustred said.

SA's people could work together to create wealth and build world-class industries.

"Provided we are not conned into believing there is a free ride if we spout the correct political slogans, or support now completely discredited ideologies, we can build the future together."

He said about R6bn was needed to bring a new deep-level gold mine into production, about R4bn for a stainless steel plant and the same for a new pulp mill.

Projects of this size were not going to be developed by "tin-pot" organisations or a "dismembered Anglo American".

Mondi Paper Company executive chairman Tony Trahar said the main objective of the R220m investment in rebuilding the Merebank machine was to improve the quality of supercalendered magazine papers.

Industry players link up over paper tariffs

BDay 5/9/91 PAUL ASH (199)

PAPER manufacturers, distributors and printers have set aside their differences to tackle the Board of Trade and Industry's (BTI's) proposed tariff structure for the paper industry

At a meeting last Wednesday of the industry's major players, including Sappi, Mondi, the Association of Paper Distributors and the Printing Industries Federation of SA (Pifsa), it was agreed that all concerned parties would approach the BTI to argue against its proposed new tariff structure

While it reduced the number of product categories from 477 to 212, the result would be more protection for the industry as duties would be levied on nearly all kinds of paper products, whether produced locally or not

"All parties at the meeting agreed that tariffs should not be imposed on board and paper products that are not, and will not be, manufactured in SA," Pifsa chairman Chris Sykes said

A list of main products that should be exempt from tariffs had been drawn up and a proposal would be submitted to the BTI.

While there had been some "differences of opinion", the most important point was that the industry's players were talking, Sykes said

The BTI proposals, which were announced in June, came after an application by Mondi in February for a 15% duty to be levied on imported, uncoated paper, one of the paper manufacturer's major products

The Mondi application caused an outcry from printers and paper distributors, and Trehar said it had been withdrawn "some months ago"

In its new structure, the BTI has included a 10% duty on imported, uncoated paper, which Sappi described yesterday as "totally reasonable"

BTI CE Ruel Heyns said yesterday the board was still investigating the matter and it was impossible to say when a final recommendation would be made

SA timber deal

PAUL ASH

199

SA TIMBER trading company Interwil yesterday signed a new supply agreement with Coastal Lumber, one of the largest hardwood timber millers in the US

Interwil MD Trevor Fish said the agreement, which comes two months after management bought Interwil from Plate Glass SA, was not a financial investment by Coastal

B|Day 10|9|91.

Coastal vice-president Steve Coenger returned to the US at the weekend after a two-week look at the local market.

Coastal will establish a 12 000m² warehouse in North Carolina as a holding facility for oak destined for SA

Interwil supplies nearly 30% of the R50m-a-year raw oak market

The US company owns an 850km² natural oak forest on the Eastern seaboard of America

Sappi sets up off-shore arm

Star 17/9/91.

(199)

Finance Staff

Paper and pulp giant, Sappi has established an offshore company to control the group's overseas trading activities, which totalled R1 billion in the last financial year.

Sappi announced yesterday that the new company, Sappi Trading, would be based in Zurich as a further step "in realising our ambition of becoming a global pulp and paper player"

In the year to end-February 1991 Sappi's exports exceeded R1 billion through the local company and the recently formed Sappi Europe

Robert Hope, who has been appointed MD of Sappi Trading, says these exports are likely to grow as trade barriers disappear.

"The group will have responsibility for the selling and distribution of products from Sappi's South African and European mills to the Far East, America, Europe and Africa," he says

HERMAN and SYLVIA SCHEY: Mother and son Picture SUE KRAMER

Back to their timber roots

S/Times (Bus) 22/9/91 (199)

By CURT VON KEYSERLINGK

THEY started their international timber business in South Africa in 1954.

They sold it to PGSI in 1980 They bought back the international division in January this year.

Now the Schey family are extending their timber interests to their old home turf.

Tradelink Group, owned by the Scheys, Patrick Opler and a few executives, has formed a joint venture with SA agency NLA to market Tradelink products here.

Tradelink director Sylvia Schey says the aim is to start off by handling at least 15% of the 160 000m³ of hardwood imported by SA from the Far East.

In the agreement to buy PGSI's foreign timber interests Tradelink was restrained from operating in SA until this month

Conrad Schey, Sylvia's husband, is restrained until September 1992 He is an executive director of Tradelink Group, but is not on the board of the recently established SA Tradelink company although Sylvia and son Herman are.

Allied

Herman is managing director of Tradelink group.

NLA managing director Nick Lourens is also managing director of the SA Tradelink arm and a former colleague of the Scheys

Tradelink will procure timber abroad offshore and NLA will market it in SA

Mrs Schey says they will ship the timber with Norbulk Line which has cut its freight rates. Norbulk runs a regular timber service to Europe and plans one for SA.

NICK LOURENS Partner

Mrs Schey says: "Our group will export other products from SA. We are well placed to handle financial and administrative services for importers and exporters from our offices in London and Switzerland"

Tradelink specialises in the procurement, shipping and marketing of sawn hardwoods, plywood and allied products

The head office is in London and the main procurement offices are in Singapore, Kuala Lumpur and Kota Kinabalu, in South-East Asia and Belem in South America.

Its main markets are in the EEC, North America and North Africa.

Mrs Schey says. "Tradelink may be a new name, but its roots in the SA timber industry go back a long time."

Sappi gears up for boom with R1-bn rights offer

Star 25/9/91. (199)

By Derek Tommey

Sappi is gearing itself up to take full advantage of the coming business boom.

A sharp drop in profits in the six months to August has not stopped the company from announcing it intends asking shareholders to subscribe R800 million to R1 billion for the expansion of its Saiccor rayon viscose plant in Natal and other projects.

This is believed to be the biggest rights issue ever proposed by a South African industrial company.

The news follows hard on the heels on an announcement that three companies in the Anglovaal group, also with an eye to expansion, are planning to raise between them about R785 million.

As the financial institutions which own most of the shares of the Sappi and AVI groups are flush with cash, the two groups are not expected to have any difficulty raising the money.

Saiccor, which Sappi bought recently, is the largest single dissolving pulp producer in the world It is also the lowest-cost producer, says Sappi executive chairman Eugene van As.

The intention is to increase the size of the previously planned expansion to convert the mill to oxygen bleaching.

This is likely to make it the first major dissolving pulp mill in the world to be completely free of elemental chlorine, which is a major environmental advance.

Flexibility

Plans are to make the mill more flexible to enable it to produce not only viscose pulp, but dissolving pulp for acetate markets and for solvent-spun viscose.

The cost is expected to be more than R700 million

Borrowing the money would increase the group's debt load and therefore the board has decided on a rights issue to raise the capital

Initially this will enable Sappi to reduce its loans, which are higher than the company would like.

It will also permit future cash flows to be made available for the expansion of the Enstra and Tugela mills.

A special general meeting of the company will be called for shareholders to approve the proposed increase in capital.

As forecast by Sappi earlier this year, its earnings for the six months to August dropped 39 percent from R168,7 million, equal to 181c a share, to R102,4 million, equal to 110c.

However, the interim dividend is unchanged at 80c a share

Turnover rose nine percent to R1,4 billion. But operating income fell 22 percent to R178,9 million, while finance costs rose 53 percent from R75 million to R114,7 million.

No tax was payable. Taxed income fell from R182,6 million to R74,3 million, but income from associated companies jumped from R7,9 million to R48,9 million.

An amount of R20,8 million (R21,8 million) accrued to minority shareholders.

Mr van As says the lower profit was mainly the result of:

- A continuing decline in the dollar world market price for forest products;
- The high level of interest rates,
- Weak domestic trading conditions;
- Design problems at the new White River plant of Novobord, which have now been resolved;
- Below-budgeted output at Ngodwana mill and difficulties in settling the alkaline papermaking process at Enstra

Mr van As says the weak state of the domestic market may well continue for the foreseable future and he does not expect an upturn until next year.

However, inventory levels are extremely low after the sharp destocking of the past nine months.

Deliveries to domestic customers have started to improve and should be better than in the first half

On world markets, the volatility of currencies and the recessionary conditions in many countries will affect supply and demand.

Therefore he does not see a material upswing in the short term.

He says shareholders should expect soft trading conditions in the second half, but that earnings a share (helped by the huge cash inflow) should show a material improvement on the first half and should be similar to those of the second half of last year

Executive chairman Eugene van As ... Borrowing the money would increase Sappi's debt load.

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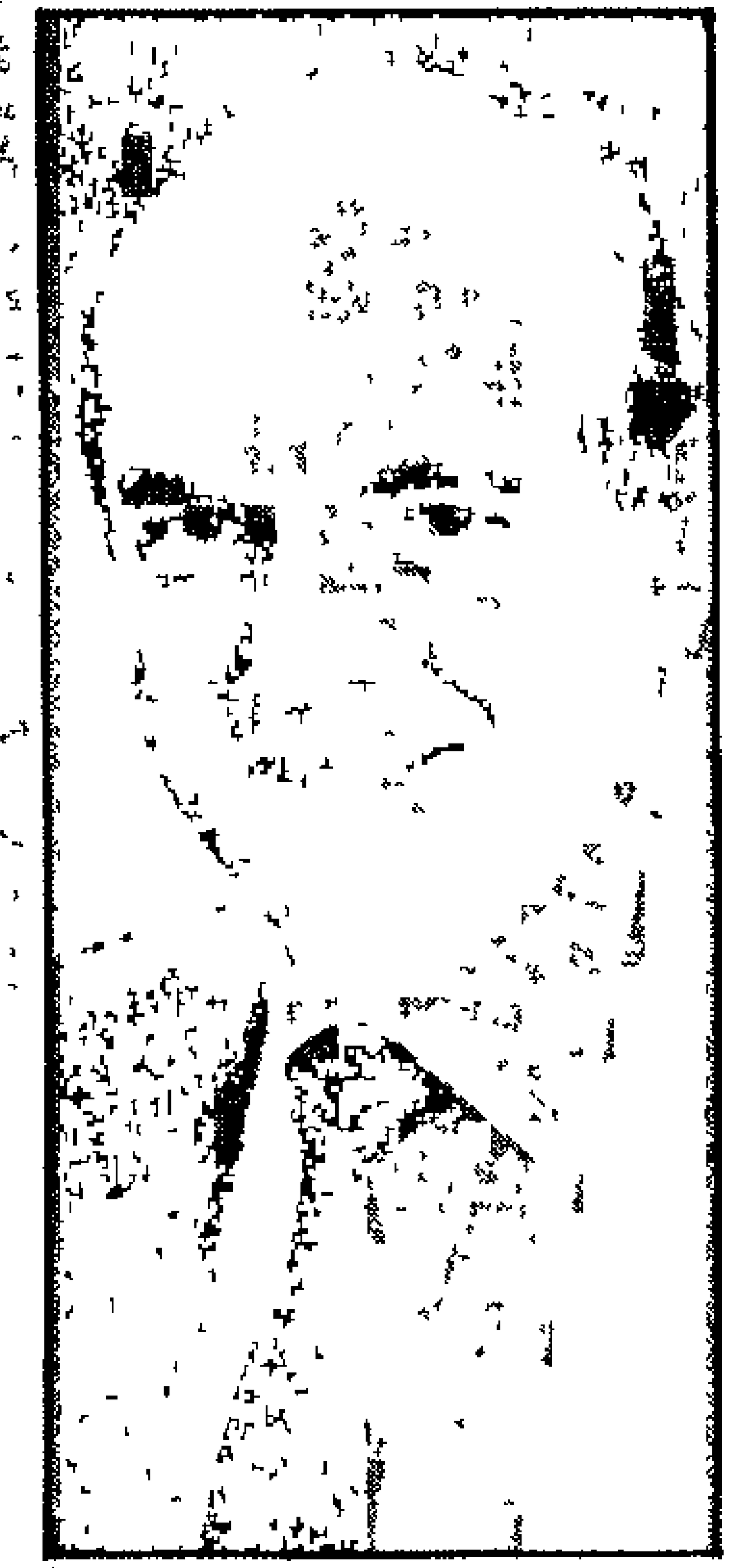


Executive chairman Eugene van As . . . Borrowing the money would increase Sappi's debt load

Sappi plans rights issue to raise R1bn

Bday 25/9/91 (199)

MARCIA KLEIN

SAPPI said yesterday it would go to the market to raise between R800m and R1bn in a rights offer intended to reduce debt and facilitate expansion

Sappi chairman Eugene van As said the paper and pulp producer would direct the proceeds towards funding the R700m Saiccor expansion and other growth opportunities and bringing down gearing levels

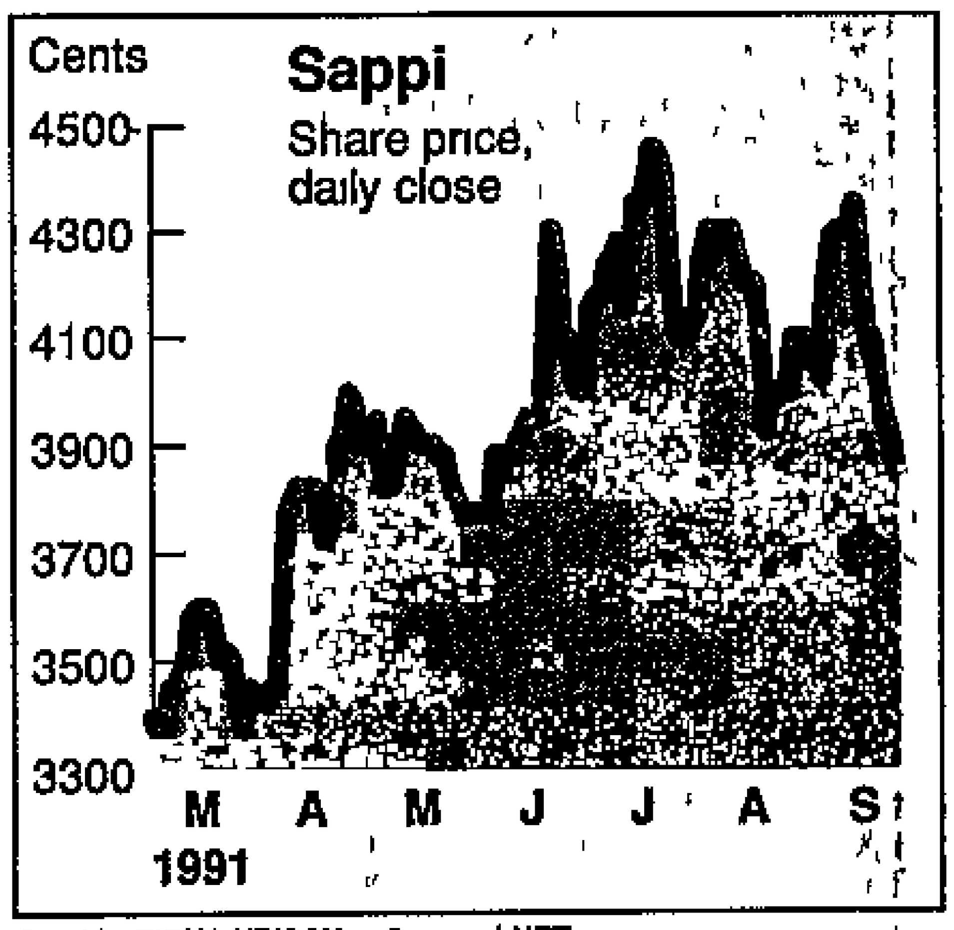
The group's interim results, which were released along with the rights announcement, showed a 39% slump in earnings to 110c (181c) a share with operating income down by 22% to R187,9m (R240,8m)

Net income was down by 39% to R102,4m (R168,7m) However, the interim dividend was maintained at 80c a share

Van As said the full proceeds of the rights offer would initially be used to reduce debt The funds raised would immediately reduce gearing from 68% to 27%, raise the interest cover and make cash flows available for modernisation and expansion of some of the group's facilities

Once this had been achieved, Sappi would proceed with its expansion of Saiccor, one of the world's largest producers of dissolving pulp — and one of its lowest cost producers

The Saiccor expansion would be increased in size, and Sappi also hoped to



Graphic FIONA KRISCH Source I NET

convert the mill to oxygen bleaching, which would make it the first major dissolving pulp mill to be completely free of elemental chlorine, Van As said. The Saiccor mill would also become more flexible in order to make other pulp products

Van As said these expansions could not have been funded without a significant increase in Sappi's debt load

He said Sappi was a low-unit cost producer and it was appropriate to expand and modernise its facilities during a downturn so that it could take advantage of an upturn While conditions were not encour-

☐ To Page 2

Sappi

Bday 25/9/91. (199)

☐ From Page 1

aging for the group's industries, there was much opportunity for long-term growth

Commenting on results for the six months, Van As attributed the 39% decrease in earnings to a continued decline in the dollar market prices for forest products, high interest rates and weak domestic trading conditions There had also been design problems at the White River plant, below budget output at Ngodwana mill and difficulties at the Enstra mill

These factors contributed to the 9% turnover increase to R1,4bn (R1,3bn) — a decline in real terms

Referring to the drop in operating income, Van As said it was "pleasing in the light of the economy and considering the experiences of other international companies"

He said high interest rates severely affected income for the half-year because of the need to finance the expanded base of the business and the continued replacement of low fixed interest loans with ones bearing higher interest rates Net finance costs rose by 53% to R114,7m (R75,0m)

There was no tax liability due to assessed losses brought forward and tax allowances on the continuing capex programme exceeding profits

The acquisition of five paper mills in the UK and the Speciality Pulp Group in Hong Kong was proving successful, Van As said The effect of last year's acquisitions was reflected in income from associates and non-consolidated subsidiaries, which rose to R48,9m from R7,9m Since the half-year Sappi has acquired Lotzaba Forests from Rand Mines for R150m

Van As expected earnings for the second half to "be similar to the second half of last year"

Sappi seeks acquisition

By Jabulani Sikhakhane 199

Sappi, which yesterday announced a rights issue to raise R800 million to R1 billion, is believed to be working on an overseas acquisition Star 26/9/91.

Sappi executive chairman Eugene van As is reported to have told analysts and fund managers at a two-day visit to Ngodwana that an acquisition had been identified

It could either add to Sappi Europe's product range or involve a distribution-oriented operation to complement production facilities

In the last financial year, Sappi bought five speciality paper mills in the UK and these now form part of Sappi Europe's production units.

Sappi's share price continued under pressure yesterday after the reported 39 percent drop in earnings for the six months to August

The share closed 250c down at R36 It has fallen 16,3 percent from its level of R43 two weeks ago

If the share continues to fall, it may present problems for Sappi Based on the offer of 30 shares for every 100 shares held, to raise R1 billion Sappi may have to pitch the issue at R32/R33 a share to make it attractive.

Analysts say the rights issue will have an immediate benefit for Sappi's bottom line Based on the zero-tax rate for the interim period, Sappi does not get any tax benefits on its interest payment, which was up R40 million to R114,7 million in the six months to August

Reducing debt and therefore the interest charge, should immediately filter down to Sappi's bottom line

• DIVIDEND MAINTAINED
MAJOR RIGHTS ISSUE PROPOSED

Income from associate companies and non-consolidated subsidiaries was R48,9 million showing the full impact of last year's acquisitions
The net income for the group dropped from R168,7 million in 1990 to R102,4 million with a corresponding 39% decline in earnings per share

ACQUISITION

As reported in the media Sappi has entered into an agreement with a financial institution to acquire the share capital of Lotzaba Forests Limited in 1996 in exchange for shares in Sappi Limited That financial institution has itself already acquired the Lotzaba shares from Rand Mines for a consideration of R150 million payable at the end of 1994 In the meantime Sappi has a contract to manage the property (30 000 hectares of established forest plus mining timber manufacturing operations) for its own account

CURRENCY EXPOSURE

All foreign exchange exposures are fully covered other than the sterling and US Dollar equity investments respectively in Sappi Europe and the Speciality Pulp Group

TAXATION

There is no liability for taxation because the assessed losses brought forward from previous periods together with the tax allowances on the continuing capital expenditure programme, exceed the profits of the period

DIVIDEND

The board has decided to declare an interim dividend of 80 cents per share which is equal to last year's interim dividend

PROPOSED RIGHTS ISSUE

Although current market conditions for pulp and paper products and for dissolving pulp are not encouraging in the short term, the group is confident of the long term potential of the markets in which it operates Sappi is a low unit cost producer and it is appropriate to expand and modernise our facilities during a downturn so that we are better able to take advantage of the upcycle in the future At the same time the group is heavily geared in a period of high interest rates and this situation needs to be addressed Saiccor is the largest single dissolving pulp producer in the world and it is also the lowest cost producer Significant opportunities exist for expanding this facility and it is now the intention to increase the size of the previously planned expansion and to convert the mill to oxygen bleaching This is likely to make it the first major dissolving pulp mill in the world to be completely free of elemental chlorine - a major environmental advance

It is planned to make the mill more flexible to enable it to make not only viscose pulp but also dissolving pulp for acetate markets and for solvent spun viscose The cost of this expansion is now expected to be in excess of R700-million which cannot be funded in the current economic climate without increasing the group's debt load significantly The board has therefore decided to proceed with a rights issue to all Sappi shareholders to raise between R800-million and R1 000-million

The proceeds of this rights issue will be directed towards funding the Saiccor expansion and in reducing debt In the interim the full proceeds of the rights issue will be applied to reducing debt which will immediately lower the present debt equity ratio from 0,68 to 0,27 and raise interest cover It will also permit future cash flows to be made available for the modernisation and expansion of our Enstra and Tugela facilities Details of the rights issue will be announced in a circular to shareholders as a special general meeting of shareholders will have to be called to approve the increase in the group's share capital

OUTLOOK

The weak state of the domestic market may well continue for the foreseeable future, and we do not expect an upturn until calendar 1992 However, inventory levels are extremely low after the sharp destocking of the past nine months

Deliveries to domestic customers have started to improve and should be better than in the first half On world markets, the volatility of currencies and the recessionary conditions in many countries will affect supply and demand, and we therefore do not see a material upswing in our markets in the short term However the recent sustained increase in the strength of the US Dollar, our main trading currency, will help offset any price decline Shareholders should, therefore, expect soft trading conditions in the second half of the year, but it is anticipated that the earnings per share for that period will show a material improvement on the first half and should be similar to the second half of last year

Signed on behalf of the Board
E van As
I C Heron Directors
24 September 1991

DIVIDEND ANNOUNCEMENT

The directors have declared an interim dividend number 66 of 80 cents per share payable on 8 November 1991 to shareholders registered in the books of the company at the close of business on 18 October 1991
The share registers will be closed from 21 to 25 October 1991 inclusive The dividend declared is payable in the currency of the Republic of South Africa and in terms of the Income Tax Act 1962, non-resident shareholders tax of 15 % will be deducted from dividends payable to shareholders resident outside the Republic

Sappi Management Services (Pty) Ltd
Secretaries
per D J O'Connor
24 September 1991

PG/SPP(4) 2521e

Sappi spends ahead of the upswing

21/9/91

SAPPI is confident that its expansion in a bad downturn will pay dividends when the economy picks up.

In the past few years, Sappi has bought paper mills in England, pulp mills in Swaziland and Hong Kong and the Lotzaba forests which are dotted around Southern Africa Sappi has also grown organically

Shareholders will look to the payoff Sappi's interim earnings to August 1991 were the lowest in four years The interim dividend was maintained at 80c for the third year in a row

Interest

Sappi now aims to raise up to R1-billion in a rights issue

Sales of R1,4-billion in the six months to August were 8% up, but operating income of R188-million was off 22% and the interest bill was 53% more at R115-million Pre-tax profit was only 41% of last year's interim

Fortunately, income from associate companies and non-consolidated subsidiaries rose sixfold to R49-million and earnings a share were only 39% down at 110c

The interest bill was so much higher than previously because low-interest bearing loans matured and had to be replaced at prevailing rates

By JULIE WALKER

Sappi is not liable for tax because assessed losses brought forward plus tax allowances on capital expenditure exceed profits

The decline in dollar prices, high interest rates and weak domestic conditions are blamed for Sappi's poor performance

Chief executive Eugene van As says the proceeds of the rights issue will be used to pay for expansion at Saiccor The estimated cost is R700-million

The group is heavily geared at 68% and additional borrowing at high cost would put it under more pressure

Saiccor, near Umkomaas on the Natal South Coast, could become environmentally friendly It will be converted to oxygen bleaching only, eliminating the need for chlorine

Offset

The plant will also be modified to dissolving pulp for acetate and solvent-spun viscose markets

Mr Van As says Sappi's earnings will improve in the second half-year to about the same as the second six months of the year to February 1991 when Sappi earned 221c a share

On that assumption, the shares at R36 are on 11 times forward earnings The share price was R27 last November and R44,50 two months ago

Pulp and paper stocks are low and deliveries to domestic customers are improving On international markets, currency volatility and recession in many countries do not dictate an early upswing in prices

The recent strength of the dollar, Sappi's main trading currency, should help to offset any price decline

● The Lotzaba forests, formerly belonging to Rand Mines, were bought by a financial institution for R150-million, payable in 1994 Sappi will buy Lotzaba in 1996 for the issue of shares, and now manages the 30 000 hectares of forests and mining timber manufacturing for its own account

B/Day 15/10/91

R1bn Sappi rights offer

MARCIA KLEIN 199

SAPPI yesterday released details of its R1bn rights offer which it believes to be the largest yet by a local industrial company.

The offer, underwritten by parent Gencor, will raise R1,024bn to be used primarily for the R700m expansion and upgrading of Saiccor, its Natal-based pulp mill.

Sappi said the expansion would enable Saiccor to make dissolving pulp for the acetate markets as well as solvent spun viscose.

Shareholders will be offered 35 new ordinary shares for every 100 held at R32 a share

After expenses, the issue of 32,6-million new shares will raise about R1,024bn. B/Day

At the time of the release of its interim results Sappi said that until the funds were needed for the Saiccor expansion, they would be used to reduce Sappi's debt burden.

Recently released interim results showed a 39% decline in earnings to 110c a share with a 22% decrease in operating income to R187,9m

Sappi said yesterday that following the rights offer, gearing would decline from 68% to about 27%, and interest cover would rise. 15/10/91

FM 18/10/91 (199)

SAPPI FM 18/10/91 (199)

Tight rights?

The rights offer is being pitched not only at the top end of the previously announced R800m-R1bn range but also at a very fine price Terms are 35-for-100 at R32, to raise R1,024bn net, in the second largest issue ever by an SA industrial company It is just short of R1,1bn by Gencor stablemate Engen earlier this year

Sappi repeats that gearing will ease from the current 68% to about 27% and interest cover will rise while it has the use of the funds pending their application on a R700m expansion at the Saiccor subsidiary — which may well not be for another couple of years

Sappi's van As *building during a downturn*

Even allowing for inflation in the interim, this will leave a handy balance — presumably to improve the financial ratios

The share was last quoted at R35,50, the best buyer on Tuesday afternoon being at R35 Even at the higher price, the issue is at a discount of only 8,9% — pretty tight at the best of times but, with a number of voices warning that the JSE could be due for a period of consolidation, even more so On the other hand, the share was R38,50 only a few weeks ago when the interim report (*Fox* September 27) was published, so subsequent easing may have been in anticipation of the huge cash call The 1991 high is R44,50

Chairman Eugene van As said in the interim that the intention was to "build during a downturn" and take advantage of generally buoyant share prices The last time Sappi came to market with a major issue was also during a downturn in the mid-Eighties

When we discussed the interim, we projected earnings this year of 330c a share To avoid diluting this, Sappi would have to earn 10,3% after tax on R32 — even at present interest rates, a close-run thing

But Martin & Co's Richard Stuart points out that cheap debt incurred to finance Ngodwana is now maturing and would have to be replaced with expensive debt — for which there is no tax shield Martin accordingly believes the issue will boost EPS by about 7% for the balance of the current financial year and up to 25% in a full year

Stuart adds that Sappi must be seen as a highly cyclical stock which is now probably at the bottom of the cycle Martin's projections are for EPS to peak at about 950c in 1995, which would give an average p e on the new money of only about five over the cycle

The issue is being underwritten by Gencor, which will have to take up at least half of it, anyway, and probably won't mind if it ends up with more But in spite of all the long-term plus factors, it'll be an intriguing tussle between the perennial shortage of quality scrip on the JSE and fears of an impending share price consolidation *Michael Coulson*

Newsprint deal is good news for Argus and TML

R1-billion scoop (199)

Star 20/10/91

John Spira

IN A DEAL thought to be worth close to R1 billion, South Africa's largest newspaper group has agreed on newsprint terms with the nation's two paper manufacturing giants after several months of intense negotiations

Believed to be one of the largest contracts negotiated in South Africa this year, the agreement has important implications for at least five major companies — Argus, Times Media, CTP (Caxton), Sappi and Mondi.

While the companies in question are reluctant to spell out the details of the contracts, industry sources believe that they relate to the major part (95 000 tons) of the 140 000 tons a year of newsprint consumed in South Africa.

Until now Argus and TML have, along with other members of the Newspaper Press Union (NPU), negotiated with Sappi and Mondi for price, quality and delivery terms on a united basis

Earlier this year, Argus and TML broke ranks with the NPU and negotiated its own terms with Anglo's Mondi and Gencor's Sappi The negotiations took place in a buyer's market characterised by

- The lifting of import control on newsprint
- A global oversupply of newsprint
- Discussions with the Competitions Board which focused on the dismantling of the buying cartel for newsprint (as a result of Argus/TML severing its links with the NPU) and the desirability of breaking up the selling cartel that existed between Mondi and Sappi

Argus and TML are therefore thought to have clinched highly attractive terms on contracts with the two manufacturers The contracts, which are in the process of being finalised, will take effect from the beginning of next year.

Sources suggest the new prices could be as much as 10 percent below those prevailing under the existing contracts — with highly positive implications for Argus's and TML's bottom lines.

Sappi and Mondi will face a period of reduced revenue from their newsprint operations but in view of the depressed state of the world market for newsprint, they must be reasonably happy to have retained what is no doubt a lucrative source of business

Indeed, it is thought that Argus/TML were seriously considering ~~importing~~ their newsprint requirements at prices below those currently prevailing — a consideration which no doubt prompted Sappi and Mondi to soften their negotiating stance

According to industry sources, the new contracts were concluded in separate deals with each of Mondi and Sappi

Previously, Mondi enjoyed 60 percent of the Argus/CTP/TML offtake, with Sappi supplying the remainder.

From next year, Mondi will supply 50 000 tons for three years and Sappi 45 000 tons for four years, indicating that the latter has gained market share.

It is understood that different escalations apply to each of the two contracts, though sources weren't able to supply details.

The NPU is currently negotiating with Sappi and Mondi on the remaining 45 000 tons of newsprint that is part of the current contract

Argus and TML will enjoy a financial windfall when the new prices come into effect at the beginning of next year.

Close to 40 percent of their newspaper production costs are accounted for by newsprint and the reduced prices will have a considerable impact on their profitability

Peter McLean, managing director of Argus Newspapers,

● To Page 3

Double role for 'concept vehicle'

A NEW Toyota, to be launched next month, will be available as a comparatively low-cost family station wagon and as an eight-seater corporate vehicle

This emerged today when the company released further details of its R40 million "concept vehicle" project

Brand Pretorius, managing director of Toyota SA Marketing, says the one version (in the photo above) will offer a versatile value-for-money package with lots of room for two adults, four children and plenty of luggage The other will offer a low-cost corporate transport solution for eight adults

The station wagon will be priced around R40 000, VAT inclusive, giving it a R14 000 advantage over the next cheapest wagon or minibus

Mr Pretorius says legal requirements prevent the vehicle competing in the taxi market

"Our marketing thrust will be aimed specifically at providing affordable transport solutions for the larger family and corporate transport requirements"

R1-billion scoop (199)

● From Page 1

and the man believed to have been responsible for clinching the new contracts (though he declines to confirm this, nor to provide specifics of the deal), says readers of the Argus publications will benefit from the windfall

"It is intended that part of the newsprint saving will be reinvested in the group's newspapers in an effort to increase the company's share of the advertising market and maintain or increase reader support Star 20/10/91

"In addition, the saving will enable us to postpone price increases, since we intend to apply some of the additional margin towards funding newspaper prices in the future

"So our readers will enjoy better products at better prices

"Additional spending on improving the quality of our newspapers has already begun"

Mondi faces high costs for green technology

BI Day 24/10/91 LINDEN BIRNS (1991)

VIENNA — SA paper manufacturer Mondi Paper would have to invest at least R1,5bn in environmentally-friendly technology if its products are to be marketable in Europe, a leading Austrian paper company spokesman said yesterday 24/10/91

In December 1990 Mondi committed itself to an investment of R2,5bn in Austria's and Europe's leading office communications and specialist paper producers, Neusiedler Aktiengesellschaft, which obtains its eucalyptus pulp supply from Mondi.

This investment saw Mondi take over 49% of Neusiedler shares. The Austrian company produces 236 000 tons of paper and 30 000 tons of pulp each year, generating an annual turnover in excess of Austrian schillings (OS) 3,3bn or about R660m.

Neusiedler chairman Gernot Strobl said that before Mondi products were marketable in Europe it would have to improve its paper and pulp production processes.

He said Neusiedler, which pioneered a chlorine-free bleaching process, would assist Mondi to acquire the technology so that it could produce paper and pulp using similar ecologically-sound methods

Mondi produces about 500 000 tons of pulp a year, all using the chlorine-bleaching method. Strobl said he expected the EC to ban the use of chlorine in paper production within the next five years

Neusiedler together with Rank Xerox introduced photocopying to Europe in 1966 Today more than 80% of Neusiedler's output is specially processed photocopy paper. Various grades and brands are manufactured according to specifications prescribed by the copier machine manufacturers Its latest development is the production of a paper made entirely from sawmill dust, wood chips and forest thinnings.

Neusiedler has made a capital investment of more than OS74m (R148m) in harmful emission reduction equipment and technology research and development Mondi has sent a technical manager to Austria to study Neusiedler's production methods. The company will help Mondi design and install new technology at its Richards Bay mill where new paper and pulp production techniques are to be implemented

Woodcreations' skill scoops top honours

B Day 29/10/91 (199)

Business Day Reporter

WOODCREATIONS, a specialist manufacturer which converts timber into quality products, last night won the SA Non-Listed Company Award

The award, sponsored by Business Day, Arthur Andersen & Co and Wits Business School, was presented at a banquet in Sandton. The contest, now in its sixth year, recognises the company which best demonstrates creativity and entrepreneurial skill in meeting business challenges

A panel of top businessmen voted Woodcreations the winner, and three other companies, among 20 finalists, were given special awards They were Callguard Security Services, Nordberg and Elvinco Plastics

Yolande Kristiansen's trophy design was chosen in a competition among Witwatersrand Technikon sculpture students

One of Woodcreations' most innovative products is a re-usable packing case for the motor industry, which allows the company to convert internally manufactured plywood into a branded, patent-protected, high value-added product

MD Rob Taylor said Woodcreations' involvement in the packaging market hedged it against what would otherwise have been dramatic effects of the recession in the office furniture business

Guest speaker Warren Clewlow, chairman of Barlow Rand, said the effect of information technology on business meant it was no longer necessary to be big to compete in world terms, and some small, agile companies had performed very effectively in niche markets

"While the economic and political debates rage around us, it is the individual enterprises in an economy that create wealth, and they have to be managed and run in such a way that they produce that wealth as efficiently as possible"

● See Pages 3 and 8
● Special supplement inside

Sappi rights offer a success

199

Finance Staff

Star 22/11/91

Investors gave strong support yesterday to Sappi's R1 billion rights offer and snapped up the new shares.

The offer was 99,55 percent subscribed by shareholders. Gencor will take up the balance of only 148 191 shares.

Stuart Jones, executive vice-president of First Corp, Sappi's merchant bank, said the issue was well priced (at R32 a share) and most investors recognised that although the international pulp and paper markets were in the doldrums, Sappi had excellent growth potential.

Sappi intends using the R1 billion primarily for the expansion and upgrading of Saiccor, its Natal-based dissolving pulp mill.

R1bn Sappi rights offer

B/Day 22/11/91

Business Day Reporter

SAPPI's R1bn rights offer was 99,55% subscribed by shareholders. Underwriter Gencor will take up the remaining 148 191 shares.

Firstcorp executive vice-president Stuart Jones said the issue was well priced (at R32 a share). (199)

"With the funds raised in the issue, Sappi will be in a position to consolidate its position as a world class player in the dissolving pulp market as well as accelerate development of its other international businesses," Jones said.

Sappi intends using the R1bn for expanding and upgrading its Natal-based dissolving pulp mill, Saiccor.

Until the funds are drawn down for the Saiccor expansion, they will be used to reduce Sappi's burden and should reduce gearing to around 27% from the 68% registered at the interim stage at August 31.

Sappi, Fabcos to build houses

(199) THEO RAWANA

PULP and paper manufacturer Sappi would invest R200m in a joint affordable housing scheme for squatters it had entered into with Fabcos, the parties announced in Pretoria yesterday

Bday 27/11/91

The project — the pilot of which would be the housing of 200 families near the Pretoria township of Atteridgeville — would involve Sappi making a R200m investment through its treated board plant in White River, said Sappi chief operations officer Ian Heron

Fabcos executive and FutureBank chairman-designate Jabu Mabuza said growing urbanisation, particularly in the PWV and around Durban, demanded immediate action

A statement released at the signing ceremony yesterday said more than 1-million families were homeless, which translated into 7-million people without roofs over their heads.

"Only 40 464 houses were built for the poor in 1990 — 30 911 by the private sector, 7 897 through self-help loans and a paltry 1 665 by government," the statement read

The 28m² flat-roofed housing structures, made of treated boarding with a concrete floor, were chosen from other systems by the group of homeless people invited to Fabcos headquarters to make a choice themselves, Mabuza said

Finance would be provided by Finansbank, which would raise funds on the capital markets

Abacus posts long-awaited results, with losses trimmed

(199)

B/Day 28/11/91.

BRENT VON MELVILLE

THE long-awaited results of Abacus Industrial Holdings (formerly Interboard) for the year to February, show attributable losses have been trimmed to a relatively low R1,2m, compared with losses of R126m in the previous year

The annual report, however, includes a qualification from auditors Ernst & Young, who query the inclusion of costs associated with the closure of the group's flatboard division, including the trading loss incurred to the date of discontinuance, as part of the extraordinary item of R28,9m

Ernst & Young says the trading loss up to the date of discontinuance should be disclosed as part of the operating loss It makes the point, therefore, that it is not possible to determine the amount of the trading loss up to the date of discontinuance

The operating income of continuing operations was shown as R239 000, while net financing costs slashed off R9,7m (R18,1m), leaving a loss after taxation of R9,6m (R17,6m)

Extraordinary items were reflected as a positive R5,4m compared with an extraordinary loss of R110m, mostly related to "questionable" transactions last year allegedly involving former Interboard chairman Ed Dutton

Also included in the extraordinary item is an amount of R28,9m of assets allegedly defrauded from the group. Ernst & Young add that pending the resolution of further actions being taken to recover assets, it is unable to establish whether or not additional adjustments will be required to the financial statements

Several disposals were made during the year. The flatboard division was sold to Sappi, resulting in losses over and above those provided for in the previous year, aggravated by the substantial trading losses incurred both before and after the closure

Investment holding company Despipe was also sold to Sappi. Interboard Trucking was also sold.

Subsequent to the year-end the group disposed of a further four subsidiaries — Ian Fuller Agencies (an import agent trading in hardwoods), Abacus Forestries, Glea Property Two and Glea Property Three

Chairman Trevor Coulson said the proceeds of these sales had been used to reduce group borrowings.

In addition, the proceeds of a R16m rights issue were used mainly to repay the outstanding borrowings of the flatboard division Borrowings were reduced by R43,6m to R63,1m during the year

SA timber cheaper abroad than here claim exporters

ARGT 30/11/91

Weekend Argus Correspondent

DURBAN — South African exporters of timber products claim their industry is suffering because timber suppliers are selling sawn timber to some European countries at much lower prices than in this country

Members of the Timber Products Exporters' Association said this week they were competing with overseas markets for locally-sawn timber, and asked how they could be expected to compete with European markets

They blame the export arm of the South African Lumber Millers' Association (Salma), which handles exports of sawn timber.

But a spokesman for Salma has denied the claims, saying it has no control over what prices are asked for timber and what prices are paid.

Dr Winston Smith, chairman of the Timber Products Exporters' Association, which represents 47 members who export furniture and wooden products, said: "If overseas companies can buy timber at cheaper prices than we can, we are the losers all the way.

"This is crippling some people in the industry All 47 of our members are affected.

"Salma sell their timber in the EC, so those overseas companies don't pay duty But South African manufacturers buy timber at a higher price. After that they still have their manufacturing costs, then freight costs and then import duty. How can we do it?

"Some of our manufacturers have been overseas and found companies in Italy and Spain selling the same products as ours, made of SA pine

"Italy is the main problem

Tight market constrains wood exports

PAUL ASH

WHILE the timber industry's wood chip trade with Japanese pulp and paper manufacturers was expected to flourish following the recent lifting of sanctions by Japan, this would depend on a recovery in the international paper and pulp market, industry sources said yesterday

Central Timber Co-operative (CTC) partners, Sumitomo Corporation and Sanyo-Kokusaki Pulp Company, were eager to expand their business with SA, Natal Co-operative Timber (NCT) chairman David Earl said in his end of year address

Japan imports about 10-million tons of wood chips annually, of which SA supplies about 670 000 tons

"The world recession in the industry, however, means the market has tightened up substantially," Earl said

CTC chairman Jan Kemp said the Japanese had cut timber imports from all their suppliers except SA

SA's commercial forests were all man-made with the result that quality was consistently high, fibres were uniform and there were no problems with environmentalists

SA was also the only wood chip exporter in Africa

In 1990, SA exported about 670 000 tons of hardwood chips, worth about R90m, to Japan but this figure was expected to reach 750 000 tons next year, Kemp said

CTC's chipping capacity was expected to reach over 800 000 tons a year by the end of 1991

There had been inquiries from Finland and CTC was also investigating markets in the Middle East and other European countries, Earl said

Meanwhile, mining timber supplier Hunt, Leuchars and Hepburn has completed its own chipping plant at Richards Bay

MANUFACT. — WOOD & CORK

1992

COMPANIES

Masonite's tight cost management pays off

B/Day 11/2/92

199

EDWARD WEST

PULP WOOD and timber company Masonite Africa has increased profits by 54% to 167c a share in its financial year to December 1991 because of tight cost management and savings achieved from the commissioning of new plant.

Earnings growth was achieved from a 12% growth in turnover to R126,5m MD Alan Wilson said yesterday in a telephone interview that the 12% turnover growth was not so much the result of increased sales as the result of a 12% product price increase during the year

Reflecting tighter financial control and improved productivity, gross profit margins climbed from 8,9% to 13,8% and gave rise to the 72% increase in pre-tax profits to R17,4m

A fire broke out in Masonite's Estcourt factory in October, destroying some stock and putting the plant out of action for a week Certain products were imported to ensure continuity of supply The restoration of the plant gave rise to a R4,1m extraordinary item The company was insured against these losses

Wilson said a new R11m refiner plant was commissioned in mid-November 1990 The new plant resulted in lower maintenance costs — the plant replaced four smaller plants — lower usage of water and the recycling of 80%-90% of the steam used in the refining process

He said Masonite planned to invest in its future through the continual updating of technology and the increasing of production capacity Dividend policy would be aligned to the funding of this programme Consequently, in the year under review, dividends increased 40% to 60c a share covered 2,78 (2,5) times The final dividend was 35c a share

Wilson, positive about long-term prospects, said the expected economic recovery in 1992 would not occur soon enough to have a positive effect on earnings

Skin care launch eats profit

PARIS — French fashion and perfumes group Yves Saint Laurent said yesterday 1991 sales rose 2% to $574m in spite of the recession

The group, founded in 1962, maintained its prediction of a slight drop in 1991 profit from 1990's $43m

The company said heavy investment to launch a new skin care last year and a one-time foreign currency gain in 1990 explained the dip in profit — Sapa-Reuter

More private time wanted

TOKYO — Japanese white-collar workers in the Tokyo area work an average of 37,6 hours of overtime a month and complain of not having enough private time, a recent survey says

Recruit Research Company reported that 31,4% of its 3 047 male respondents said they worked more than 50 hours overtime a month

Recruit questioned 3 047 male white collar workers chosen at random in November last year

The workers were between the ages of 20 and 49 and lived within 50km of Tokyo

Asked about worries or unhappiness at work, 37,8% said they had too little private time

The average Japanese worker worked 2 044 hours last year compared with 1 949 hours put in by Americans in 1990 and 1 642 hours by Germans, the labour ministry said — Sapa-AP

Retrenchments 'could point to start of upturn'

~~335~~ ~~199~~

B/Day 11/2/92

PAUL ASH

THE steel industry is hampered by high interest rates, poor business and consumer confidence, and a stubbornly high inflation rate, says Seifsa economics division head Michael McDonald in the latest edition of Seifsa News

Retrenchments for 1991 topped nearly 35 000, peaking at 3 393 in December However, past experience had shown more workers lost their jobs at the end of an economic downturn than at the beginning, he said

Signs of an export-led upturn could become apparent towards the end of the second quarter of 1992

A drop in interest rates, lower inflation and the "promising" start to Codesa talks would go a long way to restoring business confidence

If violence could be controlled, about R750m from the Independent Development Trust and other sources could be used for infrastructure building

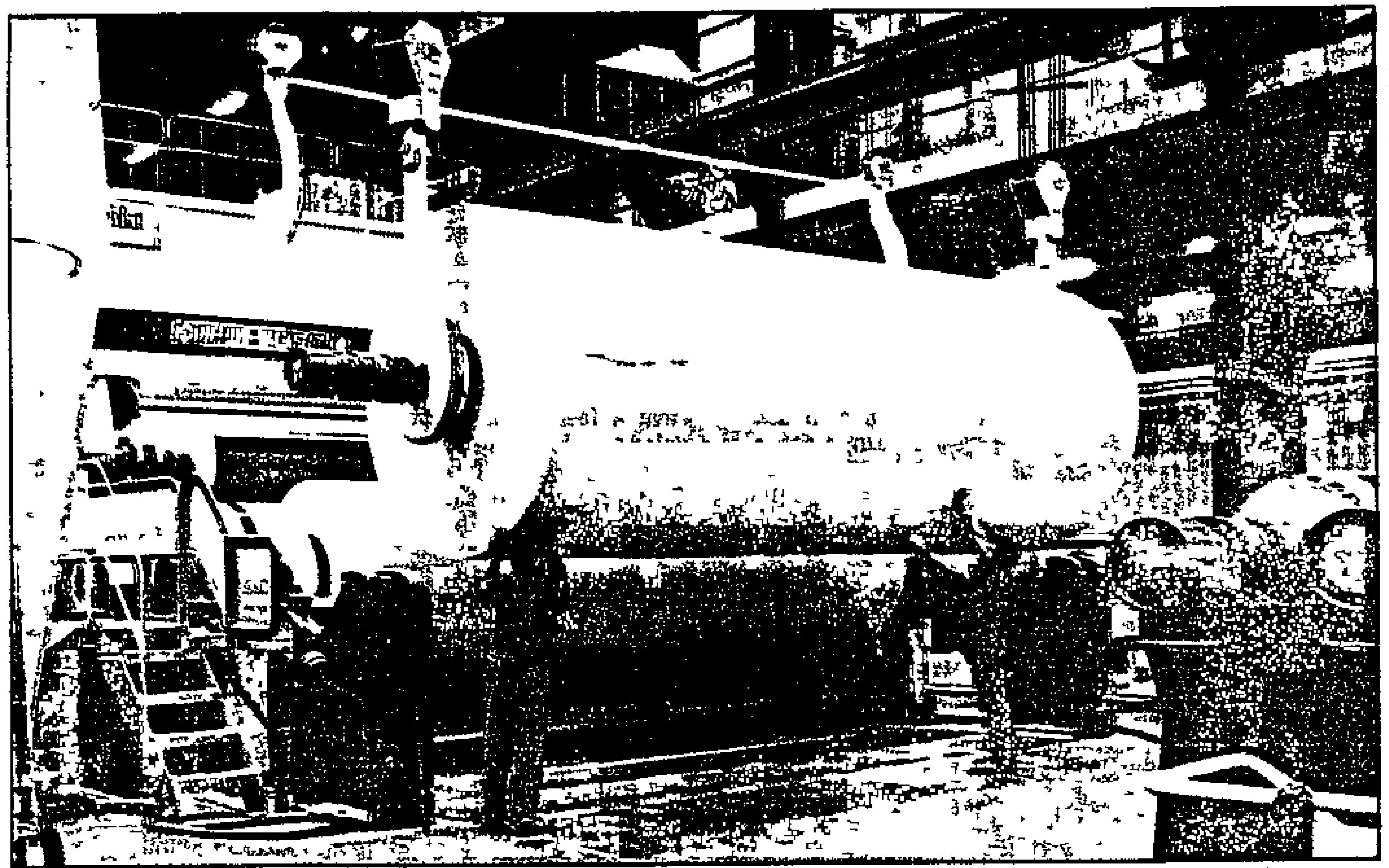
Projects such as Mossgas, which had benefited many metal industry companies, were wrapping up Similar large-scale, government-sponsored projects were unlikely for some time

Cutbacks on capex by industry's major customers, such as Transnet, Eskom and Armscor, meant exports would have to play a greater role in the future

The fall of sanctions had opened world markets to the industry, but it was vital the industry improved its competitiveness in the field of manufactured products instead of relying largely on markets requiring only beneficiated raw materials

COME PARTY

Growing on trees   beautiful scenery often has to be sacrificed for forests like this one in the eastern Transvaal



SA's biggest paper manufacturer   Mondi regularly produces newsprint containing 25 percent waste

New sprint to tackle paper pollution

STAR 13/2/92 199

Newspapers tend to sympathise with the "green" movement — but how green are newspapers? JAMES CLARKE reports

NEWSPAPERS which have for years carried the banner for environmental awareness are now themselves under scrutiny by the environment lobby

The world over, newspaper people have never believed themselves to be among the "baddies" when it comes to environment After all, paper rots and quickly turns to soil And anyway, it grows on trees

But waste experts have found that newspapers do not in fact rot as quickly as people think You can pull a 40 year-old newspaper out of a rubbish heap and still clearly read about the unhappy love affair between Princess Margaret and Group Captain Townsend or the flight of the first jet airliner

And although paper does grow on trees those trees need to be planted in high rainfall areas — that's just where the country's most scenic and botanically interesting areas are

So far 1 million hectares of South Africa have been planted to timber and now the industry (pulp and timber) needs another 1 million — which means another 1 million hectares of South Africa may have to be turned into a cheap imitation of Canada

The electronic age has not lived up to its boast of creating a paperless world In fact the opposite is happening — paper consumption is steadily increasing

The answer can only be in recycling

To cut down on waste paper volumes being dumped on municipal dumps some parts of the United States will not allow newspapers to go on sale unless they contain a certain percent age of recycled material

In California newsprint must contain at least 25 percent recycled paper

Ironically in South Africa, where there has been almost no "green pressure on the newspaper industry, newsprint already contains 15 percent recycled waste In a recent experiment The Star's sister newspaper, the Daily News in Durban, printed an edition on 15 percent recycled paper

American newspapers, to meet their recycling targets are actually buying recycled paper from South Africa

Mondi SA's biggest paper manufacturer is regularly producing newsprint containing 25 percent waste at its mill in Merebank, Durban It could technically go to 40 percent if it had the supply of waste

I visited the Merebank plant and spoke to John Lay, divisional manager of Mondi's paper recovery and processing In the last few years his division has sunk tens of millions of rands into its recycling plant

"South Africa is actually ahead of the United States, says Mr Lay "They are recycling about a quarter of their total paper consumption South Africa — which uses 1 7 million tons of all kinds of paper a year — is recycling a third."

About 15 percent of newspapers and magazines are diverted to the pulp mills The rest still ends up as landfill

The arithmetic of this has to be changed and Mondi with its nationwide Paper Pick-up scheme wants to get South African urban dwellers into a rhythm of recycling newspapers About 30 percent of household rubbish is paper

Local governments are also concerned waste paper is beginning to clog the solid-waste stream, and landfill sites are becoming very expensive

Mondi has spent R5 million just buying trucks for its Paper Pick-up, which now operates in many areas of the Witwatersrand, Pretoria Durban and Cape Town But South African households, even in supposedly educated areas such as Sandton where people profess to be "green" homeowners are not showing sufficient enthusiasm for separating paper

New legislation, hinted at in last year's President's Council report on the environment, could force the issue

John Lay claims that since the 1970s a third of landfill volume in South Africa has been taken up by paper and the single largest item is newsprint

"Yet," he says, "that newsprint is worth money Every 1 000 tons of it can be turned into 850 tons of perfectly good blank paper To produce that much paper out of virgin pulp would use up 15 000 trees "

Mondi — a subsidiary of Anglo American Industrial Corporation — saw the warning signs regarding the environmental impact of paper some years ago

'We realised that demands on wood for pulp and all other uses, including building timber could outstrip our ability to grow trees We also knew that paper could be re-used time and time again as long as a certain quantity of new wood fibre was added," says Mr Lay

Mondi, which is large even by world standards produces nearly 2 million tons of paper products a year Mainly through its paper waste division it retrieves 250 000 tons annually Paper Pick-up — a free service performed with the co-operation of public authorities and neighbourhoods — is part of the collection process

Mondi is currently recycling 600 000 tons of paper a year — a third of its annual production Translated into trees that saves 23 million of them More importantly, it saves having to smother additional thousands of hectares of land with exotic trees

About 200 000 tons of recycled paper products are exported annually to Asia Europe and North America

Mondi has yet to produce a formal documented environmental audit but when it does, the accounts should look good even the water it uses contains one-third recycled waste water

According to the superintendent of the Merebank recycling plant Owen Keates, newsprint can be recycled three or four times but by adding virgin fibres its life goes on for ever

We stood next to minibus sized bales of newspapers each bale weighing almost a ton It costs R500 a ton to collect and a further R350 a ton to process

Mondi's Paper Pick-up is costing the company a considerable sum but it aims at falling into an economical rhythm of collection transportation and processing once more public support is forthcoming

John Lay has his eye on the 150 trucks which deliver knock-'n drop newspapers in urban areas If they can drop newspapers why can't they also pick some up? □

Cosatu to fight forest privatisation

DIRK HARTFORD

COSATU will soon add its muscle to the range of forces lining up against government's plan to privatise state forests, according to a union source [redacted]

The source said Cosatu would this week take a plan of action to its alliance partners, the ANC and SACP, to try to halt the privatisation plans [redacted]

Last week Forestry Minister Magnus Malan told a delegation from the Forestry Council that he was determined to finalise the privatisation of forests before July

The Forestry Council told Malan it was disturbed that the private sector had not been consulted. (199)

Council chairman Fred Otter said yesterday he could not comment on the meeting Government plans a state-owned national forestry corporation, the Companies Act and later be privatised

Malan has said it would be premature to comment on the plan He would deal with the issue in this parliamentary session

The 1,5-million strong Cosatu has more than 16 000 forestry workers organised into the Paper, Pulp, Wood and Allied Workers' Union (Ppwawu).

There are about 80 000 workers in the industry

Cosatu has called for a halt to all privatisation initiatives until an interim government is in place B/Day

It insists that any economic restructuring be a product of negotiations between the key players — labour, employers and the state 19/2/92

The issue of privatisation has already been raised at Codesa by the SACP

Impressive . . . Nampak Paper's recently commissioned PM3 at Kliprivier.

Ready to get in on the international act

In the cut-throat international market for newsprint and other paper (see report on opposite page), Sappi and Mondi are eying the opening presented by growing preference for paper with a recycled content

Mondi has recently commissioned, at Merebank in Durban, this country's first mill producing newsprint with a 15-20 percent recycled content, at a cost of R106 million.

Two Sappi Kraft mills, in Cape Town and Port Elizabeth, use only recycled material and the group is exploiting the products — including, for the first time, a fine paper — of its mill at Stanger, using bagasse residue from sugar production

Both have extensive paper pick-up operations The older, Sappi Waste Paper is characterised by its WOW (War on Waste) bins at municipal offices and supermarkets, while Mondi's Paper Pick-Up focuses on printed paper for the new recycling operation

"SA is well placed to start elbowing out the Canadian industry, which is going to have enormous problems getting paper waste back from its main markets in the US," says Sappi Kraft managing director Ian Forbes

Mondi executive chairman Tony Trahar adds "We expect capacity there to be closed down because of environmental pressure and labour problems SA, Chile and Brazil are well placed to exploit that"

He says the new newsprint, tried first at the Daily News in Durban and giving a whiter newspaper and better printing, has been well received by local newspaper groups Mondi exports bleached pulp, linerboard, newsprint and some fine papers to 35 countries

Mr Forbes says the trend towards "maximum white" newsprint and better printing for

Ian Forbes . . SA is well placed

STAR 25/2/92

199

graphics and photographs has been set by the US national, USA Today

US newsprint consumption of a million tons a month (compared with less than 150 000 tons a year in SA) has to be an attraction At that level, however, it is 7,5 percent down in line with lower adspend and the industry wonders about recovery, given the habits of Americans now a full three generations into TV

"Against that one must set the fact that behind the old Iron Curtain are hundreds of millions of people hungry for a free flow of information At the bus sheds in Russia simple four-page broadsheets sell like hot cakes"

Everywhere, growing sophistication should bring higher paper consumption "At the moment, per capita annual consumption is 320 kg in the US, 220 in the former West Germany, 80 in East Germany, 80 in South Africa and 0,4 in Nigeria"

Mr Forbes says that when it comes to recycled packaging, South Africa did well last year in collecting 23,8 million tons, or slightly more than the 1988 figure for the entire US of 26,5 million tons — one fifth of which was exported to Pacific Rim countries The SA figure represented nearly a third of consumed packaging — a good record seen in the light of the US target of 40 percent by 1995

In the European Community, West Germany in particular has such stringent rules regarding collection of used packaging that the whole nature of packaging is changing

OUT is the former brown shipping box

IN are white rather than brown "display" boxes with high-class printing which can go straight to retailers shelves before manufacturers collect them again

Keeping up to date with such board and paper market trends is important when Sappi — six times winner of the State President's Export Award — is among the top 10 operators worldwide

Apart from the five-mill Sappi Europe, acquired last year, six-year-old Sappi International is in place in Houston, Zurich and Hong Kong to promote the group's exports

We 'must learn from debacle in in New Zealand'

(199)

STAR 25/2/92

The prospect of government forests being privatised is disturbing only if the private sector is not going to play its proper role, says Mondi executive chairman Tony Trahar.

"The big buyers of timber, themselves experienced in forestry, should be in a pre-emptive position if state assets are to be disposed of," he said

"The worst situation will be if we end up with a state corporation managed by former public servants untrained in the ways of private enterprise

"We want to avoid disastrous 'privatisation' such as took place in New Zealand," he added

Cheaper newsprint – and a duty

STAR 25/2/92

(199)

International pulp and paper prices "rocketing downwards" (in the words of one source) have resulted in newsprint becoming cheaper and a duty on all paper imports seems likely

"Naturally, the international situation played a part as newspaper owners negotiated prices with Sappi and Mondi," said a source elaborating on the first development

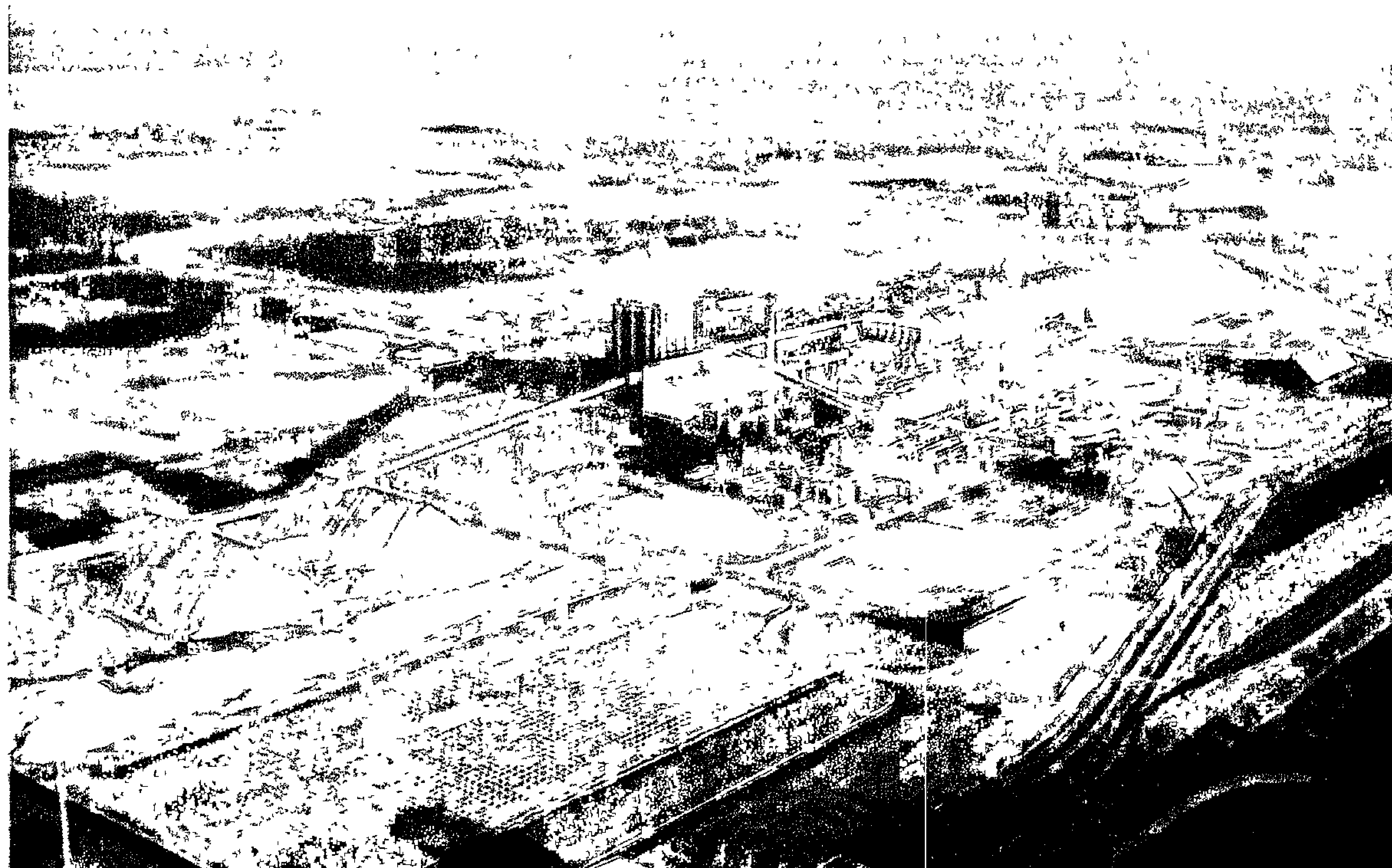
Sales contracts differ, but price falls are understood to be between 10 and 15 percent

The second development flows from South Africa being one of the most desired and overtraded paper markets in the world — "we are known for paying our bills" And particularly from the entry here, too, of Brazil — one of the more recent, highly competitive entrants to the world market

A spokesman for the Board of Trade & Industry declined to comment on representations made and possible recommendations to government

Among them, we understand, is that a 10 percent duty on all imports of paper should be substituted for the current 15 percent on coated paper (pulp universally carries no duty)

The full Board met yesterday and its recommendation should be delivered during March



Enormous ... an aerial view of the Mondi pulp and linerboard mill at Richards Bay on the Natal North Coast.

Star 25/2/92

From perfect beer labels to insulation

Beer drinkers will be amazed to learn that it took seven years of research to produce the paper for the labels on all SA Breweries' bottles

"It had to meet three special requirements," says Sappi Fine Papers marketing manager Robert Clark

- Curl factor — it must stay curled round the bottle
- Wet-opacity — it must not become see-through when wet
- One-piece washability — it will clog equipment if it crumbles when bottles are washed

And then there is today's environmental concern for the least possible use of timber

At the request of Pick & Pay, Sappi Fine Papers has just begun producing paper for canned-food labels from bagasse — the residue after cane has been crushed for sugar This has for a long time been the raw material for its mill at Stanger in Natal

Another new product from the mill is Savannah Natural Art, the country's only coated paper from bagasse Publicity in local and foreign marketing says "This environmentally friendly range made from the fibrous residue of sugar cane will give exceptional performance with virtually every printing technique"

Derek Smith, managing director of merchanting group Graphtec (parent of Haddons Trading, First Paper House and Star Paper), says paper turns up in many uses

"A great deal of the veneer on less expensive modern furniture is printed paper laminated to plywood

"And the formica which provides so many table and shelf surfaces is mainly paper

"Also not widely known is that the common printed plastic bag in fact has a coat of so-called film-casting paper — of which some 500 tons are imported each year

"Paper is also in many cases the most efficient insulator in electrical and telegraph cables"

A specialised paper type — of which SA imports all it needs — is that used in cars for fuel filters

Footnote from Sappi Kraft MD Ian Forbes "Paper gained a new market when potatoes in hessian bags discoloured under the fluorescent lighting in the giant new municipal markets That's some compensation for the shopping-bag market lost to plastic!"

Getting the quality right

Litho gloss papers produced on a rebuilt plant at Merebank, Durban, have won warm approval from SA magazine publishers, says Mondi The R220-million upgrading was in addition to a de-bottle-necking of its pulp and board plant at Richards Bay, which increased output 17 percent despite a small cut in staff

Sappi Fine Papers says its upgraded Shaka grade has drawn the same sort of reaction from the country's printing fraternity "We have 14 products under development at the moment," says marketing manager Robert Clark, "and that's about the norm" Total product range is about 50

Bungling feared in forest privatisation

(199)

S/Times (BUSS) 1/3/92

By DON ROBERTSON

THE SA Lumber Millers Association (Salma) and the Timber Trade Federation (TTF) have joined several organisations in querying the Government's decision to privatise State forests.

They do not oppose privatisation in principle, but are worried that a transfer to a free-market system will not be properly handled by the Department of Forestry.

They also fear that a new monopolistic supplier will be set up and that prices will increase

They are upset because their own input on privatisation has been largely ignored

Pulp

They believe the R650-million-a-year sawmilling industry could be hurt in the long term

Saw logs need about 30 years to grow to the required size They believe privatised forests will switch to growing pulp logs which can be harvested after about 10 years

Salma relies on State forests for about 55% of its saw logs The forestry industry, including mining and pulp timber, is worth about R7-billion a year

Salma said in its latest annual report there were fears that an uncontrolled monopoly could be established, endangering existing private companies

"The point was made that the sawmilling industry was the least concentrated and in this respect, the healthiest sector in the timber processing industry

"It would be most vulnerable if such a 'commercialised' monopoly was created It could lead to unbridled intimidation and serious implications for the competitiveness of individual sawmillers, especially if the new organisation followed world trends and went downstream into processing"

The report said that in anticipation of privatisation, forestry officials "were already behaving like a monopolistic supplier"

At a time when efforts were under way to curb inflation, forestry officials asked for log price increases of 29,5% for 1990 and 35% for 1991

"It was only through long and difficult negotiations that Salma could avoid these disasters.

"It is well known that the (forestry) officials are pressuring individual members of Salma to break ranks and to negotiate separately — a monopolistic approach to divide and rule

"Intimidation on contractual entitlements, log volumes and quality is also generally experienced by individual contractors"

Salma drew the Department of Forestry's attention to the "privatisation fiasco" in New Zealand

It took several forestry officials to New Zealand, Australia, Canada and the US It sponsored a trip to SA by three experts from New Zealand and Australia to ensure that similar mistakes were not repeated

TTF president Jack Swan says the possibility of privatisation has been considered for about three years, "but now the Government wants to do it overnight"

Overnight

Mr Swan says privatisation is inevitable, but it must be done by people who know something about forestry and business. Officials in the Department of Forestry do not fit this bill

"The only people who have these skills are the large millers and they will have to be involved"

He does not believe large millers will ever become involved in price collusion

Mike Edwards, executive director of the Forest Owners Association, says his members — they control 75% of private forests in SA — support privatisation in principle But it should be preceded by commercialisation

Mr Edwards says the principle is not in dispute, only the process by which it takes place.

Failure

His members support privatisation if it is done on pure business lines and is not merely a change of name

He concedes that prices may rise in the short term, but says that putting State forests on a sound commercial footing will be beneficial to all in the long run

Sappi chief operating officer Ian Heron says the department should first look at commercialisation, with the emphasis on productivity improvements, before it considers privatisation

Len O'Haughey, managing director of HL&H Timber Products, says "We support privatisation in principle, particularly in view of the need to optimise the productivity of State plantations

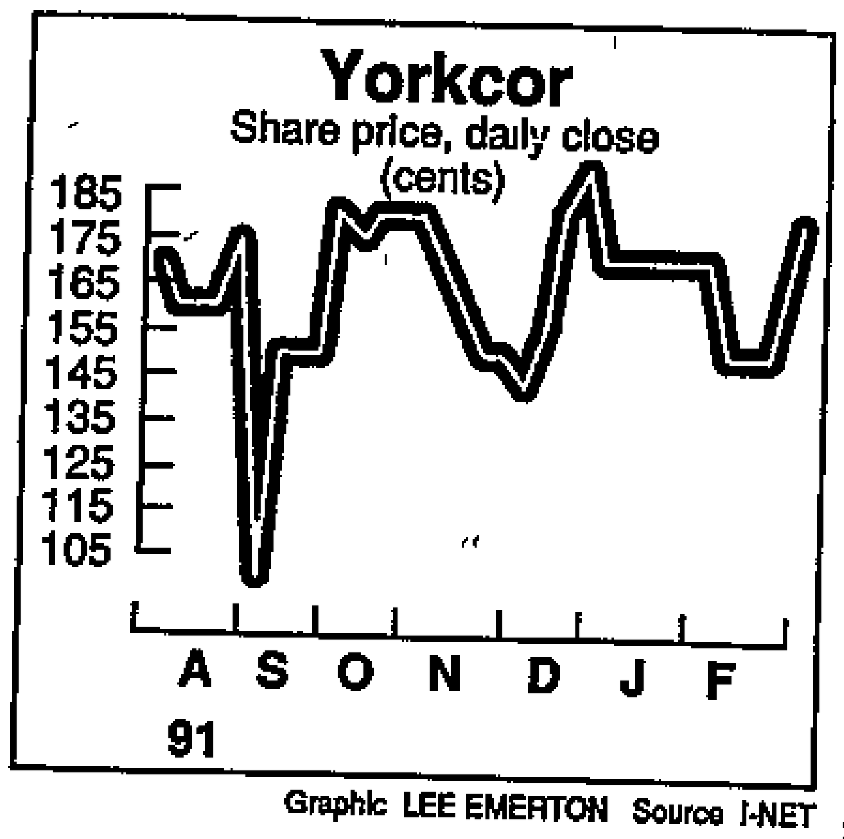
LEN O'HAUGHEY Tell us more

"Our concern is not the formation of a company, but the failure of the Government to articulate the exact positioning of the company to members of the industry"

● **A Department of Water Affairs and Forestry spokesman says "Salma's input has not been ignored and a section of the consultant's report expressly deals with its viewpoint**

"Forestry officials did not ask for log price increases of 29,5% and 35%. These increases were merely suggested. The actual increase was only 14,3%. By contrast, prices of sawn log increased by 17,7%

"No State land will be sold to the company and existing long-term timber contracts will be honoured for at least the next 8½ years"



Graphic LEE EMERTON Source I-NET

Yorkor hits out at state forest plan

EDWARD WEST 199

TIMBER company Yorkor has lashed out at the planned commercialisation of state forests

In its annual report released on Friday, Yorkor chairman Solly Tucker said the issue was causing uncertainty among lumber millers who had long-term sawlog contracts with the state B/Day 2/3/92

"There is no need, and certainly no justification, to move from state monopoly to money-making monopoly whether or not registered under the Companies Act as would appear to be on the cards at present."

He said the Forestry Department had increased log prices by 17,4% in 1989, 16,3% in 1988, 20,3% in 1990 and 14,8% in 1991

With the release of its interim report last August, Yorkor had resolved to test the validity of the Forestry Department's "insupportable log price increase".

Although the company launched its action for a declaratory order in the Supreme Court more than six months ago, the Forestry Department had not yet filed its plea.

Tucker said the timber market was dominated by fierce price cutting last year.

He said the acquisition of Phoenix Doors was expected to improve export opportunities.

Tucker was confident that the velocity and value of trade in Yorkor shares would improve in 1992

Yorkcor stages a strong turnaround

STAR 2/3/92

By Derek Tommey (199)

Yorkcor staged a strong recovery in the six months to December

After a loss of R2,7 million in the six months to June, it finished the year with a profit of R237 000, representing a turnaround in the second half of R3 million — equal to about 30c a share

Earnings for the full year, after providing for first-half losses, were 2,4c. An unchanged dividend of 14c a share has been declared.

Shareholders can elect to take either the dividend or seven shares for every 100 held — equivalent to 200c a share, and a 20 percent discount to net tangible worth

Last year when a similar offer was made, shareholders holding 81 percent of the shares elected to take shares instead of a cash dividend.

Chairman Solly Tucker says the key to Yorkcor's success in 1991 was its effective implementation of a creative cash-management strategy.

Net cash generated was R1,4 million — equal to 14,2c a share

In 1991, the group had a negative cash flow of R4,8 million (50,5c a share), with R3,5 million going to current activities and R1,3 million to discontinued ones

In his annual report Mr Tucker takes the Forestry Department to task for its "quantum" leaps in log prices.

They rose 16,3 percent in 1988, 17,4 percent in 1989, 20,3 percent in 1990 and 14,8 percent in 1991

These increases, especially the latest, are demonstrably out of line with market realities and irreconcilable with the value of what was offered, he says.

Yorkcor's saw-milling and timber marketing contributed R5,9 million (unchanged) to group profit in 1991

The furniture manufacturing division had a loss of R1,4 million (R1,6 million), the realty division a profit of R238 000 and the warehousing division a profit of R230 000

Mr Tucker says New York Pine, which produces pine furniture, is an emergent money-spinner

Earnings for 1992 are expected to be 50c a share, with a dividend of 20c a share forecast.

YORKCOR TIMBER

Against the grain

FM 6/3/92

199

Activities: *Sawmiller and maker of wood products, as well as property investment*
Control: *Tucker family, 45%*
Chairman & CE: *S Tucker*
Capital structure: *9,98m ords Market capitalisation R18m*
Share market: *Price 180c Yields 7,8% on dividend, 1,3% on earnings, p e ratio, 75, cover, 0,2 12-month high, 225c, low, 60c Trading volume last quarter, 31 000 shares*

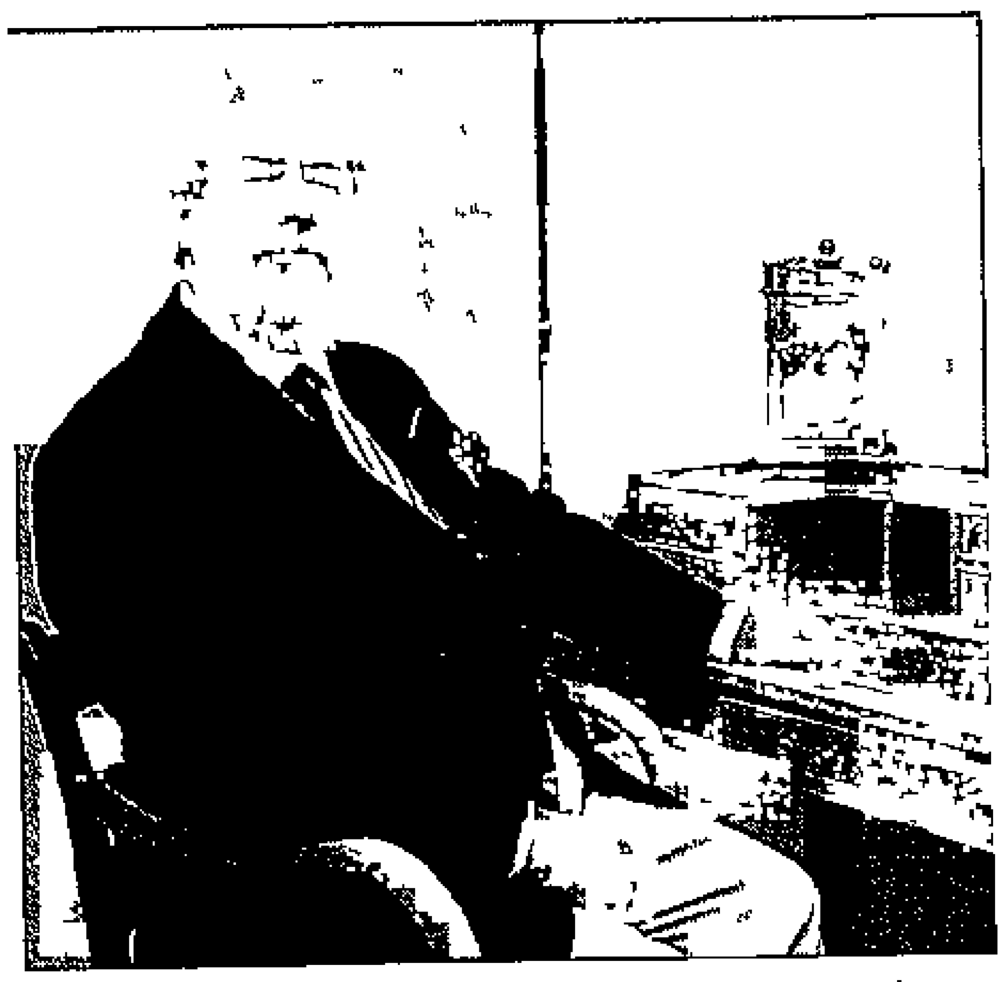
Year to Dec 31	'88	'89	'90	'91
ST debt (Rm)	1,1	1,7	1,8	2,0
LT debt (Rm)	4,4	8,1	8,4	7,0
Debt equity ratio	0,12	0,24	0,45	0,35
Shareholders' interest	0,59	0,52	0,56	0,59
Int & leasing cover	6,3	6,7	1,6	1,1
Return on cap (%)	15,6	13,9	7,0	6,0
Turnover (Rm)	33,8	36,0	36,9	39,8
Pre-int profit (Rm)	5,4	5,8	2,8	2,5
Pre-int margin (%)	15,9	16,2	7,5	6,4
Earnings (c)	29,4	39,9	22,9	2,4
Dividends (c)	10	13	14	14
Net worth (c)	223	244	237	250

The company's 75th anniversary results gave shareholders little to cheer about, as EPS for the 1991 year plunged 89%, to only 2,4c That contrasts with chairman Solly Tucker's forecast, given in his last annual report, of a 20% improvement in earnings, with the dividend being increased from 14c to 17c a share

Deteriorating profitability at trading level has been the biggest bugbear Group trading margins have buckled to less than half the levels of two and three years ago

But there were also positive developments for forestry products supplier York Timber Organisation (Yorkcor) during last year Trading results recovered during the second half, when there was a pre-interest profit of R4m compared with the R1,5m loss in the first six months

Management of working capital, and a tight rein on capital spending, also contributed to better cash generation Net cash flow for the year swung from a negative R4,8m in 1990 to a positive R1,4m — still not robust, but it helped the group to reduce borrowings and bring the debt equity ratio down to a more manageable 0,35



Yorkcor's Tucker *turning assets to account*

There were several reasons for the swing in operating profitability The first half was affected partly by commitments carried over from the previous year, which resulted in certain contracts being met at a loss, by the second half, these contracts had been completed

Progress was made in cutting overheads and lifting efficiencies Also, product prices were cut in the second half, enabling a "significant" rise in volumes — which presumably accelerated the drop in margins

Most of the profit is derived from sawmilling and timber marketing, which last year contributed R5,9m of profit and R34,5m of turnover, both figures being little changed from the previous year

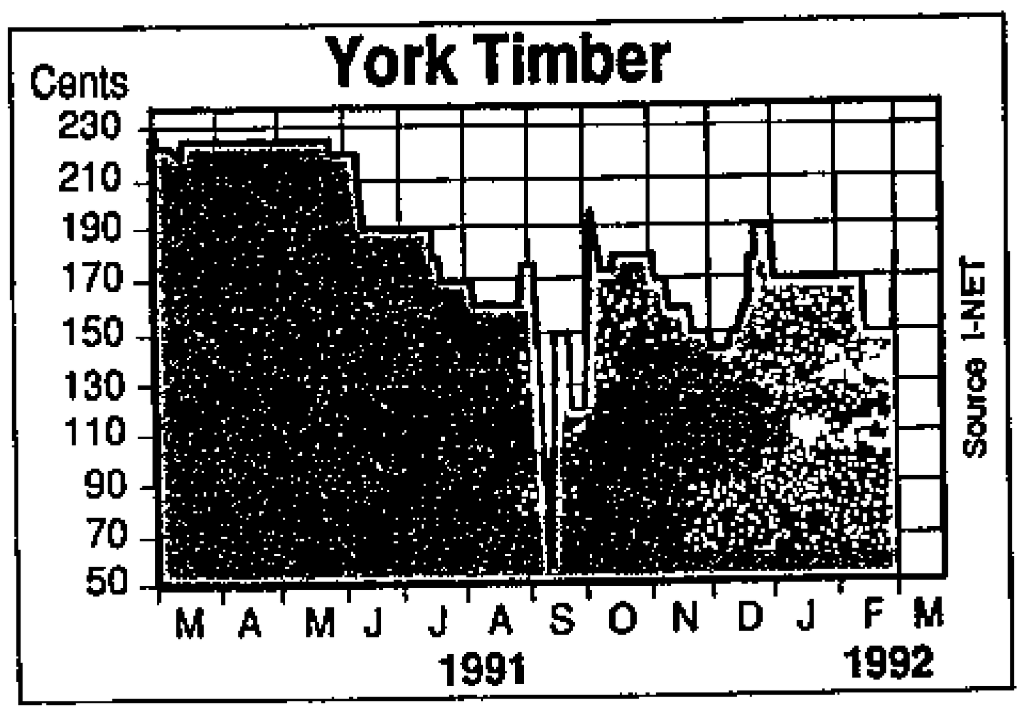
Furniture manufacture provided R4,7m of turnover but lost R1,4m, realty (partly comprising dormant property assets being turned to account) generated R364 000 turnover and R238 000 profit, and warehousing made R290 000 turnover and R230 000 profit

Efforts are being made to expand exports of pine furniture, with markets in Europe being emphasised, though the offshore sales are not yet having a favourable impact on earnings It's hoped that a strategy of exporting higher margin products will result in better returns Capex last year of R220 000 (1990 R1,2m) was spent largely on enhancing the timber beneficiating and exporting operations

Ambitious targets

Though capacity in some of its operations remains under-utilised, in January Yorkcor bought Cape door maker and exporter Phoenix Doors for R1,8m, payable over up to three years Notably, the transaction, which is unconditional, is not expected to materially affect Yorkcor's earnings of NAV in 1992

Tucker says Yorkcor is expecting some improvement in profits from its pine furniture, realty and warehousing businesses during this year However, tight economic conditions and the flat furniture market will ensure trading remains difficult For 1992, Tucker is targeting EPS of 50c and a dividend of 20c



If those ambitious targets are met, the prospective p e is only 3,6 and the share is cheap at 180c, well below the 250c NAV Long-term growth may be achieved, but investor interest is likely to remain limited in view of the erratic profit record, strained financial ratios (such as interest and leasing cover) and the poor marketability of the stock

Basil Barber

FM 13/3/92

199

TIMBER

Batting for the Russians

The scrapping of sanctions and crumbling of Russia's infrastructure have combined to boost SA's timber-export potential to Europe by millions of rands. Contracts worth R25m-R30m have been signed and others could be in the pipeline.

The volume of exports under the wood, cork and straw category, of which wood is the main component, has grown by an average of 23,4% in each of the past four years, according to the SA Foreign Trade Organisation (There was a 5% dip in value from 1990 to last year — to R336,7m — largely because of the international recession [*Business & Technology* January 24]).

Local producers are moving to fill a gap left by Russia The disintegrating transport network, aggravated by the division and reorganisation of the USSR, has slowed the flow of timber out of the country to a trickle.

The Timber Growers' Association says it has received a big increase in inquiries about timber in the past month, especially from Norway and Sweden. The association's Dave Dobson says. "It would seem that eastern and northern Transvaal growers would be ideally placed to service such contracts We are examining transport and handling facilities to Maputo"

The Central Timber Co-op, which handles exports for the growers, especially to Japan (about 800 000 t of wood chips a year through Richards Bay), says contracts worth R25m-R30m for exports to Finland have been signed The first shipment of wood chips leaves this month.

Co-op GM Rein Franz says talks have been going on with the northern Europeans for about four years. "But there were several reasons why we couldn't penetrate that market. The main one was sanctions. Another was that they were drawing large quantities — between 6m m³ and 8m m³ a year — from the USSR and topping up with supplies from Uruguay and Argentina. The collapse of the Soviet Union and scrapping of sanctions placed us in a strong position."

Furniture producers such as York Timber have seen the impact of Russia's export problems more in the US than in Europe York's product development executive Mike Nietsky says there has been a flood of inquiries from the Americans.

"They're crying out for someone to fill the vacuum left by the eastern bloc. The trouble is that they want us to supply at rock-bottom, Iron Curtain prices. The Russians charged according to quotas that took account only of the cost of the raw material and not the cost of production I don't know whether we want the business at that sort of price"

As far as Europe is concerned, he says South American furniture manufacturers, in Brazil and Chile in particular, backed by government concessions, stepped in quickly to fill the gap left by the Russians Their delivered prices tend to be 10%-15% lower than SA's ■

Anglo and Mondi in Austrian deal

BDay 26/3/92 (199)

MATTHEW CURTIN

A CONSORTIUM led by Anglo American and its unlisted timber, paper and pulp subsidiary Mondi Paper has signed a R550m deal with an Austrian pulp and paper group Anglo and Mondi will finance their 51% contribution of the purchase price from overseas borrowings.

Mondi executive chairman Tony Trahar said yesterday that the consortium — Mondi, Anglo, De Beers Centenary and Minorco — had reached agreement in principle to take a 44,4% stake in and joint control of Austrian group Frantschach

Trahar said the move was designed to capitalise on the ending of SA's political isolation and to integrate Mondi into the world market

The news follows several months of speculation that Mondi was set to broaden its base in Europe, following in the steps of rival paper producer Sappi which bought five British fine paper mills and an international trading company in 1990.

Mondi bought 49% of Austrian photocopy and business paper manufacturer Neusiedler AG in 1990, and was understood to be talking about a deal with Portuguese pulp and paper company Sopracel late last year.

Trahar said Mondi would share effective control of Frantschach with its current owners, a respected Austrian family.

The group was in good condition and well managed, and Mondi would benefit from a flow of European technology to SA and future dividend flows Frantschach employed 6 000 people and had sales worth R3bn a year

The purchase gave Mondi a solid base in Europe and good prospects for growth in the region Mondi now had control over a European-based manufacturing, packaging and trading group, rather than just a market for its SA products.

Trahar said the deal was well timed because "the price multiples present in the European pulp and paper industry are twice as attractive as they were two years ago", given the current slump in the sector

Market sources welcomed the deal yesterday, agreeing the timing was good because the deal came as the paper and pulp market had reached the bottom of its business cycle Frantschach would prove a useful foothold in Europe for Mondi, they said

Trahar said a large part of the R550m would go to reducing Frantschach's debt and improving its debt-to-equity ratio although the group was not highly geared by European standards

The consortium's interests would be held

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Austrian deal

BDay 26/3/92 (199)

☐ From Page 1

through the recently formed holding company Mondi Europe, in the ratio Anglo 45%, Mondi 5%, Centenary and its associates 28%, and Minorco 21%.

The Frantschach group has a 51% interest in Neusiedler's wood-free paper mill and a 90% stake in the Pols long-fibre pulp mill It has a wholly owned pulp and packaging, and packaging and converting subsidiaries, as well as a 50% stake in Franconia They make up Europe's largest producer of paper sacks and bags

The group also has a 55% stake in Europapier, Austria's largest paper merchanting and distribution network.

Anglo-led consortium buys into Austrian pulp and paper group

STAR 26/3/92

199

A South African consortium has reached agreement in principle to acquire a 44,4 percent stake in and joint control of a leading Austrian pulp and paper group for R550 million.

The consortium, which comprises Mondi, Anglo American and its overseas arm Minorco and De Beers Centenary, said yesterday it had reached agreement with Frantschach of Austria

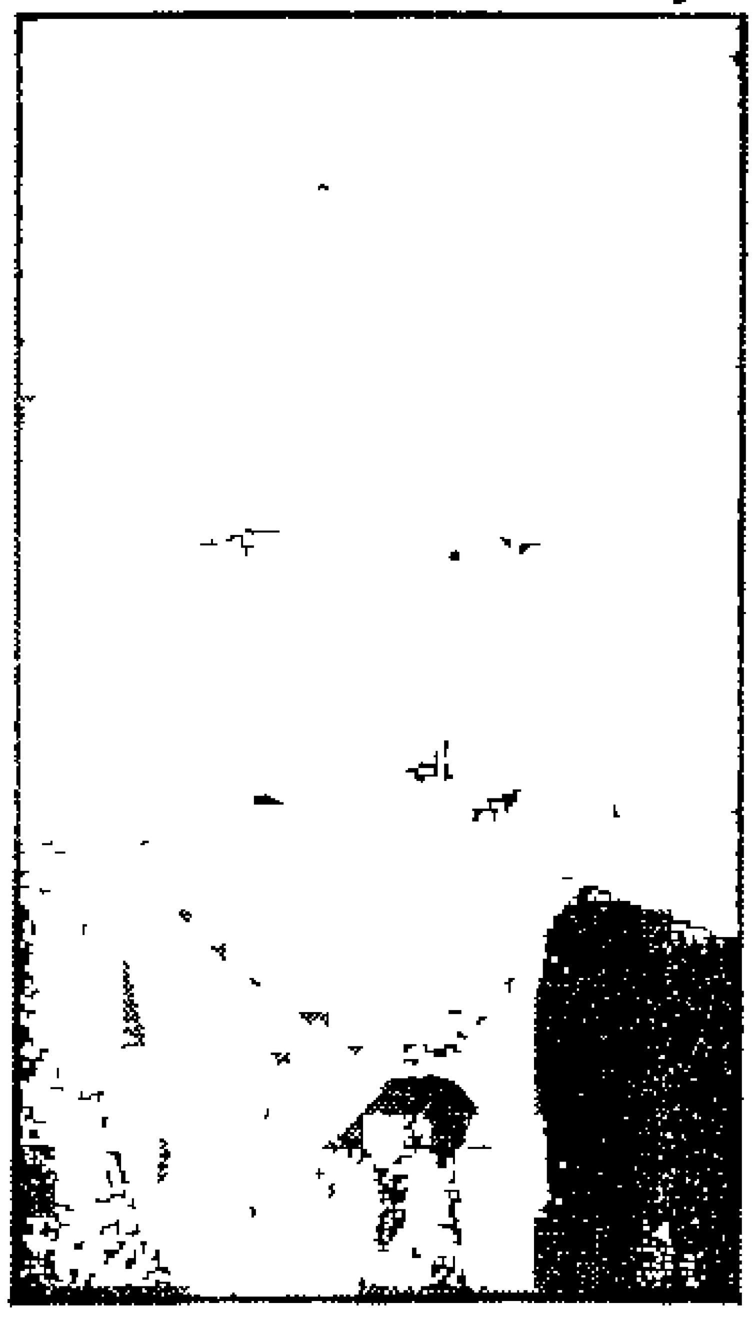
Mondi executive chairman Tony Trahar said a substantial portion of the consortium's payment would be invested directly in the company to enhance its capital base

He said the interests of consortium members in Frantschach would be held through a recently formed holding company, Mondi Europe.

Anglo would hold 46 percent, De Beers Centenary and associates 28 percent, Minorco 21 percent, and Mondi five percent

This effectively gives Anglo control of Mondi Europe through its controlling interest in the other consortium members

Anglo American's and Mondi's share of payment for the acquisition will be financed offshore



Tony Trahar . . . holding company set up in Europe.

The acquisition is subject to the fulfilment of certain conditions and follows the consortium's purchase from Frantschach in November 1990 of a 49 percent shareholding in Neusiedler, a producer of photocopy and businessforms paper in Europe — Sapa.

... changes name

Masonite on high growth path

By Lynn Peach (199) STAR 2/4/92

Hats off to Masonite's management team for steering company profits along a high growth path in difficult times

Despite foreign and local markets being badly affected by the recession, Masonite's attributable profit climbed more than 50 percent in 1991 and continued growth, albeit at a slower rate, is projected

In the annual report, chairman and MD Alan Wilson attributes the performance to a number of factors, including the wide product range, quality and service, and efforts to contain costs.

Although certain markets are likely to decline further in the medium term, Mr Wilson views the future with optimism

Plans include investment in processes and facilities to produce quality products at competitive prices.

Mr Wilson is confident in the future of loss-making subsidiary Ezebilt Products, which is adapting its product range and marketing strategies to meet market conditions.

The business of Masonite includes the manufacture of hardboard, insulation board, cryogenic mineral wood, wood and mineral fibre ceiling panels and decorative wall panelling.

Modular housing and shelter units are manufactured by wholly owned company Ezebilt Products.

In the year to December, group turnover climbed 12 percent from R113,1 million to R126,4 million, while operating profit shot up 62 percent from R12,1 million to R19,6 million.

Mr Wilson attributes the improvement in margins to good cost management, cost savings arising from investments, productivity improvements and an excellent production performance

After a nine percent increase in net interest expense from R2 million to R2,2 million, pre-tax profit was R17,4 million — 73 percent higher than the previous year's R10,1 million.

An increase in the effective tax rate from 26,6 percent to 34,4 percent resulted in attributable profit rising a lower 54 percent from R7,4 million to R11,4 million.

Earnings per share rose from 108c to 167c and the dividend from 43c a share to 60c.

The balance sheet reveals a significant decrease in borrowings, resulting in gearing falling from 33 percent to 15 percent.

Mr Wilson says the decline in interest-bearing debt from R15,9 million to R8,9 million was facilitated by a sharp cutback in capital expenditure.

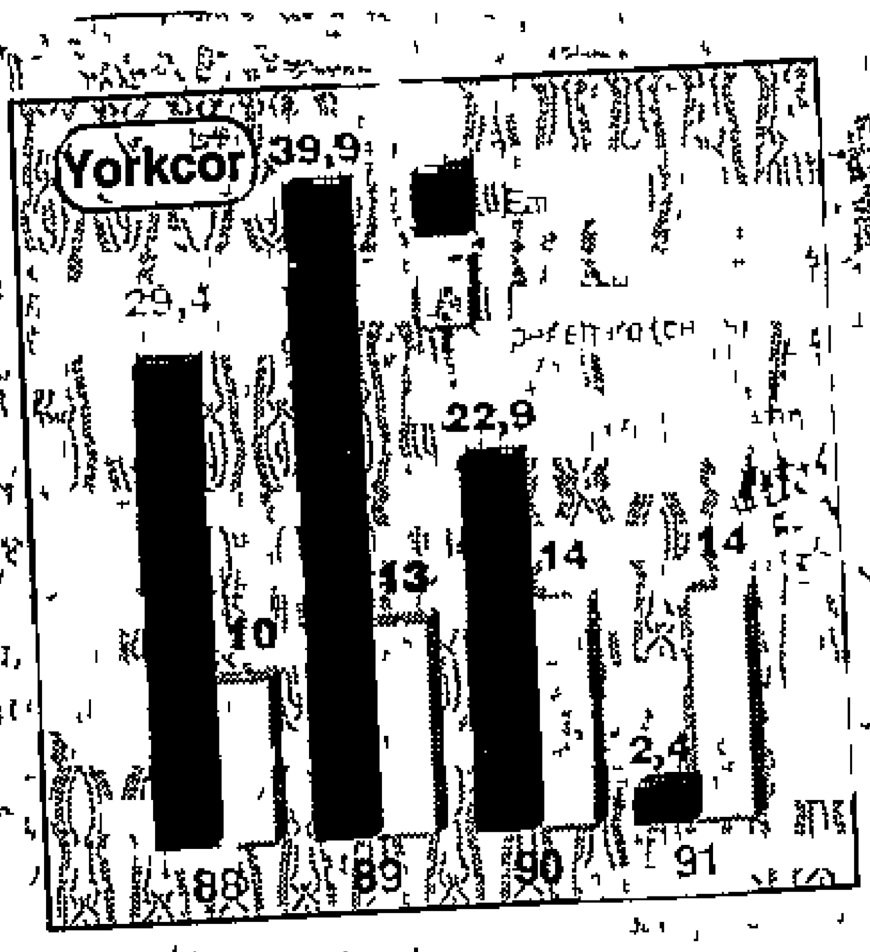
Masonite, priced at R13, is trading on a P/E ratio of 7,8 and provides a dividend yield of 4,6 percent

The share offers fair value at the current price level and accumulation, particularly on price weakness, is recommended.

COMMENT: In 1989 and 1990 Masonite's price fell steadily from a record high of R16,50 to a low of 675c.

Recovery got under way early in 1991 and recent price gains have been strong.

Although the price may consolidate or correct in the short term, the primary trend is favourable will only be threatened if it falls below R11,25



Yorkcor's share earnings dive

B/Day 8/9/92

MICK ELLINGHAM

(199)

FOREST products group Yorkcor's earnings a share fell 89% to 2,4c (1990 22,9c) for the year ended 1991, but an unchanged dividend of 14c was declared ~~Tuesday~~

Chairman Solly Tucker said plans to promote active trading in Yorkcor shares would get under way in the near future

Speaking at the group's AGM in Pretoria yesterday, Tucker said he regarded the annual turnover in Yorkcor shares on the JSE — just over 2,6% of issued shares — as far from satisfactory

The accounts show an 8% increase in turnover from R37m to R40m, with net cash of R1,4m being generated, an upswing from 1990's R4,8m negative net cashflow

Tucker attributed improved cash flow to improved working capital management, containment of capital expenditure and the fact that under-performing operations were closed in 1990.

Sawmilling and timber marketing were responsible for most of the group's profit, contributing R5,9m of profit and R34,5m of turnover — little changed from 1990 Furniture manufacture provided R4,7m turnover, but lost R1,4m

Land sales generated R364 000 turnover and R238 000 profit, while warehousing was responsible for R290 000 turnover and R230 000 profit Tucker said the group expected to improve earnings to at least 50c a share in 1992, with dividends rising to about 20c a share from 14c a share

FM 10/4/92 (199)

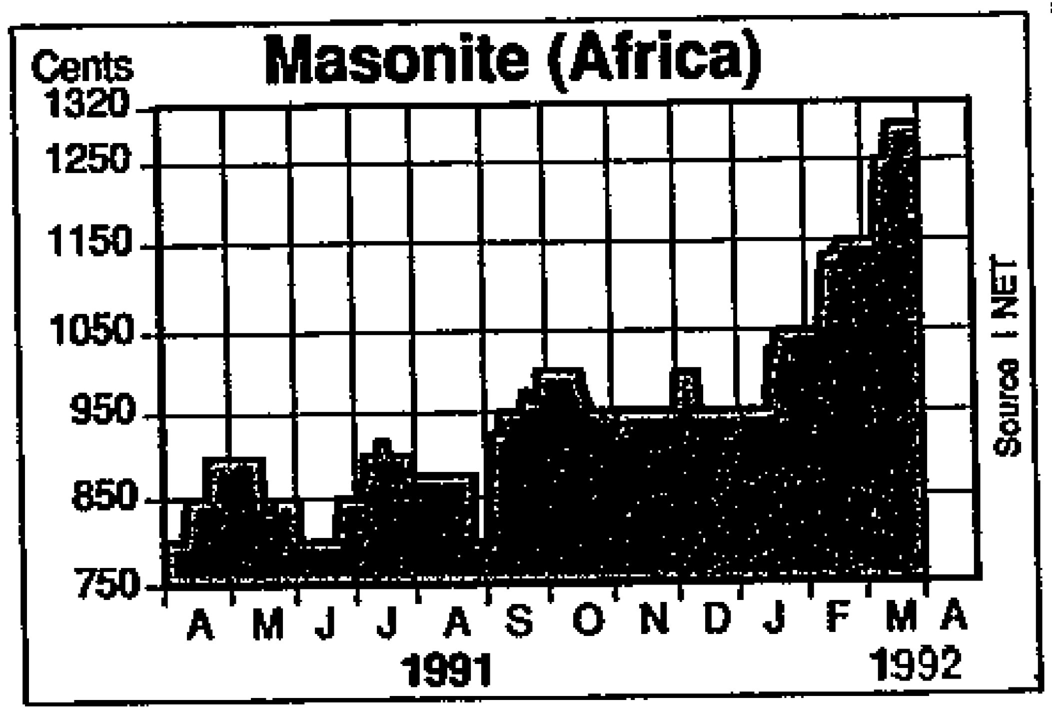
MASONITE

Lifting margins

Activities: *Makes wood and mineral fibre products, pre-fabricated accommodation units and also grows forests*
Control: *Masonite Corp (US) 66,7%*
Chairman: *A H Wilson*
Capital structure: *6,8m ords Market capitalisation. R88m*
Share market: *Price. R13. Yields: 4,6% on dividend; 12,8% on earnings, p e ratio, 7,8, cover, 2,8. 12-month high, R13, low, R7,50c Trading volume last quarter, 23 000 shares*

Year to Dec 31	'88	'89	'90	'91
ST debt (Rm)	—	2,5	2,3	4,2
LT debt (Rm)	—	5,4	13,6	4,7
Debt:equity ratio	—	0,15	0,33	0,15
Shareholders interest	0,61	0,59	0,55	0,59
Int & leasing cover	—	71,8	5,9	8,9
Return on cap (%)	24,6	20,7	13,7	19,3
Turnover (Rm)	90,4	102,0	113,1	126,5
Pre-int profit (Rm)	15,3	15,4	12,1	19,6
Pre-int margin (%)	16,9	15,0	10,7	15,5
Earnings (c)	134	139	108	167
Dividends (c)	67	56	43	60
Net worth (c)	559	642	708	875

Markets for pulpwood and timber remained volatile but shareholders can hardly complain about these results Sustained efforts to control costs were rewarded with much better trading margins, after a decline in the



previous year Pre-tax profit was up 72%, against a 12% rise in turnover. EPS accordingly jumped 54% and the share price by nearly three-quarters

Chairman Alan Wilson considers the sales performance "very satisfactory," as major market segments like furniture, building and construction were particularly hard hit by recession. Export prices and volumes were continually under pressure from oversupply.

Tighter controls

Both tighter financial controls and improved productivity are evident in the accounts The working capital requirement, for example, fell slightly and the debt.equity ratio dropped sharply.

Another reason gearing fell is that capital spending was cut back to below R6m, after reaching R16m in 1990. The reduced spending, says Wilson, enabled management to focus on efficient commissioning and operation of the new refining plant — which has fully justified the investment, cost reduction and productivity improvement programmes.

A further R11,1m has been allocated for

Masonite's Wilson .. *happy with sales performance*

FM 10/4/92 (199)

capex this year

A fire in the Estcourt factory in October destroyed some stock and hampered production. This is reflected in the reduction in stock turn from five to four times and suggests potential for improvement this year.

Ezelbit was the one group company in the red, losing R417 000. Wilson notes that its markets were depressed by lack of funds among traditional buyers, political uncertainty and violence It is adapting its product range and marketing strategies to meet market conditions and management has confidence in its future

Wilson is not sanguine about this year's prospects He says any improvement in the economy will probably happen too late to have a significant impact With that outlook, the share looks high enough for now.

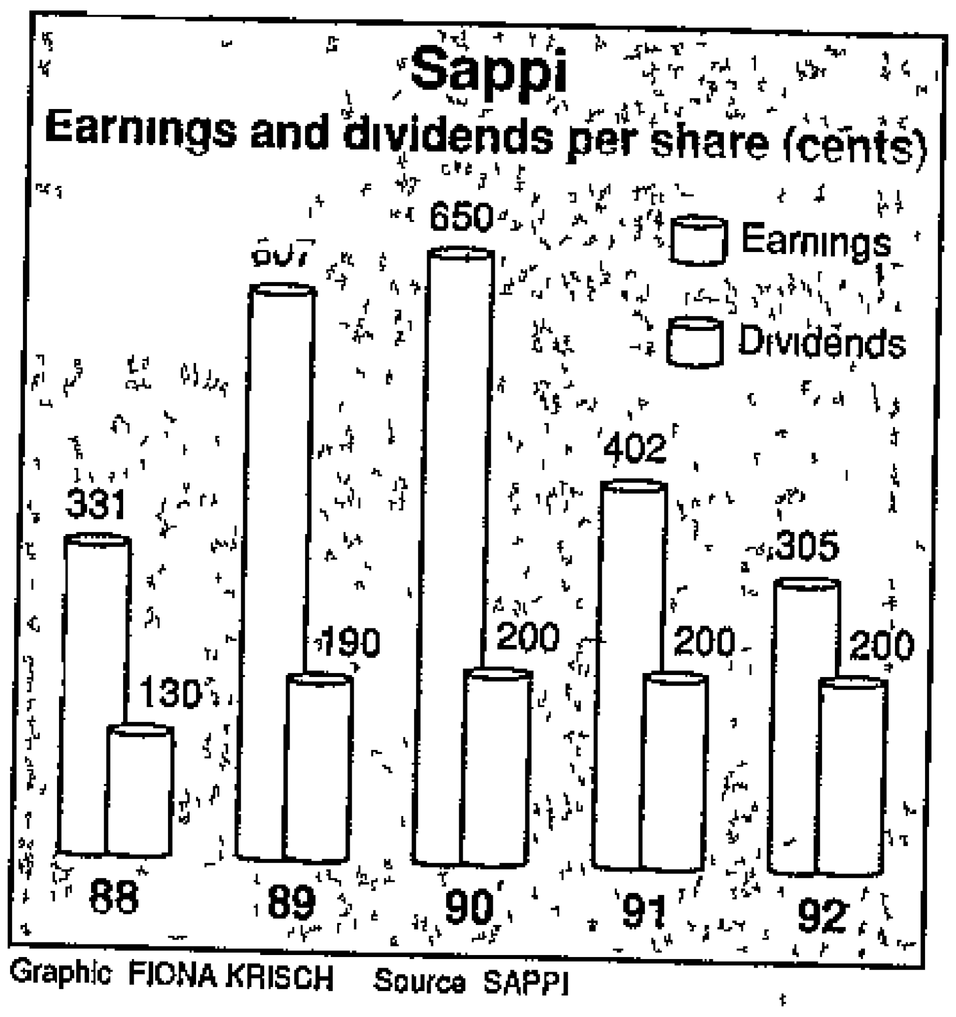
Basil Barber

Sappi may be set to expand abroad

199

B/Day 15/4/92

WILLIAM GILFILLAN



Graphic FIONA KRISCH Source SAPPI

SAPPI, which today reports lower year end earnings, could be about to expand its foreign operations

A market analyst believes this is the import of a cautionary announcement saying Sappi is involved in negotiations regarding a possible acquisition

Reporting its results for the year to end-February, Sappi says that on the back of a depressed local market and "extremely difficult" trading conditions in the UK, earnings are 24% down to 305c a share from 402c last year

However, an unchanged final dividend of 120c a share was declared, giving an unchanged total dividend of 200c a share and narrowing the dividend cover to 1,5

This is the third year the paper group has declared a 200c total dividend, despite earnings having more than halved to 305c from 650c over the comparable period

Sappi's UK operations were particularly hard hit during the second half-year, shown by the plunge in equity accounted earnings These earnings, reflecting largely the retained income of its UK operation Sappi Europe and the Hong Kong business Speciality Pulp Trading (SPT), dropped to R17,3m in the second six months from R48,9m in the first half

Chairman Eugene van As said both prices and volumes were down at Sappi

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Sappi

B/Day 15/4/92

199

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Europe "It has nevertheless made a small contribution to profits after taking account of its finance charges," he added

SPT was, however, "operating well and made a healthy contribution to profits"

The local operations had a better second half as the group in the Gencor stable halted the decline in its trading profits

In the second half they decreased 12% to R212m from R241m in the same period last year, compared with the 22% drop to R187m (1991 R241m) in the first half

Trading income for the 12-month period declined 17% to R400m (R482m)

However, the lower turnover growth in the second half, dropping to 4,7% from 9% in the first six months, meant turnover increased only 6,5% to R2,84bn from R2,67bn in the full year

"Saiccor and Ngodwana were particularly affected and, while operating at record production levels in the last quarter, suffered from their high exposure to world selling prices," Van As said

About R260m of the R1bn proceeds from last October's rights offer have been used to reduce long-term borrowings, with the remaining R740m at yearend held as cash

The rights offer proceeds contributed about R40m to the reduction of R70m in net finance costs to R210m (R281m)

Control over capital and reduced expenditure accounted for further reduction

Despite the reduced finance costs, interest cover was low at 1,9 times, although this was up on the previous year's cover of 1,7 "Cover for this year is expected to be between three and four," Van As predicted

The overall outlook was better than a year ago, but the rising price trend would begin to benefit Sappi only in the second half of the year, he predicted

"There has been a positive change in world markets for pulp and packaging paper grades in the past three months Pulp prices have risen quite sharply from their lows of November/December last year, although they are still some R850 a ton lower than the peak of 1989," he said

As the increase in pulp prices was beginning to put upward pressure on paper prices, European paper prices were expected to rise between 6% and 10% in the second quarter

Higher demand in the US for packaging papers increased prices there, while demand in the SA market should improve marginally along with the recovery

Mine timber millers accuse the Big Two

S/Times (Buss) 19/4/92 (199)

By DON ROBERTSON

SMALL mining timber suppliers believe they are being squeezed out by the big two in the business — Sappi and HL&H.

They say these two control or hold more than 90% of all mining timber forests

They are said to be gradually withdrawing supplies to small sawmillers and outbidding them

Independent millers say they can provide timber more cheaply than the large groups

The small operators, all of whom wish to remain anonymous for fear of victimisation, say Sappi and HL&H are intent on dominating the mining timber market That would allow them to dictate terms to the mines

Andre Wagenaar, managing director of Sappi Timber Industries, says timber was withdrawn from some millers because they owed the company money for as much as eight months

"We will continue to supply any independent trader who meets his commitments"

HL&H does not supply timber to independent millers, says Andrew Gallow, managing director of HL&H Mining Timber

The company has about 100 000ha of forests for mining timber, but uses only about 60% for its own needs It buys the rest on the open market, in which independent millers have to compete

Mr Gallow denies that HL&H buys timber at any price He insists that prices move according to supply and demand

Rush

The independents say that the two companies have for some time enjoyed long-term contracts with most gold mines and that independent growers and millers are largely precluded from offering their product to these mines

One says timber represents between 6% to 8% of working costs a kilogram for mines Last year, the mines spent about R800-million on timber.

"Because of the monopolistic situation, mines are paying up to 20% more for timber than the price at which we could supply This could mean they are paying an additional R160-million a year."

Because of the rush to buy land by the major groups, the price of forestry land has soared and independent growers can no longer afford to extend their plantations.

Muscle

Another independent miller says "we are totally at their mercy and they dominate us"

"Some time ago, we borrowed money to buy farms and can now supply about 80% of our needs, but we have no chance of expanding Although we can find markets for our products, the large companies keep us short of raw material"

Another says the large companies are "intent on forcing us out of business"

"Twenty years ago, the large companies supplied about 70% of the mines' needs The big companies now supply about 90% They are also able to buy up any surplus stock because they have the financial muscle to do it with their large volumes"

Although most independent millers support the Government's plan to privatise State forests, they say "collusion, intimidation and a monopoly" exist in the private sector They fear it will intensify if privatisation goes ahead

SAPPI FM 24/4/92 (199)

Bucking world markets

Chairman Eugene van As continues to look cheerful even though Sappi's earnings were down once more last year SA's largest pulp and paper giant even maintained the dividend per share at 200c, though EPS fell almost a quarter to 305c

Van As says that all major Canadian pulp and paper companies reported losses last year as the international outlook deteriorated even further The domestic market, which accounts for about half Sappi's turnover, was soft as recession deepened

The main thrust of corporate development recently has been abroad, helped by a more open-minded approach to foreign investment by the Reserve Bank The five paper mills acquired in the UK last year and the Speciality Pulp Group in Hong Kong have all operated successfully

 FM 24/4/92 (199)

Locally, output at Ngodwana was below budget in the first half and there were design problems at Novobord in White River, which have now been resolved Sappi has acquired Lotzaba Forests from Rand Mines

Market sentiment about Sappi has recently improved. The share price fell to about R33 before the October rights issue, after touching R42 in February. It is now R38, on a p e of 12,5 and dividend yield of 5,3% If Van As is right, and the pulp and paper market has reached the bottom of the cycle, then the group could be poised for recovery

Certainly, the recent R1bn rights issue improved the balance sheet considerably Gearing has been cut from 68% to 28% and

WOODEN PERFORMANCE

	1991	1992
Turnover (Rbn)	2,67	2,85
Operating income (Rm)	482	400
Attributable (Rm)	375	313
Earnings (c)	402	305
Dividends (c)	200	200

Sappi has R740m in the bank The current ratio is well up from 0,97 to 1,94

The outlook for trading conditions is anybody's guess. Pulp prices have increased from the lows in November-December but are still US$300/t below the peak of 1989. There has been increased demand in the US for packaging papers, as there are signs of an economic recovery before November presidential elections European prices are expected to increase as well.

Newsprint prices remain weak. Since the ending of the Newspaper Press Union agreement a year ago, Sappi and Mondi now negotiate with the individual printing houses — Caxton/Argus (which also prints TML's titles in Johannesburg and Cape Town), Nasionale and Perskor

TML deputy MD Roy Paulson says that, contrary to recent reports, Sappi actually enjoys a good working relationship with the print media, though newspaper groups will naturally use all means at their disposal to keep prices low It is believed that the relationship with Mondi is more heated There is no tariff on newsprint or normal uncoated papers at the moment, and just a 15% tariff on coated paper

'Investors need not be concerned about the effects of an end to protection on Sappi's results The world economy is likely to improve over the next year or two, particularly once Germany has sorted through unification and spurs on growth in the EC The US and Japan may take longer to recover

Management seems strong, Van As has a strong media image and the impact of the departure to the Cabinet of Gencor chairman Derek Keys on Sappi's day-to-day affairs will be negligible If anything, Keys might speed up the implementation of proposed tariffs on certain uncoated papers in the short term as part of his pragmatic, distinctly un-Thatcherite industrial strategy

Long-term investors have nothing to fear from an investment in Sappi Short of total catastrophe, it is underpriced It has much better prospects and more imaginative top management than many capital-intensive groups such as AECI, Iscor, Tongaat or FSI and is not beholden to government policy in the manner of Sasol *Stephen Cranston*

SA co-operative exports hardwood to Finland

BDay 5/5/92 (199)

TIM MARSLAND

MARITZBURG-based Central Timber Co-operative (CTC) had exported 200 000 tons of hardwood chips to Finland, GM Rein Franz said yesterday

Franz, who was reluctant to put a value on the order, said additional contracts had been signed with Japan and Taiwan

Exports of hardwood chips to Japan last year amounted to about 600 000 tons, but this was expected to increase substantially due to the lifting of sanctions.

Franz said he expected the Finnish contract to be renewed Demand for hardwood chips was strong in Europe and the Far East CTC's turnover almost doubled to R130m in 1991 from R70m in 1990

The hardwood chips — from Eucalyptus and Acacia trees — are used in the paper industry

Speculation over Sappi acquisition

[redacted] / MADDEN COLE (199)

PAPER manufacturer Sappi is expected to make an announcement today on a major offshore acquisition, industry sources say

A Sappi spokesman confirmed that "an announcement" would be made shortly but would not confirm it would be about an offshore deal Industry talk has been of an acquisition in Germany ([redacted]) ([redacted])

Market analysts believed Sappi would prefer to finance an acquisition through a share swap rather than involve itself in a cash deal Sappi executive chairman Eugene van As would not be drawn on the matter yesterday BDay 5/5/92

The speculation follows a cautionary announcement three weeks ago that the group was involved in negotiations for an acquisition Van As had been quoted as saying that Sappi's strategy was to become a global player in the paper and pulp market by the turn of the century

Competitors believe this will be possible only once Sappi broadens out of its present narrow product range in Europe

Last year Sappi established Sappi Europe after buying five British fine paper mills for R500m The company also announced last year that it had established a Zurich-based company, Sappi Trading, to handle its offshore trading activities It also acquired the Hong Kong-based pulp and trading house, Speciality Pulp Trading, which holds contracts to distribute Sappi's non-rand denominated sales

The group is on the lookout for further European acquisition opportunities Sappi Europe MD Kim Jokipii said last year that the company was looking to form a European network to market products produced both in SA and the UK as one package

Sappi shares held steady yesterday afternoon at R43,50 after rising from R38 in the middle of April

Lion Match loses some of its spark

MARCIA KLEIN (199)

LION Match Company, the first SA Breweries company to report for the year to end-March, has dropped its earnings for the first time in at least seven years.

The group, which has interests in Lion Match, Interpak Holdings, Amalgamated Appliances and Wilkinson Lion Consumer Products, reported an 18% decline in earnings from 33,9c to 27,7c a share on the back of reduced consumer spending and a loss in its equity accounted appliance division. B/Day 5/5/92

Destocking in the retail trade and diminished consumer spending saw turnover decline 1% to R329,6m from R331,3m Trading profit decreased 2% to R39,3m from R40,1m in the previous year, and profit after tax was 6% down at R14,4m

Directors said these results reflected lower contributions from all operations other than the lights division

In January Lion concluded a joint venture deal with Tedelex in which the fixed assets and stock of Lion Appliance Enterprises, Haz and the Tedelex Housewares division were rationalised to form Amalgamated Appliances.

Amalgamated Appliances, which is equity accounted, showed a loss for the year This R1,9m loss saw attributable earnings decline 18% to R12,6m from R15,4m

A final dividend of 7c a share was declared, bringing the total divided to 11,5c

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Lion Match B/Day 5/5/92 (177)

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(14,0c) in line with the board's policy of distributing dividends amounting to 40% of attributable earnings

Directors said the joint venture and the sale in February of its 29,5% investment in Chet Industries resulted in a cash realisation of R19 4m, and contributed to the reduction in gearing from 51% to 31% In this light, Lion Match was well placed to fund its R17,2m capex programme in financial 1993

Consumer spending would continue to be inhibited, but directors said Lion Match should show a reasonable improvement in earnings as it was in a sound financial position and expected benefits from the rationalisation of its appliances division

Sappi acquires specialist German paper producer

(199)

By Derek Tommey STAR 6/5/92

Pulp and paper giant Sappi has taken another step towards becoming a world player in its field

It is acquiring control of Hannover Papier, a leading German producer of coated woodfree paper, for about R825 million at the financial rand rate

The company employs 2 650 people and had a turnover of Dm750 million (about R1,5 billion) in 1991.

The acquisition follows the purchase in June 1990 of five paper mills in the UK.

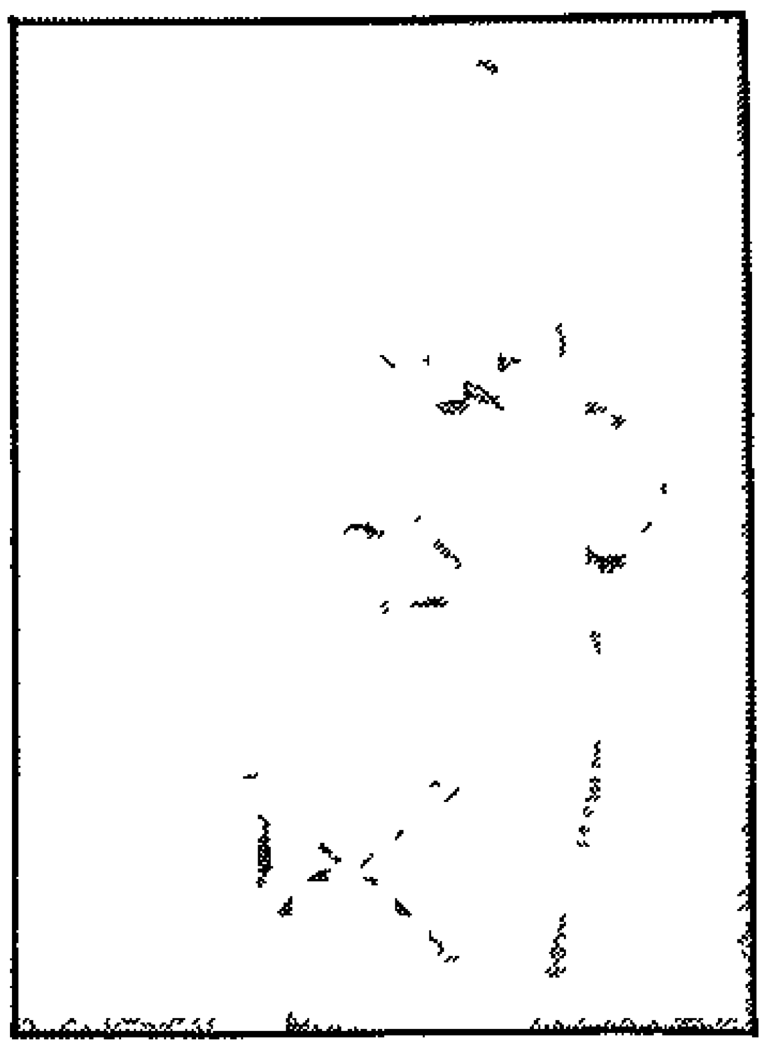
Chief executive Eugene van As says Hannover Papier's range of products complements those of Sappi Europe

The transaction will make Sappi one of Europe's top suppliers of a virtually complete range of high value-added specialist paper.

Sappi will finance the purchase by an issue of shares it intends placing with European and SA institutions

Sappi itself will not transfer any funds overseas, says Mr van As

As a result of the share issue, Sappi intends applying for a listing on the London, Frankfurt and Paris exchanges



Eugene van As ... listing Sappi overseas.

A major European shareholder of Sappi shares will be Commerzbank AG, Grmany's fourth-largest bank, which is exchanging its 10 percent holding in Hannover Papier for Sappi shares

Sappi's purchase of 80 percent of Hannover's shares from Ncb Aktiebolag of Sweden brings its holding to 90 percent The balance is held by the public

The opportunity to buy Hannover arose when Ncb ran into financial difficulties last September

A number of companies were asked to make a presentation on how they would handle the company and state what they were prepared to pay for it

It turned out that this was done mainly to enable Hannover's top management to gauge the nature of the buyer This was followed by a controlled auction

Mr van As believes Sappi was the management's choice

"We're delighted with the transaction we are buying excellent plant with the latest technology at an estimated 40 percent discount to the replacement value of these assets"

Hannover is running in a new paper mill, which will increase its capacity by 70 percent

Hannover stands to gain a double benefit in the coming months as the new mill moves into profit and German and European demand for specialist papers starts picking up.

Mr van As says the acquisition will result in Sappi's profits over the next three years accelerating less than they would have done

But thereafter they should accelerate rapidly

He believes the recession overseas has bottomed Foreign pulp prices have risen by $100 to $520 a ton since last November, and he expects them to rise to $600 a ton by the end of the year

While Sappi is looking overseas, it does not intend neglecting its operations in SA It is planning to invest R800 million on new equipment over the next two years and R4 billion over the next four years.

The acquisition of Hannover will result in one-third of Sappi's earnings coming from its European operations, one-third from exports from SA, and one-third from sales in SA

Control acquired via share swap

German deal makes Sappi a world leader

B/Day 6/5/92 (199)

MADDEN COLE

IN AN international deal valued at R825m (in finrands), SA's largest pulp and paper manufacturer Sappi yesterday became one of the top 15 paper manufacturers in the world

Executive chairman Eugene van As said Sappi had acquired the controlling interest in Hannoversche Papierfabrieken Alfeld-Gronau AG (Hannover Papier), one of Germany's leading producers of coated woodfree paper.

He added that the acquisition was Sappi's second major step into the international arena in less than two years. In June Sappi bought control of five paper mills in the UK

The current deal marks the first time since financial sanctions were imposed on SA that a local company has swapped shares to acquire control of a foreign company.

"The deal enhances Sappi's position as an international forest products group. In future approximately two-thirds of the group's turnover and profits will be generated from exports and from Sappi's non-SA subsidiaries," Van As said.

Sappi is acquiring 90% of Hannover Papier's share capital, 80% from Ncb Aktiebolag of Sweden, a pulp and paper company, and 10% from Commerzbank AG, Germany's fourth largest bank The remaining shares are publicly held

Sappi will settle the purchase price by the issue of new ordinary Sappi shares to Commerzbank and by the issue of convertible debentures for Ncb shares Ncb will receive cash and Sappi will assume Hannover Papier's existing borrowings of DM370m (R763m at the finrand rate).

Sappi proposes to place the ordinary shares arising out of the conversion of the debentures which are to be issued for the acquisition.

The placing will be made in the Euro-equity market with major international investors and with SA institutional investors that already hold Sappi shares.

Van As said the price would be the prevailing market price at the time of placement in Europe and in SA.

As a result of the acquisition, Sappi intends applying for a listing of its shares on the London, Frankfurt and Paris stock exchanges

"Arrangements are well advanced in applying for these listings," Van As said. He said he expected the acquisition to retard the rate of growth in recovery of Sappi's

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Sappi

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☐ From Page 1

earnings a share in the first three years Earnings would start rising after that.

"In the medium term, as Hannover Papier s products are integrated and marketed with those of Sappi Europe, the acquisition will make a material contribution to earnings a share"

Van As added that Sappi would in future consolidate all its controlled subsidiaries outside of SA which were currently equity accounted

The acquisition would have no material effect on the net asset value of Sappi or on the level of its debt-to-equity ratio, he said

Asked what percentage of group assets were now held abroad, Van As said of the total asset base, 35% was invested abroad and the balance in SA

"Hannover provides us with a strong base in Europe, both in sales and production," he said

'What we are doing is buying great assets at a substantial discount, estimated at a 40% discount to the replacement value of these assets"

Hannover Papier employs 2 650 people In 1991 it had a turnover of DM750m

Van As said the German company's range of products complemented that of Sappi Europe, which meant Sappi would be able to offer its customers one of the most comprehensive ranges of high value-added paper grades in Europe

The move into Europe did not mean the group would cut down on local expansion, Van As said

"We are not cutting back on SA growth and will continue to invest heavily in SA"

COMPANIES

Sappi's acquisition tests foreign confidence in SA

BDay 7/5/92 (199)

JOHN CAVILL

LONDON — Sappi's DM400m takeover of Hannover Papier of Germany is being regarded here as both a coup and a test of foreign investor confidence in SA.

"The fact that European institutions are prepared to take Sappi shares, ultimately, is extremely positive for SA Ltd," said John Taylor, analyst at brokers James Capel

"Whether it will be as good for Sappi remains to be seen but papermaking is being seen as a recovery sector worldwide

"And now that Sappi is in the major international league it is going to be regarded more as a sector investment than just an SA stock."

Until yesterday's surge to R48, Sappi had lagged the big European paper shares At R42 Sappi was 45% up from its 1991 low and at $12,35 (via the finrand) it was rated on an earnings multiple of 11,3 and a dividend yield of 5,7% to foreign investors

By comparison the UK Bowater group's share price has risen 91% from its 1991 low point, commands a price-earnings ratio of 18,5 and yields only 3,6% This year Bowater, capitalised at £1,7bn, has climbed 32%

Yesterday's jump by Sappi closed the gap, making its 1992 gain 29% and driving the yield down to 5% while the historic p e went up to 12,8 — before any dilution following conversion of the debentures into about 20-million new shares At current prices the enlarged group will have a market value of $1,7bn

The question about Sappi is whether shares issued for Hannover will remain in European hands after the group is listed on the London, Frankfurt and Paris stock exchanges

The last big SA issue, of 12-million Liberty Life shares to raise £80m, was fully underwritten in Europe but most of them have now returned home as SA institutions bid the price up and foreign subscribers took a profit "If you want to buy Liberty in any quantity you have to get the stock from Johannesburg," said one dealer

Barlow Rand had the same experience in 1984 with the 12-million shares placed in the UK when it bid £280m for J Bibby.

One analyst, who wished to remain anonymous, said "A lot will depend on where the Sappi convertible is placed and the timing of conversion to equity There is good support from the Germans but the Liberty issue showed there was not yet much appetite for SA paper The homes which were found for the shares turned out to be overnight car parks

"We don't really know if the market is ready to accept around £135m of SA shares, especially as Sappi's attraction as a rand hedge has been redoubled If the SA funds really go for it there is no doubt we'll see a lot of stock being returned"

Other analysts were more optimistic At Smith New Court corporate finance, Tim Read, who recently led a team of 14 international fund managers on a tour of SA, said "Of all the companies we visited, Sappi was rated as one of the best run"

At Kleinwort Benson, David McCrosland commented "There is every reason why Sappi could be seen as attractive to European funds The sector is generally viewed as one for recovery and most of the companies in it command ratings similar to that of Bowater"

Sappi's deal shows Europe is changing

STAR 7/5/92 (199)

By Derek Tommey

The purchase by Sappi of the Hannover Papier company in Germany, which was announced yesterday, has all the appearances of being a first rate investment that should bring both Sappi and South Africa an extremely useful return

But as far as the South African investment scene is concerned, there is another extremely important aspect to this move The way the investment is being financed appears to be the result of a successful challenge by Sappi to European investment managers to reconsider their current negative attitude towards South Africa

This is a most welcome development as for several years there has been no new net foreign investment in shares listed on the Johannesburg Stock Exchange In fact, JSE statistics show that there has been a steady net outflow which is still continuing — in spite of the apparent improvement in the political scene.

In recent months there has been a spate of overseas investment managers visiting this country and having a good look at its investment possibilities But not one tenuous proposal has yet emerged.

One reason, of course, is the first duty of an investment manager is to safeguard the funds under their control And they can argue that if a large and important South African organisation such as De Beers felt it expedient to put its foreign assets into a non-South African company, it was not really appropriate for them to do the opposite and put assets here

But Sappi, which expects to successfully issue to overseas investors some 19 million to 20 million shares worth around R1 billion, has apparently given them good reason to change their minds about investing in this country.

The generally held view in local investment circles is that foreign investors have been extremely impressed by Sappi's prospects. There is no doubt that the German acquisition will help push Sappi into the major world league of pulp and paper producers and manufacturers

Furthermore Sappi, to some extent, is making it easy for Europeans to digest the issue as one third of Sappi's assets are in Europe and another third of Sappi's income from exports This helps to reduce the South African connection In fact Sappi's chief executive, Mr Eugene van As, says that the shares will not be offered at a "South African" discount, but at the top rating they deserve

And the fact that Commerzbank, Germany's fourth biggest bank, is prepared to exchange its 10 percent stake in Hannover for Sappi shares on these terms has no doubt conveyed an important message to other European investors

While the share issue is still to be made, one expects that Sappi has done its homework and that it is pretty certain that the shares will be taken up

Altogether, it seems that Sappi is doing much to make European investors change their view about investing in a South African company

NEWS FOCUS

Sappi's foreign foray gears it for the big time

(179)

BDay 8/5/92.

CHERILYN IRETON

SAPPI has a huge acquisition to digest before it is able to truly say it has joined the top league of international paper and pulp producers.

But there can be little doubt that its latest foray into Europe, with the DM800m acquisition of Hannover Papier, has placed it in an enviable position in the lucrative market for speciality papers. The price Sappi is paying includes a DM400m share swap for 80% of Hannover Papier's shares and DM370m of debt Sappi has taken over.

Hannover Papier is Germany's largest producer of coated woodfree paper and the fourth largest coated paper producer in Europe.

This gives Sappi an important outlet for its pulp and paper products, a factor which should reduce some of the cyclicality of Sappi's business, eventually promoting better operating efficiencies.

World paper prices are now signalling an upturn and if management's targets are accurate, Sappi shareholders will start to enjoy stronger earnings growth within four years

That sounds like a long wait, particularly since Sappi will have to issue around 15% more shares to settle its bill In addition, executive chairman Eugene van As says a refinancing of Hannover's debt will be undertaken in order to strengthen its balance sheet.

But the quality of the management and the assets that Sappi is acquiring — at a discount of about 45% to replacement value — and the eventual benefits of having an in-house outlet for its pulp and paper products could well overshadow any short-term concerns Sappi secured Hannover Papier after a protracted auction of the 80% shareholding of Sweden's troubled Ncb Aktiebolage.

At present more than 92% of Sappi's shares are held by SA institutions which will probably be more than happy to sit on their investment until Hannover Papier's earnings growth matches that of Sappi's

This will depend largely on how quickly world paper and pulp markets recover Although Hannover Papier will start contributing to Sappi's earnings immediately, management has told investment analysts to knock 15% off their Sappi growth forecasts in the first year — because of the dilution factor resulting from the issue of new shares — and 7,5% in the second

Dilution is expected to be completed in the fourth year of Sappi control

But once the acquisition has been absorbed under the umbrella of Sappi Europe, the offshore arm is expected to account for a third of Sappi's profits One third should come from SA exports and the remaining third from the domestic market, says Van As

Part of the attraction of the deal is that the revenue earned from Hannover Papier will be in hard currency and will be fully taxed — an important factor since Sappi will lose most of its SA tax shield in two years time when the benefits of past capital expenditure start dissipating

The payment plan for Hannover Papier is complicated and includes a Euro equity issue which will see the placing of about 19-million new shares by a consortium of European and SA banks and brokers, with foreign investors

Existing SA institutional investors will also be able to bid for the new scrip. This includes parent Gencor whose holding will be effectively diluted from 49,9%

Van As says Gencor is not concerned about a limited dilution in its stake, as long as the absolute value of its investment grows.

"You don't need 50% for control," he says

However a couple of stock market analysts believe that Gencor may not be in too much of a hurry to buy new Sappi stock and could well let its holdings drop to between 40% and 43% of the shares in issue This strategy, they believe, could be extended to other subsidiaries, particularly Engen, which is considering acquisitions in Africa

While not quite the unbundling of Gencor first mooted by Derek Keys in 1990, this, they maintain, would represent a determined effort by Gencor — or at least ultimate parent Sanlam — to loosen its grip on its industrial subsidiaries

Gencor sees the Sappi scenario differently

Gencor's investment adviser and Genbel MD Anton Botha says at worst Gencor's holding will be diluted to about 45%

"The group has indicated that it is keen to take up its entitlement to at least half of any new shares on offer to SA institutions

"Since it is a foreign acquisition we are keen to attract foreign money and to do so are prepared to dilute our holdings But it is not necessary to dilute our investment in favour of SA players," he says

If Sappi had acquired an SA operation, Gencor and Genbel, who hold a combined 55% of Sappi, would have been happy to provide their share of the funds in order to maintain their investment in Sappi, Botha says

HL&H subdued by results of associates

BDay 8/5/92. (199)

FOOD and timber group Hunt Leuchars & Hepburn (HL & H), in the Rembrandt stable, has felt the effects of reduced margins and subdued results from associates Rainbow Chicken and HL & H Timber in the year to end-March

Attributable earnings edged up marginally from R117,6m to R118,6m, while earnings a share dropped 10,6% to 81,5c from 91,2c

CE Neil Morris said financial 1992, which had been "disappointing", was characterised by difficult trading conditions, but substantial development progress in HL & H's subsidiary and associate companies These placed the group well for future growth, and he expected an earnings increase in financial 1993

Morris said Transvaal Sugar had been licenced to build a new sugar mill, and Robertsons had made another acquisition in the atchar market.

The catering division's operations were expanded with the acquisition of Trimpak, and the group increased interests in Rainbow Chicken to 40,3%

In the timber division,

MARCIA KLEIN

the export-based hardwood chipping project SilvaCel was on schedule Production would begin in the first quarter of 1993.

Results for the year show that although turnover increased by 18% from R587,1m to R693,7m, lower international sugar prices and reduced consumer demand resulted in pressure on margins and a 4% rise in operating income from R117,8m to R121,9m.

Poor results from associates Rainbow Chicken and HL & H Timber are reflected in reduced dividends and interest received

An increase in borrowings — to finance further investments in fixed assets and additional working capital — saw the interest bill rise by 28% to R31,9m Lower taxation reflected tax allowances on capex — mainly in Transvaal Sugar — and a reduced company tax rate

Retained income from associates was reduced despite the increased shareholding in Rainbow

Morris said Robertsons increased its contribution to attributable income from 25% to 34%, while Transvaal Sugar's contribution was reduced from 30% to 26%. Rainbow's contribution increased from 14% to 18%, and HL & H Timber's declined from 31% to 22%.

The full year dividend was maintained at 32,5c a share following a final dividend declaration of 19c a share Huntcor, whose only investment is its holding in HL&H, reported earnings of 163,6c (183,1c) a share and declared a final dividend of 38,3c

SAPPI FM 8/5/92 (199)

Becoming even more of a global player

In a major deal for the Gencor stable, Sappi announced after the close of JSE business on Tuesday that it is acquiring 90% of one of Germany's leading makers of coated woodfree paper, Hannoversche Papierfabrieken (Hannover) Ironically, the main vendor is a loss-making Swedish public corporation,

Sappi's Van As *bailing out the Swedes*

NCB, confirming that SA should follow an Anglo-American private enterprise model rather than the Swedish middle way

Subject to normal Reserve Bank approval, Sappi will pay R825m for Hannover (at the financial rand rate) through the issue of shares and convertible debentures on Euro-equity markets Sappi will be listed on the London, Frankfurt and Paris exchanges

In July Hannover commissioned a new coated paper machine at Ehingen, east of Stuttgart, as well as upgrading operations Over the past four years Hannover has substantially modernised and refurbished its operations in Hannover, not far south of Hamburg None of the paper mills in the former East Germany, which Sappi's international development team visited, was deemed to be of this quality

Holding back EPS

German accounting principles make it difficult to work out the contribution Hannover will make to Sappi's earnings — Germans are primarily concerned with cash flow But the acquisition will retard recovery in Sappi's EPS for the first three years Sappi will also assume Hannover's borrowings of DM370m though the announcement says the buy will have little effect on its NAV or debt equity ratio

Hannover — established in 1706 — is one of Germany's oldest companies and Europe's fourth largest woodfree coated paper business Quality coated papers are used to produce glossy magazines such as *Leadership* In 1991, Hannover turned over DM750m and employed 2 650 people

Its management is headed by Franz Neudeck, a respected figure in the paper industry, who expects synergistic benefits from the change of control He also expects Hannover to upgrade and extend its product range with Sappi's established products In any event, Sappi should know more about making paper than the Swedish government

Sappi executive chairman Eugene van As says the deal was undertaken with the full support of both Gencor and Sankorp, which has ultimate control of Sappi This is Gencor's first major deal since Derek Keys left to join the Cabinet this year

In 1990 Sappi bought five mills in the UK These have been formed into Sappi Europe Says Van As "We do not take the commonly held SA view that the UK is not part of Europe, but we are not planning a large London office The German and UK operations will report separately to me "

So in a well-worn phrase, Sappi is becoming more than ever a global player It will generate two-thirds of turnover and net profit from exports and non-SA subsidiaries

At the prevailing price, Sappi would have to issue the equivalent of 22m-23m ordinaries to finance the deal, on top of the 93m in issue Since the announcement came after the close of business, stock market analysts have not had time to digest the news, but the deal must enhance Sappi's status as a rand-hedge stock *Stephen Cranston*

NEDCOR

Still tough times

Drought, unrest and continuing recession held back results in the six months to March CE Chris Liebenberg says business volumes did not grow as much as expected, and, though less than 5% of the book is directly related to agriculture, he gives the impression that there could be a considerable knock-on effect

Unrest not only held growth in home loans to 8% (and most of that was in Nedbank rather than the Perm) but required a R41m provision against bad debts Liebenberg says black home loans are only 23% of the Perm's total book In spite of this heavy charge, total provisions of R103m are only 12,9% of net interest income, against 12,7% at this time last year, confirming that the real crunch was taken in the second half of 1991, when R149m provisions were 21% of net interest

Syfrets was the other problem area, with "underperforming" assets at De Bruyn and another (unidentified) property developer The stars were the old core businesses of Nedbank, UAL and Nedfin, while the Perm was picked up cheaply, and Finansbank (another below-par performer) had to be bought to acquire the services of Piet Liebenberg (who has now moved on to Absa), a cynic might wonder whether Nedcor might not

STILL GROWING

Six months to	Mar 31 '91	Sep 30 '91	Mar 31 '92
Advances (Rbn)	28,0	30,8	33,2
Deposits (Rbn)	33 2	35 4	38,6
Net interest (Rm)	661	704	796
Net profit (Rm)	167	174	192
EPS (c)	90	95	102
Dividend (c)	19	38	21

have done better to stick to its knitting

Also, though Liebenberg stresses the need to cut the dependence on interest income, in relation to pre-tax income it's as high as ever

While expenses (up 21%) still outstrip inflation, the trend is favourable and Liebenberg expects a lower full-year increase He seems more concerned at tax rates including the financial services levy, the effective rate rose from 42,2% a year ago to 43,5% Liebenberg says that if unrecoverable VAT payments are included, it would top 50%

The basic tax charge was only 8% up, against an 18% rise in pre-tax income, and, as NedPerm came out of its tax loss, this is evidence of good tax management

Liebenberg is also proud of the balance sheet, which is already almost in line with the new DTI 8% capital requirement, even without much asset revaluation In terms of the phasing-in requirement, there's some R700m surplus capital, so there's ample room for growth when the economy picks up

That may not happen this half, which Liebenberg expects to be tough, with no cessation of the problems that bedevilled the first half But a hoped-for nonrecurrence of last year's heavy second-half provisions should make his target of a growth rate similar to the first half's attainable

That would suggest annual EPS of close on 200c, with a final dividend of perhaps 43c or 43,5c (though Nedcor does not like 0,5c declarations) The share price has outperformed SBIC but lagged FNB over the past year and, on balance, still looks fair value

Michael Coulson

Paper deal puts Sappi among the top 199

DOMESTIC paper and pulp maker Sappi branched out into Europe by acquired a controlling interest in German paper-maker

Wkly Mail 8/5-14/5/92

AROMETER

Wkly Mail 8/5-14/5/92

Hannover Papier. Sappi claims the R825-million deal, done via the financial rand, puts it among the top 15 paper makers in the world. Sappi already has control of five paper mills in the UK 199

The deal is being done via a share swap and Sappi is applying for the listing of its shares on the London, Paris and Frankfurt bourses

Sappi expecting to improve earnings this year

By Derek Tommey (199)

Sappi's executive chairman, Eugene van As, expresses great optimism about the company's future, in his annual statement to shareholders and forecasts a substantial improvement in earnings this year.

He said he had every confidence that the paper industry cycle had finally bottomed out "Pulp prices have started to rise to more realistic levels Kraft linerboard prices are beginning to rise as are the prices of fine papers and coated papers

STAR 14/5/92

"But newsprint prices will continue to be under pressure for at least another year"

Mr van As said that Sappi's organisations had come through the period of consolidation in a much stronger form Its manufacturing facilities were now more efficient

"It is generally a more motivated group and is well set to benefit from the upturn in the markets not only this year but in the future"

He expects the upward cycle of the industry to gain momentum and continue for a few years to come

Referring to the purchase announced last week of 90 percent of the shares in Hannover Papier, Germany's largest producer of coated papers, he said this may slow the growth in earnings a share in the next two years, but would have a positive impact on the long-term future of Sappi

A drop in world prices of pulp and paper resulted in Sappi's earnings dropping from R375 million to R313 million in the year ended February and earnings a share declining from 402c to 305c

However, annual dividends were maintained at 200c a share

Sappi optimistic after industry's worst year

BDay 14/5/92. (199)

Own Correspondent

DURBAN — Sappi Limited, which last week announced the acquisition of Hannover Papier and so became one of the world's largest forest products groups, expects a marked improvement in earnings in the year ahead

Although the Hannover acquisition is likely to slow the growth in Sappi's earnings per share in the next two years, it will have a positive effect on the group's long-term growth

In Sappi's annual report for the year ended February 29, executive chairman Eugene Van As said the past year was one of the most difficult in the century for the pulp and paper industry

However, Sappi used the time to consolidate its position and has been successful in maintaining and even growing its market share

"Both our domestic paper divisions as well as Sappi Europe and Sappi Timber Industries introduced new products successfully and this helped us in counteracting contracting markets and assisted in arresting the general price decline for most of our products"

Overseas Sappi Trading was established in Zurich to manage the group's trading activities which are principally conducted through the Speciality Pulp Group in Hong Kong, while in SA two modern forest products warehouses were commissioned at Durban harbour to provide an efficient distribution system for the group's product.

Van As said "Our financial objectives for this acquisition were not attained during the year because of the serious downturn in selling prices in the second half, but we were successful in achieving the market shares, productivity rates and cost control that we had planned and a good base has been laid for further development"

Sales were only up 7% and the decline in net income was limited to 17%

With Sappi's successful R1bn rights issue last year, the group has low gearing and has emerged stronger

Cash generated by sappi's operations amounted to R632m and the shareholders' interest grew at an annual compound rate of 11,5% to stand at R4,2bn at the year end

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CT 20/5/92

'No monopoly in timber supply'

By MAGGIE ROWLEY
Property Editor

JOHANNESBURG [illegible] The South African Timber Millers [illegible] angrily denied suggestion of monopolistic and cartel [illegible] in the timber supply industry.

[illegible] surrounding the recently published [illegible] housing in South [illegible]

He said he was responding in [illegible] Good [illegible] where [illegible] together [illegible] industry.

[illegible] of which the [illegible] 95% marekt [illegible] own timber to the building industry. They have no [illegible] agreement or cartel [illegible] activities [illegible] by an association.

In [illegible] there is also no [illegible] protection on sawn timber [illegible] in fact taking [illegible] present," he said.

[illegible] said it was "an irritating [illegible]" of the De Loor report [illegible] been generalised with other building material supply indistries when monopolistic [illegible] exist.

However [illegible] wholeheartedly [illegible] recommendations in the De Loor [illegible] olistic [illegible] in the building [illegible] should be investigated in depth. Such an investigation should be conducted along the [illegible] from [illegible] terial to end product."

He said the only possible creation of a monopolistic supply situation [illegible] building industry [illegible] present government strategy to [illegible] and privatise the state forests which supplies more than 90% of the sawmilling industry's log intake from outside sources.

"We are very concerned because a privatised/commercialised monopoly supplier could be expected to behave differently from a trusted government department.

"While the concept of commercialisation is not opposed, the principle of the creation of a private monopoly that could have an effect on the building industry is questioned," he said.

In an interview Karsen said he did not mean to imply that the timber industry fell in the same category as other sectors of the building supply industry.

"However I believe the timber supply industry [illegible] also be [illegible] mission of inquiry into the building supply industry as proposed in the De Loor Report which could then give it a clean bill of health if warranted".

Timber industry fears monopoly

B/Day 21/5/92

MEREDITH JENSEN

KEY industry players in the timber business have expressed concern that government's strategy to privatise state forests could lead to a monopolistic supply situation within the sawmilling industry (199)

The reaction follows the recent release of a draft Bill to Parliament in which the Forestry Department outlined a proposal that it be turned into a state-owned company at first, with plans to offer shares on the JSE soon after formation (B/Timber)

SA Lumber Millers' Association executive director Andries Swart said Salma had proposed buying the forestry business from the state which would still own the land, but was turned down

One industry source said government could be making a hasty decision with its privatisation plans "They are trying to unload before an interim government is in place to protect themselves"

Other sources said a state-owned company could be disastrous for the sawmilling industry

Referring to the recent De Loor inquiry's report on monopolies in the building sector, Swart said the "sawmilling sector, unlike the cement producers, do not fix the price of their product".

SA's 114 sawmills, belonging to 54 companies, "have no marketing agreement or cartel nor are their marketing activities influenced by an association"

Lack of import controls meant imported timber was competitive But privatisation might mean the timber sector "could very well be operating within a monopoly"

FM 22/5/92 (199)

TIMBER INDUSTRY (199)

Almost out of the woods

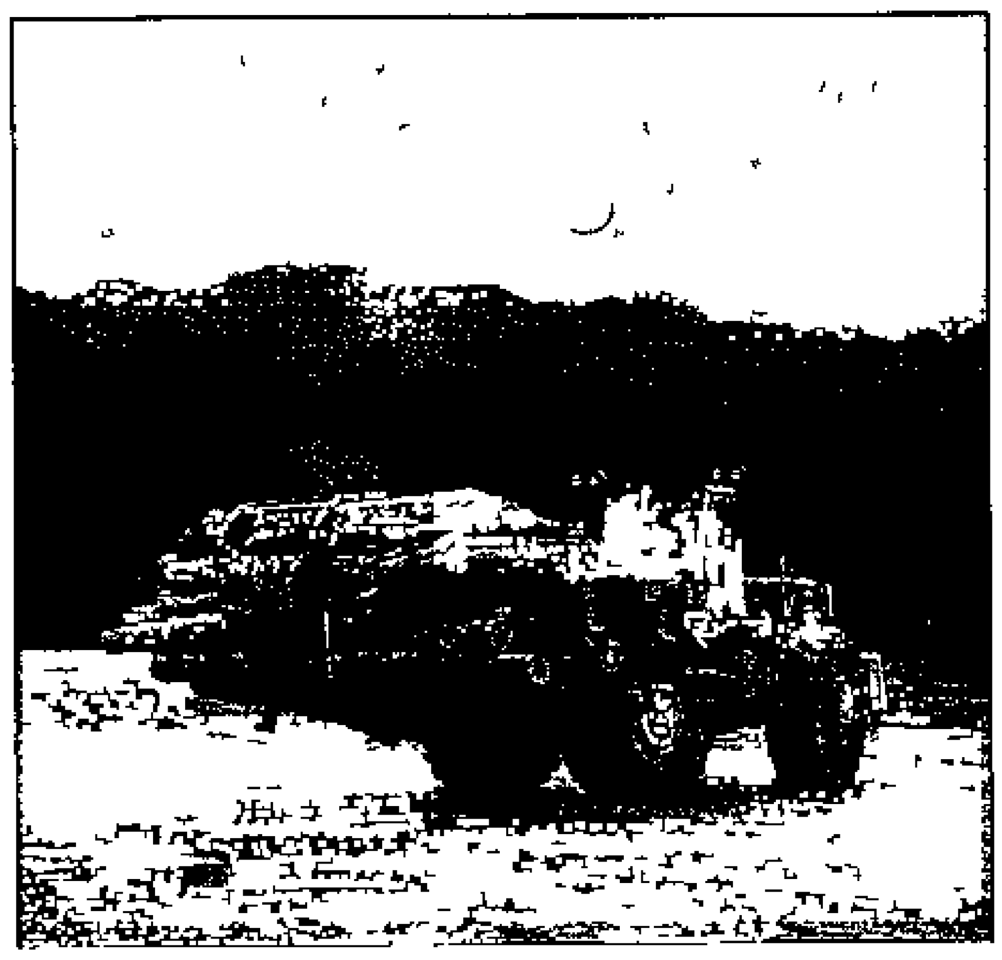
FM 22/5/92

The timber industry has seen its profits trimmed and markets eroded in recent years, but it is counting on a surge in low-cost housing development, a rebound in international pulp and paper demand, and a gold-price recovery to turn the situation around. A fall in township violence and the expected world recovery should be enough to do the trick.

In its first economic review, the SA Timber Growers' Association economic advisory committee analyses the performance of the industry's main sectors: saw milling, mining, poles, pulp and paper, and board over the past few years. The report, released recently, outlines the heavy toll taken by the recession. The current level of roundwood consumption is roughly the same as it was three years ago. Worst hit are saw milling, down 10% in three years because of the building slump, and the R800m-a-year mining-timber market, where consumption slumped 32% in three years because of cost-cutting by gold mines.

Product substitution has hit another sector, the pole market, where steel for fencing and concrete poles for electricity transmission in townships are chipping away at timber demand. Roundwood pulp also faces competition from substitute fibre products. Pulp had a 70% roundwood content in 1987. By 1990 this had fallen to 67%.

Internationally, world pulp consumption has fallen while production capacity has climbed to undermine world prices. But the report says the local pulpwood market has grown, though slower than expected. It says production and consumption in the paper-and-board sector have increased slowly in recent years but production surpluses are



Bringing logs to the market *demand has been cut*

growing to add to the increasing amount of paper and board products being offered on world markets.

Paper prices have slipped, though not to the same extent as pulp. Mondi's John Barton says the world recession and growing paper imports have more than offset any advantages created by new international trade opportunities. The result is that the country's two major paper manufacturers, Sappi and Mondi, have had to rationalise production.

"Our Merebank facility outside Durban, which is large even by world standards, has reduced two of its five machines to two-weeks-on, two-off cycles instead of operating continuously," he says. "Since it takes 5 t of timber to manufacture 1 t of paper, these reductions have a dramatic knock-on effect on employment throughout the forestry industry."

In spite of these conditions the forestry industry pushed up the annual value of exports by 3,8% in real terms between 1985 and 1990.

The industry is relatively bullish about the future, the report says. Companies will continue to plant timber in new areas, mostly on a scale of between 2 000 ha and 10 000 ha a year. And a considerable amount of capital has been invested in new pulp and paper capacity, based on an industry assumption that the pulp and paper sectors will grow by 3%-5% a year, saw timber by 2%-3%, and composite board products by 3% annually over the next few years. ■

COMPANIES

SAPPI

FM 22/5/92 (199)

Well poised for the next upturn

Activities: *Produces pulp and paper products in SA, the UK and Germany*
Control: *Gencor 50%*
Executive chairman: *E van As*
Capital structure: *125,8m ords Market capitalisation R6,0bn*
Share market: *Price R47,50 Yields 4,2% on dividend, 6,4% on earnings, p e ratio, 15,6, cover, 1,5 12-month high, R48,50, low, R32 Trading volume last quarter, 850 000 shares*

Year to	'89	'90	'91	'92
ST debt (Rm)	—	—	336	367
LT debt (Rm)	957	868	1 263	951
Debt equity ratio	0,67	0,56	0,68	0,28
Int & leasing cover	8,7	4,2	2,2	2,4
Return on cap (%)	14,5	14,5	8,6	6,7
Turnover (Rm)	2 469	2 727	2 669	2 844
Pre-int profit (Rm)	618	731	482	400
Pre-int margin (%)	25,0	26,8	18,1	14,1
Earnings (c)	607	650	402	305
Dividends (c)	190	200	200	200
Net worth (c)	2 408	3 154	3 345	3 359

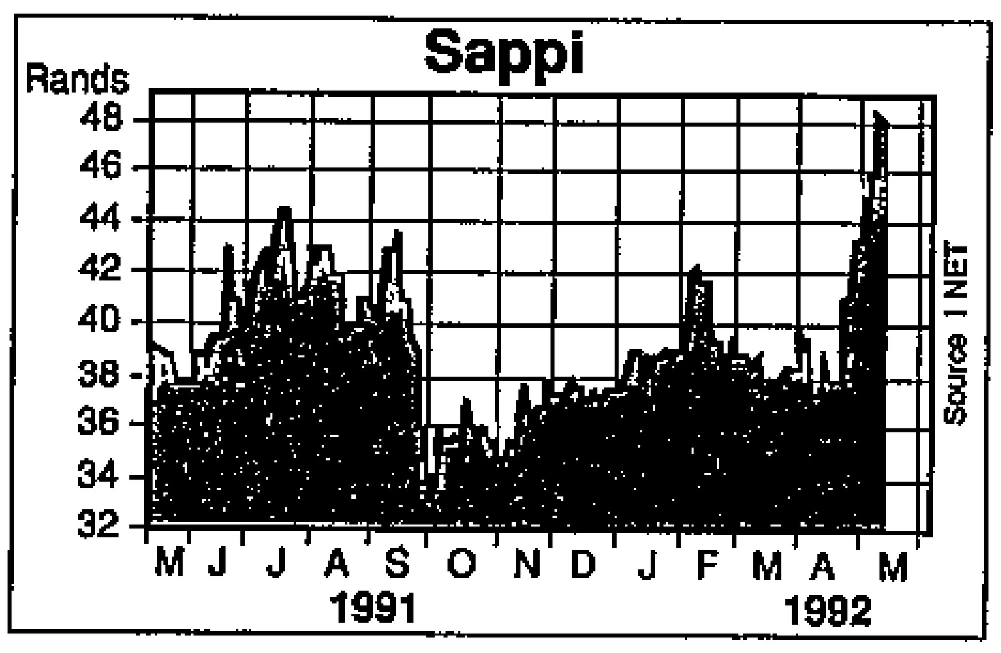
Just two years ago, Sappi looked like the ultimate fat-cat manufacturer Its operating margin of 26,8% was among the highest in the paper and pulp industry worldwide

What customers and critics conveniently ignored was the low return on capital, which even two years ago was 14,5% in a country with a prime rate hovering around 20%

Now, in the depths of domestic and worldwide recession, the key numbers don't look nearly so rosy Return on capital has fallen below 7% and EPS — still the most important indicator in the stockmarket's eyes — has fallen by more than half to 305c

The industry is cyclical. Investing in Sappi will never be a way to make a quick killing. But, as executive chairman Eugene van As says, the year was tough for pulp and paper companies round the world Sappi's counterparts in the US, Canada and Scandinavia have been showing red ink at EPS level

In the annual report, Van As is far from smug, but he — and SA's other major pulp and paper producer Mondi — at least are still making money Van As points out that Sappi's domestic paper and pulp operations as well as the UK mills which formed Sappi Europe and Sappi Timber Industries all launched new products during the year



Sappi's Van As *no time to shoot wildlife*

Financially, the highlight was the October R1bn rights issue, 98,8% subscribed This pushed gearing down to 0,28 and shareholders' funds up by 30% Van As was not explicit about the purpose of the issue at the time, except to say he intended to make Sappi a "global player."

He achieved that in no uncertain terms by his acquisition of the German coated paper group Hannover Papier for R825m, though this will be funded by raising new equity in Europe rather than through additional debt on the balance sheet

Crocodile tears

Insiders describe the new German subsidiary as one of Europe's quality companies, though one downstream paper manufacturer adds that the hunting lodges are better in Austria, where Anglo/De Beers bought out that country's major paper manufacturer Neusiedler But Van As is not thought to have time to shoot the local wildlife

On the home front, Van As complains that "low world prices and weak international demand also saw an unprecedented inflow of low-priced imports as producers in other countries desperately sought markets for their excess production " But from a businessman who is also trying to sell his own excess production internationally these are clearly no more than crocodile tears

Shareholders are also told about the disappointing performance of dissolving pulp as the world economic upturn did not take place, newsprint prices also declined and there was a slump in the local building and furniture industries

The best divisional performer was Sappi Forests, which increased sales to R434m Output was augmented by the acquisition of Lotzaba Forests from Rand Mines, which increased total land by almost a fifth It now supplies half Sappi's timber requirements

Sappi is not a speculator's favourite but remains a sound investment for the long-term investor It is unique in the paper and packaging sector as a primary producer in a sector which consists mainly of its customers

Thanks to strong institutional support, Sappi is trading at R47,50, just a rand short of its 12-month high It has maintained its dividend at 200c for the third year in a row, thanks to strong cash flows — operations generated R632m in cash during the year Sappi is not cheap because it looks poised to recover well in the next economic upturn

Stephen Cranston

Sappi to seek foreign funding

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By Sven Lünsche

Following its aggressive expansion into the European pulp and paper market through the recent acquisition of German group Hannover Papier, Sappi yesterday launched an international placing of its shares.

Sappi said yesterday that it would issue 19 million new shares to raise the equivalent of $250 million. STAR 27/5/92

It is expected that the issue, which will be managed by a syndicate led by London brokers SG Warburg Securities, will be placed in mid-June at a level related to the then current market price of Sappi shares.

Finland extends R50m credit to SA

SHARON WOOD

FINLAND has extended a first-time credit line of $50m to SA, giving the domestic pulp and paper industry easy access to a major world supplier of the industry's equipment.

BDay 9/6/92

The agreement was concluded between the Industrial Development Corporation's (IDC) wholly owned credit finance subsidiary, Impofin, and Finnish Export Credit Limited, a statement released yesterday said.

Credit facilities would be organised directly between Impofin and the Finnish bank, IDC senior GM Malcolm Macdonald said

A credit agreement was currently being finalised in Finland between an SA pulp and paper company and a Finnish equipment supplier

The name of the SA company could not be divulged, Macdonald said.

SA had limited trade relations with Finland in the past because Finland had actively supported the voluntary EC trade ban, said Macdonald But trade links were now officially established between the two countries

Finland is a major world supplier of equipment for the paper and pulp industries, a field in which SA is a significant producer.

"Depending on the contract values of the imports, credit terms of up to seven years are available from the IDC at favourable interest rates," Macdonald said.

Forestry industry boosts exports to R2bn

B/Day 11/6/92

MEREDITH JENSEN

THE SA forestry industry had increased exports to offset the effects of the weak economy, SA Timber Growers' Association (Satga) director Bruce Ferguson said yesterday

Ferguson said exports, which had climbed steadily since 1988, had topped R2bn at end-March.

Far Eastern countries such as Japan and Thailand were the biggest importers of SA timber, and Satga had received inquiries from western European countries, the Ukraine, Middle East and Finland

The drought had affected the industry in the short term, but the industry was expecting a 3% increase in pulpwood sales next year from 8,834-million cubic metres to 9,1-million

Ferguson said "The Department of Forestry has proposed transferring the state's forests to a private company, to be formed under the Companies Act The state will initially be the sole shareholder, though it is believed shares will be offered to the public eventually"

(199)

However, a spokesman from the SA Sawmillers' Association said the current monopoly of supplied timber was not as threatening as it would be if it were private "A government monopoly behaves differently from a private company

"We are in favour of commercialisation, but if you give the forests to one company, it could be dangerous"

Joy at success of Sappi share deal

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JOHN CAVILL

LONDON — Sappi's historic $240m share issue to fund the DM400m takeover of Germany's Hannover Papier was "well oversubscribed", said Oliver Baring, director of UK investment bank Warburg Securities

"We are delighted with it," he said "It was a trail blazer — the first SA Euro-equity offer to be priced at the market level We have placed 19-million shares and they were well oversubscribed"

Baring said Gencor had scaled down its entitlement to below 55% to satisfy demand from SA institutions

Sapa reports that Sappi said 21,5-million new Sappi ordinary shares (19-million for the Euro-equity issue and 2,5-million for Commerzbank) were placed at Thursday's market price of R44 ($12,45)

It said Warburg Securities had allocated the maximum of an additional 15% of the issue quantity to investors due to the over-subscription At Smith New Court, Charles Zorab said there was healthy demand from SA institutions, which was normal

He said the fact Sappi did not have to offer a discount to the market price was a good sign "We believe Sappi had aimed to raise $125m from overseas investors, but we just don't know how much came in"

John Taylor of James Capel said that the firm had not been able to establish how much was taken up externally, adding, however, that the placing appeared to have gone "extremely smoothly"

BDay 15/6/92

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Sappi

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□ From Page 1

"We'll have to wait and see There has been adverse comment on the pulp and paper industry coming out of the US recently which migh have caused some hesitancy," he said.

In its latest monthly investment review of SA, Capel praised Sappi's presentation to fund managers and brokers in London, which was part of its European road show

"On a short-term view we still think the share is a little on the pricey side (sitting on a prospective earnings multiple of 10,8), but the group certainly has ambitions and the managerial infrastructure to realise them.

"Accordingly, those investors who have the luxury of being able to take a two-year view should consider participating in the issue," it said

Sappi Executive Chairman Eugene van As said Warburgs had called on Sappi to make available a maximum of 2,85-million additional shares in terms of the "green shoe", an overallocation option used in the Euro-equity market.

Van As said demand from Europe was less than he had hoped following the recent political pronouncements in SA, but he was satisfied with the outcome

He would not say what percentage of the placing went to European investors and what was allocated to SA institutions, but has said before he would like half of the new shares to be placed internationally

Sappi's foreign issue draws full subscription

[redacted] 199 STAR 15/6/92

By Neil Behrmann

LONDON — Efforts by Eugene van As, Sappi's chief executive, to turn the South African paper producer into one of the world's "big five" are well on course in the wake of the over-subscription of the company's $250 million European share issue.

The shares were issued at $12,45, Oliver Baring of Warburg Securities, the "global bookrunner" of the Euro-equity issue, said at the weekend.

"It was a trail-blazing deal because it was the first Euro-equity issue to be placed on the international and South African markets," he said.

Although the issue was over-subscribed, Mr Baring was slightly disappointed with foreign demand.

International investors were concerned about the state of Codesa negotiations, he said. "They want an interim government."

Eugene van As . . . efforts bearing fruit

Mr Baring said that South African, UK, German, French and German instititions had subscribed, but he would not disclose how the allocation was made.

Other international members of the underwriting syndicate were Robert Fleming, Union Bank of Switzerland, Commerzbank and Banque Indosuez. Stockbroker Martin and Co and FirstCorp raised the funds in South Africa.

The main aim of the issue was to finance the acquisition of Germany's Hannoversche Papierfabrieken Alfred-Gronau Aktiengesellschaft (Hannover Papier).

Sappi is now well placed to take advantage of the European, North American and Far Eastern markets, said Kim Jokipii, managing director of Sappi Europe.

In the short run, the acquisition would not generate growth for Sappi because of start-up costs of a new paper mill and the depressed paper and pulp market, said Mr Jokipii in a recent interview.

But it would not take long for surplus capacity to be absorbed in a reviving market, he said.

The Hannover Papier deal would allow Sappi to generate two-thirds of its profit from exports and foreign subsidiaries, he said.

The takeover places Sappi among the top fifteen paper companies worldwide.

Hannover's strong market position in Germany and France would complement Sappi's exports to the US and Asia, said Mr Jokipii.

Sappi will be listed in London, Frankfurt and Paris

● It has emerged that Johnson Matthey, the UK precious metals refiner and distributor and agent of Rustenburg Platinum, is considering a listing on the Johannesburg Stock Exchange.

Johnson Matthey chairman David Davies said at the company's result presentation last week that the Johannesburg business community had been interested in the company's progress for some time.

Charter Consolidated, which owns 39 percent, of Johnson Matthey, also has investments in South Africa

Minorco holds 36 percent of Charter.

Finland to import wood chips from SA

STAR 16/6/92 (199)

The Central Timber Co-operative is set to increase its export of eucalyptus wood-chips by over 40 percent this year with the opening of a new market in Finland

General manager of the Pietermaritzburg-based exporter, Mr Rein Franz, said yesterday CTC would export between 250 000 and 260 000 tons of wood-chips to Finland during 1992.

CTC began exporting to Finland earlier this year

CTC's traditional market in Japan would receive 550 000 tons of wood-chips worth about R110 million this year, while the value of exports to Finland would be approximately R40 million, Mr Franz said — Sapa.

Sappi's Hannover deal may be last of its kind

B/Day 17/6/92

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MATTHEW CURTIN

AS strategic investments go, Sappi's acquisition of Germany's Hannover Papier may rank as one of the best.

The DM440m deal and $240m share issue has got thumbs up from the European and local investment communities They agree Hannover fits Sappi's current European and African operations, and that the deal was timed perfectly to catch the upswing in world paper and pulp markets

However, the intrinsic merits of the transaction overshadowed the unusual circumstances in which it was struck, and masked the insight it provided on the strategic dilemmas facing SA business In buying Hannover, Sappi diluted dependence on the local economy and export-driven business for growth, a dependence which could straitjacket many SA companies

Executive chairman Eugene van As says turnover is evenly split between domestic sales and exports

The group's long-term growth depends on it being able to sell higher tonnages of paper and pulp, and it has spent millions in the past few years expanding its productive capacity and building up timber reserves. Without further increases in capacity, local consumption would slowly replace exports, restricting growth to price increases and profitability improvements at its SA operations

Van As says "That mix of Sappi's business would condemn the group to grow not even at the rate of the SA economy, but at half that rate if local expansion is based only on the domestic markets and exports"

It is a concern which is clearly weighing heavily with rival producer, Anglo American's Mondi. After buying a stake in Austrian paper manufacturer Neusiedler AG in 1990, Mondi announced a R550m investment in pulp-and-paper group Frantschach in March in association with Anglo, De Beers and Minorco

Van As says Sappi needs to balance the growth in domestic demand and exports, with offshore manufacturing facilities producing high quality value-added products The Hannover purchase has done just that

However, products like the coated paper which Hannover supplies require a high degree of customer service Primary forest products or newsprint can be delivered to customers on a steady long-term contract basis, but quality paper supplied to a specialist printer needs a just-in-time service

Van As says Sappi cannot supply that from SA Hannover, in conjunction with Sappi Europe, is ideally placed to do so

And it is in the coated paper market where he sees the most exciting growth in the paper industry The European market has grown 8% a year for 10 years, and 10% a year in the past five While there is overcapacity among German producers of wood-free coated paper, German demand for the product has risen 6% in the first quarter this year Waiting for Hannover are the burgeoning eastern European markets Van As says consumption of coated paper in eastern Germany is one tenth of that in western Germany

Large paper companies rarely came up for sale, especially German

VAN AS

ones The Wall Street Journal noted last month that Europe's paper industry was in a process of consolidation, becoming a target for international companies like Sappi and US forestry giants, "anxious to gain a firm foothold as the EC moves to dismantle tariff barriers" The journal said Scandinavian forestry groups had "gobbled up continental targets, but hardly ever divested holdings"

Sappi made no bones about its designs on the European market In May 1990, Van As told shareholders "Your group continues to broaden the international scope of its activities and in the next decade aims to acquire global status in pulp and paper manufacturing and technology"

In mid-1990, Sappi bought five fine paper mills in Britain for £109m and set up Sappi Europe, while the operations of the Zurich-based Sappi Trading continued to expand in the past year There had been long-standing rumours of potential acquisitions in Europe by Sappi and Mondi Sappi was understood to have looked hard at a £1bn bid for British-based producer Wiggins Teape in 1990, abandoned in favour of local expansion

But it was events in Sweden which saw Hannover come up for grabs. The 1991 election victory by the centre-right after years of socialist government saw Sweden embark on a privatisation drive At the same time state-owned paper producer NcB AB fell into the red and acknowledged that without financial assistance it could not remain an integrated producer of fine paper, sack paper and packaging NcB's fine paper division was Hannover, Europe's fourth largest producer of wood-free coated papers, whose earnings had plummeted in 1991 to break-even point Its six-year DM700m modernisation programme finished with larger-than-expected startup costs

With no government assistance forthcoming, Hannover was put up for sale in a "controlled auction"

Sappi was interested, although Van As admitted Hannover was a larger company than the group had been looking for And it faced stiff competition There were four tenders including offers from International Paper via Zanders and Arjo-Wiggens-Appleton What gave Sappi the edge was a pre-emptive condition that any tender would have to be management approved Hannover directors, faced with the choice of being subsumed within a major European rival — with the concomitant restructuring and loss of independence — or joining forces with an overseas producer, chose Sappi

Sappi may be set on the road to becoming a multinational conglomerate, no longer shackled to the SA economy thanks to Hannover It is an aim Van As says is within reach by the end of the 1990s But can other groups afford to make the same move, and will the timing ever again be as good? Not only did Hannover come up for sale in time with Sappi's strategic planning, but the group had been able to take advantage of the hiatus between the demise of the old and the emergence of the new SA

European institutions have relished the chance of putting their toes in the water, to test the state of the SA business environment, given the country's new international respectability However, a new government may be less willing to allow SA companies to tempt those institutions by investing millions overseas

Business may emphasise the need for international competitive companies to sustain local business and the economy, but it may not wash with others' demands for growth and equity in SA.

Sappi to list in London despite late JSE hitch

BDay 19/6/92

(199)

Business Day Reporter

CAPE TOWN — Sappi shares will be listed on the London Stock Exchange from today, despite a last-minute hitch with the JSE

Listing on the Frankfurt Stock Exchange and Paris Bourse would follow in due course, Sappi said yesterday

It said the hitch arose this week over the over-allocation option, which it said was common practice in an Euro-equity placing Part of its fundraising to pay for its recent acquisition of Hannover Papier in Germany had been a successful Euro-equity issue of Sappi shares.

Sappi said 21,5-million shares were placed at R44 with SA and international institutions, one of which was the German bank, Commerzbank Due to demand for its shares, Sappi had called into play the over-allocation option The lead manager to the issue, London's S G Warburg Securities, was able to over-allocate, if demand existed, up to a maximum of 15% more shares than the face value of the issue

In Sappi's case the full 15% option was exercised — equivalent to 2,8-million shares Sappi had agreed to certain provisions, including that Warburgs could buy shares in the market to stabilise or maintain the Sappi market price

This could only be done during the stabilisation period, which could not exceed 30 days after June 18 The maximum price for the shares was $12,45, equivalent to the R44 market price on the day the placing price was determined

Sappi said the objective of the over-allocation option was to stabilise, not necessarily to maintain the share price at the $12,45 level Investors should not expect the share price to be held at $12,45 or any other level

Sappi's sponsoring brokers Martin and Co cautioned that the stabilisation exercise could be terminated at any time

The JSE said the stabilisation practice would not comply with its requirements, but advised Sappi that it was prepared to exercise its discretionary powers The over-allocation of shares could be implemented subject to certain conditions Sappi and the JSE differed as to whether one of those conditions had been met

An announcement today said that despite the difference of opinion, the JSE had taken the view that it was in the best interests of the public to grant a listing of any Sappi shares issued in this regard

While not expressly permitted by the London Stock Exchange, it had recognised that stabilisation had long been an internationally accepted practice Sappi said Warburgs would obviously comply with specific stabilisation rules issued by the UK Securities and Investments Board

Dispute linked to protests

STAR 19/6/92 (199)

The Paper, Printing, Wood and Allied Workers' Union is to link its fight against retrenchments at Sappi to the proposed mass action next month, a union spokesman said in Johannesburg yesterday.

Speaking after a meeting between union leadership and Sappi management, PPWAWU organiser Rob Rees said the union was in dispute with the giant paper producer over two issues — retrenchments and economic restructuring.

Sappi had recently retrenched more than 2 000 forestry workers and replaced them with subcontractors who earned low wages with no benefits or protection under labour legislation.

"PPWAWU has now decided to intensify this campaign in its own ranks and inside Cosatu. These worker actions are going to fuel the ANC's mass action campaign, which PPWAWU supports," Mr Rees said

The union would link up with other Cosatu unions in a broad national campaign.

Sappi comment was still awaited at the time of going to press — Staff Reporter.

Sappi's listing goes ahead

STAR 19/6/92 [redacted] 199

South Africa's pulp and paper giant Sappi has had its listing on the London Stock Exchange approved despite last minute reservations by the Johannesburg Stock Exchange.

In a statement released yesterday, Sappi said its shares would be listed in London today but wrangling over the over-allocation option (the green-shoe option in Euro-equity placing) almost threatened to hold up its increasing international participation

As part of the exercise to raise funds to pay for its recent acquisition of Hannover Papier in Germany, Sappi held a Euro-equity issue of Sappi shares.

The objective of the over-allocation option was to stabilise, not necessarily to maintain, the share price at the $12,45(R44,00) level and investors should not expect the share price to be held at this or any other level, Sappi said [redacted]

However, the stabilisation practice did not comply with JSE listing requirements and the practice was not expressly permitted by the LSE rules either but both agreed to exercise their discretional powers and allow the listing to go ahead — Sapa.

BUSINESS DAY, Friday, June 19 1992

Union to oppose retrenchments

PATRICK BULGER

THE Paper, Printing and Allied Workers' Union (Ppawu) would embark on mass action to stop retrenchments and the unilateral restructuring of the industry, the union said yesterday

Ppawu met a Sappi delegation yesterday for talks that Ppawu national organiser Rob Rees described as "unsatisfactory" He said Sappi did not respond to Ppawu's demand for a moratorium on retrenchments and a national industrial bargaining forum Sappi would give its response within a month.

Rees said 2 000 workers had been laid off and 6 000 Ppawu members faced retrenchment and the loss of their homes while Sappi embarked on overseas investment programmes They were being replaced by workers who earned R9 a day, seven days a week without lunch breaks.

Ppawu intends holding marches at workplaces on June 29 and this action will be linked to the mass action campaign organised by the ANC and Cosatu.

A Ppawu statement said "A number of the actions are now beginning to link up with similar struggles in other Cosatu affiliates Worker anger may push this into a stayaway action.

"The Cosatu executive committee has resolved to pull struggles against retrenchment together and to provide maximum solidarity support for these actions ... "

Rees said the union was not opposed to industry attempts to increase productivity However, it opposed the unilateral manner in which the exercise was being conducted

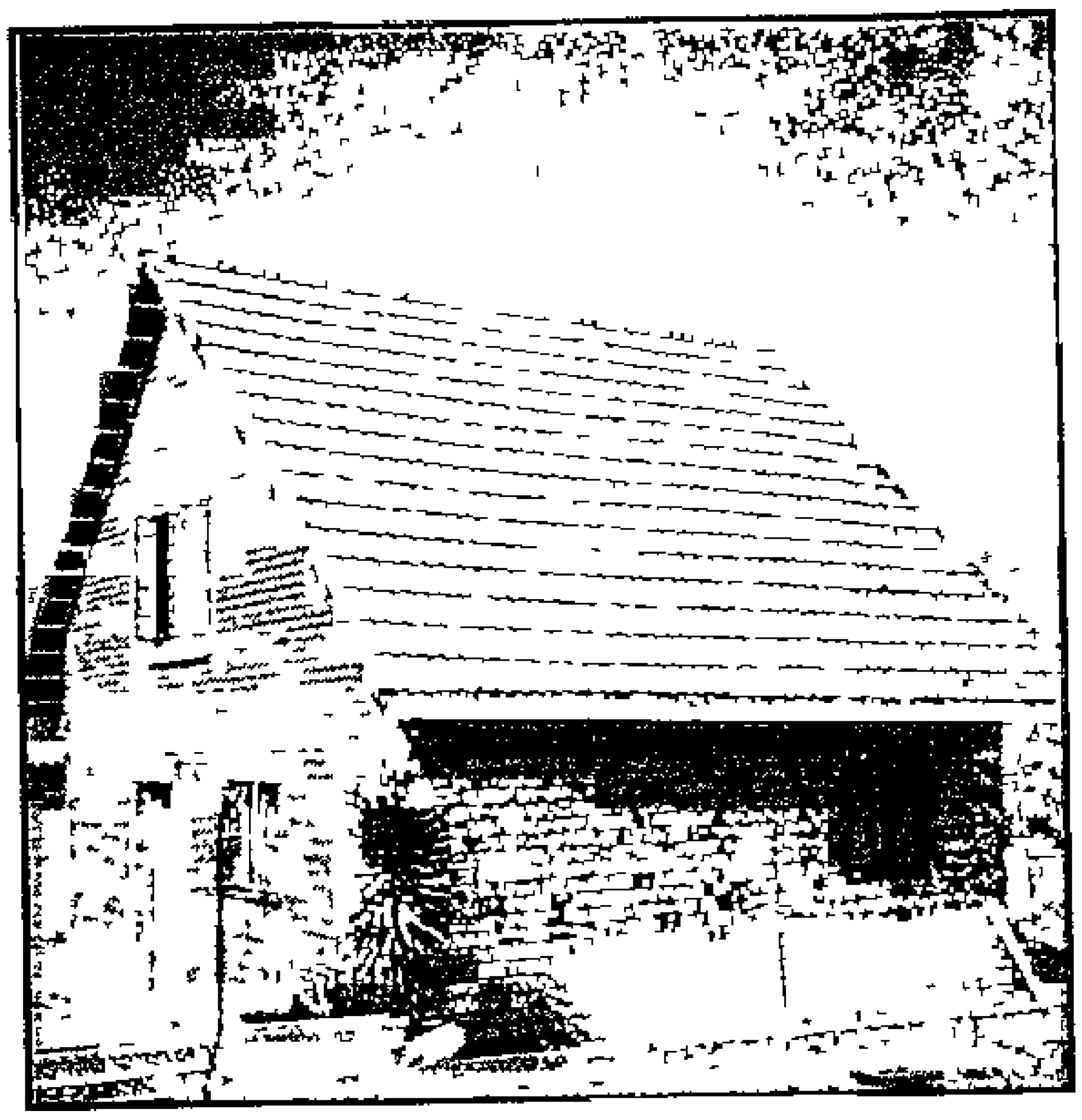
Reuter reports a Sappi spokesman confirmed the company had undertaken to reply to Ppawu demands within 30 days

□ Sapa reports that tensions escalated in the clothing industry yesterday as unionists held marches in Cape Town and Durban to back wage demands.

Despite warnings from employers that their jobs were on the line, thousands of SA Clothing and Textile Workers' Union members marched in two cities.

Employers remained adamant that the march was irresponsible and that disciplinary action would be taken against workers who deserted their workplaces

The union has called on employers not to abuse their power and to allow workers to take part on the basis of a no work, no pay, no penalty principle



Going up . . . how an attic conversion can transform an ordinary township house.

World leaders in timber engineering

199

STAR 25/6/92

MiTeK TM South Africa is a local subsidiary of the world's leading timber-roof truss system.

It has licensed 120 timber truss manufacturers in South Africa, using the Gang-Nail and Hydro-Nail truss system which is acknowledged as being the world's finest with state of the art CAD/CAM software.

The MiTek family of truss manufacturers in South Africa make over 1,5-million timber trusses per annum, using proven MiTek products in a R200-million-rand industry.

MiTek also make products for the keen DIY enthusiast to make his own roof trusses with special metal connectors. These save enormously on timber requirements as well as a multitude of the other metal connectors for use in timber construction, all available throughout South Africa from the company's product standards in leading DIY stores

MiTek has pioneered new concepts in low-cost housing using appropriate technology linked to job creation.

A complete 30-sq-m house called the "Mi-Home" can be constructed with basic skills for far less cost than one would normally expect

This concept will be a great boon for corporate housing schemes and similar projects. A further MiTek innovation is a practical and affordable method which converts the standard township house into an attractive double-storey home with the minimum of disruption.

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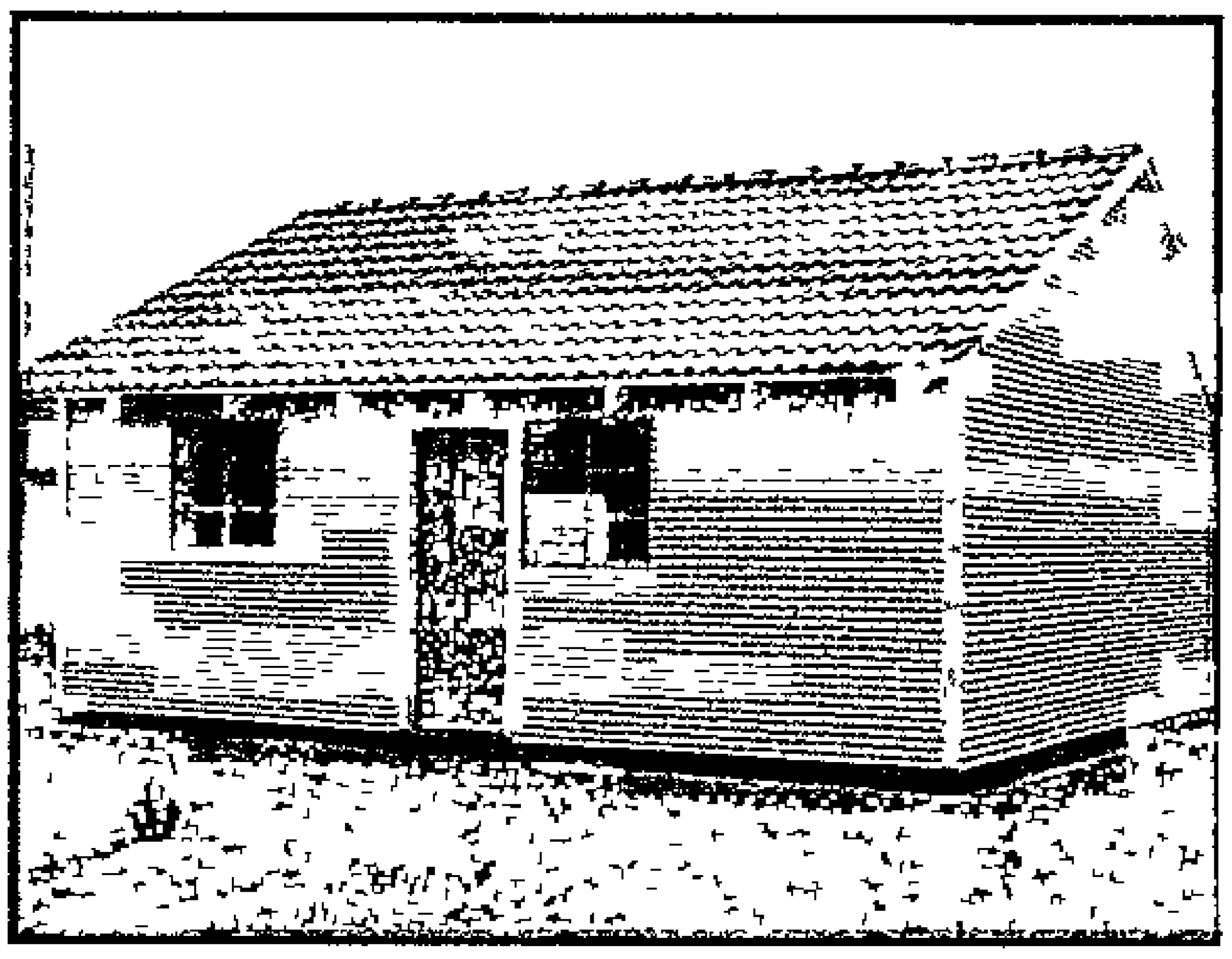


Good-looking and durable . . . an example of a timber home MiTek has pioneered new concepts in low-cost housing using appropriate technology linked to job creation

Drought casts a shadow over food and timber group

B/Day 6/7/92 (199)

MARCIA KLEIN

FOOD and timber group Hunt Leuchars & Hepburn (HL & H) expected to achieve earnings growth in financial 1993, but directors warned shareholders of the drought's severe effects on its various investments.

Chairman Dave Marlow and CE Neil Morris said in the Rembrandt-controlled group's annual review that SA's political and economic climate had not been conducive to maximising corporate returns. Against this background, HL & H's 1% growth in attributable income to R118,6m on an 18% turnover rise to R693,7m in the year to end-March was "reasonable".

They said significant developments had taken place in the group's portfolio over the year, and this had laid the foundation for growth.

HL & H had increased its investment in Rainbow Chicken from 25% to 40,3%. It formed SilvaCel to focus on exporting chipped timber.

Robertsons continued to expand its core business, made acquisitions and focused on its international links, and Transvaal Sugar (TSB) obtained the right to construct a new sugar mill.

Directors said the performance of the group's companies and latest developments would position it strongly locally and internationally.

They said HL & H did not expect any significant economic recovery, and foreign investment was likely to be modest until greater political certainty was achieved, so the next year would be one of slow recovery.

Earnings would increase but the group was concerned about the effect of the drought on many operations.

The CGP Investments division, trading as Robertsons, had shown real earnings growth in "its strongest performance to date". The division had shown an annual compound sales growth of more than 25% over the past three years. Exports to southern and central Africa would grow substantially in 1993.

The division had acquired Trimpak for R3,1m and Fedfood's atchar activities for R7,2m, giving it a major share of the atchar market.

TSB had performed well in spite of pressure on international sugar prices and the drought.

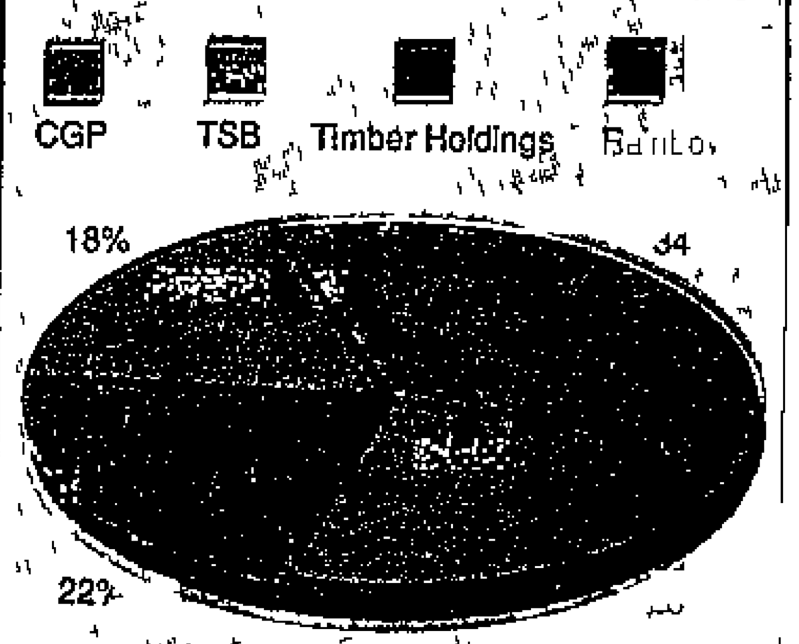
Once TSB's new mill was in production, it would produce almost 16% of SA's sugar.

HL & H Timber Holdings had been affected by depressed conditions in the mining and construction industries, and it produced its first earnings decline in more than a decade.

HL & H Mining Timber showed earnings growth (at a lower level), but the performance of softwood operation HL & H Timber Processors was "most disappointing", they said.

The division had invested significantly on developing its raw material resources. The first project arising from this strategy was SilvaCel, which would produce chipped timber fibre for export. This operation would represent a quarter of the group's total assets and could contribute significantly to future earnings.

Hunt Leuchars and Hepburn
% contribution to attributable income



Graphic: RUBY-GAY MARTIN Source: HLH

UAL files solid return

6 Bday 8/7/92

Business Day Reporter

UAL Unit Trust recorded excellent results for the first half of 1992, due mainly to substantial investments in Rustenburg Platinum, JCI, First National Bank, Liberty, Richemont and the Premier Group

A return of 20,21% for the 12 months to 30 June 1992 was achieved

A distribution of 27,41c a unit was declared for the second quarter of 1992

In the past 12 months, the UAL Mining and Resources Unit Trust has outperformed the Mining Producers Index A distribution of 3,91c a unit was declared

The UAL Selected Opportunities Trust, a specialist fund, achieved a return of 16,11% for the past 12 months

The UAL Gilt Unit Trust experienced a decline of interest rates during the second quarter of 1992.

The fund achieved a return of 21,4% over the past 12 months

Sanlam's five trusts raise liquidity levels

B Day 8/7/92

LINDA ENSOR

CAPE TOWN — Sanlam's five unit trusts all raised liquidity levels significantly during the quarter to end-June to take advantage of buying opportunities expected to emerge in the stock market.

The level of cash in the Sanlam Index Trust increased to 11,7% (8,6%), Sanlam Trust to 12,4% (7,8%), Sanlam Dividend Trust to 21,2% (12,4%), Sanlam Industrial Trust to 13,7% (10,9%) and the Sanlam Mining Trust to 9,3% (8,6%)

The Industrial Trust has declared a distribution of 13,6c per unit, the Index Trust 21,2c and the Mining Trust 5,9c.

Senior portfolio manager Stafford Thomas said the market had been unstable in the last quarter, largely due to adjustments on most foreign markets and the uncertain local political situation

In the short term, the local market would benefit from the underpinning of the US stock market by the presidential election campaign, which had decreased US interest rates But industrial shares in SA were relatively expensive and significant growth could not be expected

Thomas said higher growth in dividends and earnings was necessary before industrial shares could be expected to advance.

Commodity shares were the top performers in the last quarter They benefited from the upturn in some world economies. Production shortages of some commodities were possible, which could positively influence SA's commodities and precious metals, Thomas said

The biggest purchase by the Sanlam Trust over the quarter was the acquisition of 800 000 Midwits shares, and Tempora, Anglovaal Industries and Sappi shares

The Dividend Trust bought Midwits (200 000), Datakor (471 600), AVI and Richemont and sold Q Data (538 200), Santam (242 700) and Carlcor. The Industrial Trust bought Tempora, AVI, Pepkor, Richemont and SA Breweries and sold Carlcor, Placor and Tiger Oats (322 500)

The Index Trust bought Absa shares (548 700), Palamin, Johnnies, CG Smith, Remgro, Richemont and Sappi and sold Libvest (200 000) and Tiger Oats (640 377)

Total returns over the last three years were — Industrial Trust 27,4%, Sanlam Trust 22,3%, Dividend Trust 20,5%, and the Index Trust 19,6%.

Sappi counting on overseas activities to reverse decline

B Day 8/7/92.

MARCIA KLEIN

PULP and paper giant Sappi's aggressive foray into international markets could be the catalyst for reversing its declining profits trend of the past two years

At end-February, the group's turnover had increased to R2,84bn from R2,67bn, but net income had dropped to R312,8m from R374,7m in the previous year and from R605m in financial 1990 Operating income and earnings a share had shown a similar decline, but international activities could change this trend

Sappi supplies about 50% of SA's total paper requirements, and exports almost half of its production worldwide About 50% of the income from its SA operations comes from international sales.

International links include Sappi Europe, which owns five fine paper mills in the UK, Sappi Trading, which markets the group's products internationally from SA, Zurich, the US and Hong Kong and the Usutu Pulp Company in Swaziland In a massive overseas drive, Sappi recently announced the R825m acquisition of 90% of Germany's largest coated paper producer Hannover Papier

The turnover of Sappi's non-SA operations increased by 7% to R1,8bn to end-February, and improved profitability is expected in the coming year

Chairman Eugene Van As said in the annual report that exports to Europe, the US and the Far East were expected to improve "by well over the 10%" recorded last year

At the group's AGM earlier this week, Van As said Sappi was trading better than a year ago and expected to show positive earnings growth in the current financial year

Trading conditions had remained difficult in the first four months since the year-end, but there were "encouraging signs of further price increases in both the pulp and kraft liner board markets offshore"

The local market remained in a low growth phase with no signs of improvement on the levels obtained in the last trading period

Despite significant improvements in productivity of its mills in Europe, trading conditions remained difficult. Van As said Sappi was well placed for a better economy in the UK

The acquisition of Hannover Papier, and the international vendor placing of 19-million Sappi shares at R44 a share, had put the group in a stronger position

Presmed shares to be increased

B Day 8/7/92

Business Day Reporter

PRESIDENT Medical Investments (Presmed) would increase its number of ordinary shares from 11,5-million at 25c each to 18,4-million shares at 15,6c to improve tradeability and introduce a share option scheme, it said today.

The existing 11,5-million issued ordinary shares would be consolidated on a 1-for-5 basis.

The consolidated shares will then be subdivided to create an issued share capital of 18,4-million ordinary shares at 16,625c.

Authorised share capital would also be consolidated and subdivided on a similar basis, and increased to ensure that Presmed would have sufficient authorised but unissued shares in reserve.

Each shareholder's 100 shares would increase to 160. The effect of the proposal would reduce earnings a share from 30,9c to 19,3c, while dividends would move down from 6,7c to 4,2c. Net asset value a share would amount to 60,4c from 96,7c before the proposal. Although the earnings would be diluted by 37,5%, shareholders' earnings and net asset value would remain unaffected.

BIEDAY 15/2/92

Woodrow sales steady

KARIN FRANKEN

INDUSTRIAL holding company Woodrow Holdings expects an increase in sales, executive chairman Howard Sacks said in his recent annual report. (199)

The company was experiencing strong demands for products in spite of the persistent recession, he said.

"The economic downturn affected three of the six major subsidiaries while two showed earnings growth," Sacks said.

Sappi's 'green shoe' closes successfully

STAR 2/7/92

(199)

Finance Staff

The over-allocation option or "green shoe" which lead manager SG Warburg of London employed in the Euro-equity placing of Sappi shares has resulted in an additional 1 455 000 shares being issued.

Sappi undertook the R946 million issue in June to fund its acquisition of leading German paper manufacturer, Hannover Papier when it bought 80,4 percent from NCB Aktiebolag and 10,1 percent from Commerzbank.

The "green shoe" allows the lead manager to the issue to over-allocate shares, if the demand exists, up to a maximum of 15 percent more shares than the face value of the issue

By using the option the lead manager can stabilise the market price of the shares for a period of up to 30 days in the post-allocation period by providing buying support for the shares, up to the amount over-allocated.

In Sappi's case the full 15 percent option was exercised, equivalent to 2 850 000 shares, and of this 1 395 000 shares were bought in by the lead managers leaving an additional 1 455 000 new Sappi shares to be issued in terms of the over-allocation option.

This means that Sappi has issued 20 455 000 new shares thus far for the acquisition and on August 3 will issue a further 2 523 922 new shares to Commerzbank for its 10,1 percent holding in Hannover Papier

Sappi will then have 148 764 200 shares in issue. The additional R64 million raised at the Euro-equity issue price of R44 a Sappi share will have no effect on Sappi's earnings or net asset value

The cash amount raised by the utilisation of the over-allocation option will be used in the completion of the Hannover acquisition

Sappi issues new shares to finance acquisition

B DAY 21/7/92 (199)

EDWARD WEST

THE over-allocation option which lead manager S G Warburg Securities of London used in the Euro-Equity placing of Sappi shares had resulted in an additional 1 455 000 Sappi shares being issued, the company said yesterday in a statement.

Sappi undertook the R946m issue in June to fund its acquisition of German paper manufacturer Hannover Papier, when it bought 80,4% from Ncb Aktiebolag and 10,1% from Commerzbank

The option allows the lead manager to over-allocate shares, if demand exists, up to a maximum of 15% more shares than the face value of the issue

By using the option the lead manager can stabilise the market price of the shares for a period up to 30 days in the post-allocation period by providing buying support for the shares, up to the amount over-allocated.

In Sappi's case, the full 15% option was excercised equivalent to 2 850 000 shares, the statement said.

Of this amount 1 395 000 shares were bought by lead managers.

An additional 1 455 000 new Sappi shares were left to be listed in terms of the over-allocation option.

This means that Sappi has issued 20 455 000 new shares so far for the acquisition

On August 3 it will will issue a further 2 523 922 new shares to Commerzbank for its 10,1% holding in Hannover Papier

Sappi will then have 1 487 764 200 shares in issue

The additonal R64m raised at the Euro-Equity issue price of R44 a share will have no effect on Sappi's earnings or net asset value

The cash amount raised by the utilisation of the over-allocation option will be used to help complete the Hanover acquisition, Sappi said.

SAPPI FM 24/7/92 (199)

Waiting for the page to turn

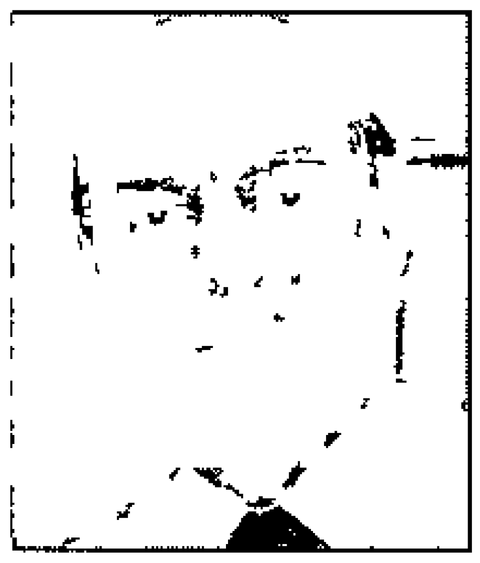
Sappi has yet to show it can compete successfully as a world player

Sappi's misreading of the UK pulp and paper market last year will inevitably lead investors to ask whether the group really understands the overseas markets — where it has recently committed large sums of its shareholders' money

The group — one of SA's two principal pulp and paper manufacturers, listed in Johannesburg, London, Frankfurt and shortly in Paris — bought five UK paper mills for R500m in 1990 This year it acquired for roughly R750m (excluding debt of about R650m) Hannover Papier in Germany, lifting its total assets above R8,5bn

The market received the Hannover announcement well There was a R6 jump in Sappi's share price to R44 from the date of the announcement to last month's 20,5m international share placement Undertaken at market price, it made the first Euro-equity issue at listed price for an SA company

The foreign placing, hampered by the Codesa breakdown, was not entirely successful It was hoped to place about 60% of the new paper abroad but foreigners took up less than 50% Some foreign institutions backed off after Codesa Executive chairman Eugene van As adds that local institutional demand, with the drought of rand hedges, was overwhelming



Van As

Sappi's shareholder profile changed marginally through the placing, with Gencor reducing its holding by about 4% to around 45% Local oversubscription meant that the "greenshoe" placing, which allowed more than the original 19m shares to be placed, worked well The additional funds raised were used to reduce part of Hannover's debt

A number of SA groups burnt their fingers in the Eighties with their enthusiasm for offshore activities Then Sappi's UK operations underperformed significantly in financial 1992 They were hit hard during the 1992 second half-year, shown by the drop in equity-accounted earnings These earnings, largely reflecting retained income of the UK operation, Sappi Europe, and the Hong Kong business, Speciality Pulp Trading, dropped to R17,3m in the second half from R48,9m in the first six months

Van As says UK operations missed targets because of a 15% drop in international paper and pulp prices in the second half — adding that almost everyone misread the market, with many posting losses He emphasises the underperformance resulted from this and not declines in productivity or cost rises On the contrary, productivity at UK mills has improved significantly

But Van As rationalises that, before the acquisitions, group turnover was split evenly between domestic sales and exports, the latter comprising newsprint, packaging, dissolving and paper pulp Long-term growth depends on Sappi's ability to sell higher tonnages of paper and pulp, and it has invested heavily in the past few years to expand productive capacity and timber reserves

Without further increases in capacity, local consumption would slowly replace ex-

continue →

BIDAY 22/1/92

Wood losses (199)

THE wood industry could lose millions of rands as a result of the crippling drought in SA's major forest regions. (3)

Stellenbosch University's dean of forestry Prof Hennie Vermaas said investigations by one company had shown it would lose almost R7m this year because of stunted tree growth

R2bn exports from timber

MEREDITH JENSEN

EXPORTS for timber-based products totalled nearly R2bn for 1991, according to figures published by the Customs and Excise Department.

Forestry Council promotion committee chairman Bruce MacKenzie said forestry's foreign trade balance had risen from a R110m deficit 10 years ago to a R600m credit balance at present (199)

"With the dropping of sanctions, export prospects for SA forest products have never been better," MacKenzie said.

Forest Owners' Association executive director Mike Edwards said the industry was rapidly expanding with plans to put an addtional 100 000ha under timber over the next 10 years. This could mean the creation of over 8 000 jobs

"We have been concerned we won't have enough wood fibre, pulp and paper to meet both domestic and worldwide demand" He said the industry had decided to avert the problem by planting more trees and improving yields from existing forests.

Nearly 50 000ha of forest were planted last season, representing a capital investment of R105m.

An additional R2,2bn has been invested over the past 18 months, primarily by Mondi and Sappi, to upgrade production facilities and increase productivity

Wood products grow in importance

(199

Finance Staff

The forest products industry has become an important earner of foreign exchange, with exports totalling more than R2 billion last year. STAR 10/8/92.

Figures published by the Department of Customs and Excise show that the sector is now among the top earners in the non-gold manufacturing and processing sector — alongside the giant chemical industry, and ahead of textiles, household appliances and transport equipment.

Major forest-based exports are pulp and paper, wood chips, sawn timber, floor boards and manufactured goods such as ceiling and particle board, plywood, knock-down furniture, wattle extract and charcoal, as well as pallets and packaging materials in which other products are exported.

Bruce Mackenzie, chairman of the Forestry Council promotion committee, says the industry's performance is commendable because it is based on just 1,1 percent of SA's surface area.

Forestry products now have a favourable trade balance exceeding R600 million, compared with a negative balance of R110 million a decade ago.

Timber slump hurts Yorkor

BDAY 19/8/92

199

EDWARD WEST

TIMBER group Yorkor reported losses in the six months to end June 1992 after sales by SA's sawmilling industry slumped to their lowest level in two decades.

Turnover increased to R19,7m (interim 1991: R18,2m), but was lower than the R21,6m achieved in the second half of 1991.

Operating income improved to R134 000 compared with a R1,5m loss in the first half of 1991 and a R2,5m profit at year-end to December 1991. After tax of R10m (R15m) was provided for, attributable loss at R971 000 was less than the R2,7m loss at the interim stage in 1991. At year-end to December 1991 a profit of R237 000 was achieved. Interim losses a share amounted to 9,7c (29c) and no dividend was declared.

Chairman Solly Tucker said sawmillers were curtailing output and even sacrificing production capacity, in many cases irredeemably. This trend was escalating in spite of indications of a future timber shortage of major proportions, he said.

To counter poor local demand, Yorkor was intensifying its programme to develop high value, pine-based export products.

Sappi strike ballot on hold

BDAY 17/9/92

DIRK HARTFORD

MOVES to ballot 6 000 union members at Sappi for a national strike have been put on hold after the company requested a new meeting with the Paper, Print and Allied Workers Union (Ppwawu). (199)

A Sappi spokesman confirmed there would be a meeting with the union but said the company did not want to discuss the dispute in the media.

Ppwawu national organiser Dixon Motha said the union had declared two disputes with Sappi. Workers would be ballotted separately on the issues of retrenchments and provident fund contributions. 17/9/92

Pppwawu wants 2 000 workers who were retrenched earlier this year reinstated, and a year-long moratorium on further retrenchments. It also wants Sappi to pay 9,5% into its provident fund as opposed to Sappi's 9% offer.

The union has 6 000 members in Sappi out of a total workforce of about 19 000.

w/Mail 18/9-24/9/92

LABOUR BRIEFS

(199)

Sappi using 'technicalities' in strike

TRADE union fears are mounting of a concerted employer strategy to fight strikes by exploiting legal technicalities. In the wake of metal employers' successful court challenge to the engineering strike ballot — on grounds of balloting irregularities — the Paper, Printing, Wood and Allied Workers' Union (Ppwawu) has complained of similar tactics by Sappi.

Ppwawu claims employers have responded to invitations to observe its strike ballot by saying ballots will not be allowed at individual plants because the dispute is between the union and the parent company.

Ppwawu national organiser Dickson Motha said, "It was obviously co-ordinated. We suspect they may be using technicalities to sabotage the ballot."

Sappi and Ppwawu are in dispute over the union's demand for a retrenchment moratorium following the sacking of 2 000 workers in April, and negotiations over any further restructuring. Ppwawu is also demanding the transfer of money from the company's pension fund to the union's provident fund, as well as an increase in the company contribution to 9,5 percent. Sappi has offered nine percent.

According to the union, Sappi itself has also questioned the dispute, saying that the union has referred to the company as Sappi Limited instead of Sappi International, as it is registered with the Department of Manpower.

Sappi was approached for comment, but had not reacted at the time of writing.

Sappi listed on Paris bourse

(199)

Business Day Reporter (2220) (1443)

B/DAY 23/9/92.

SA PULP giant Sappi's shares were listed on the Paris bourse yesterday

The debut follows the recent listing of Sappi's shares on the International Stock Exchange of the UK and Ireland and the Frankfurt Stock Exchange

These listings result from the Euro-equity placing which Sappi undertook following its R825m acquisition of 90% of German paper manufacturer Hannoversche Papierfabriken

Sappi now has 148,8-million shares which are listed on the Johannesburg, London, Paris and Frankfurt stock exchanges

Sappi shows 71% income growth

BDAY 7/10/92. 199

MARCIA KLEIN

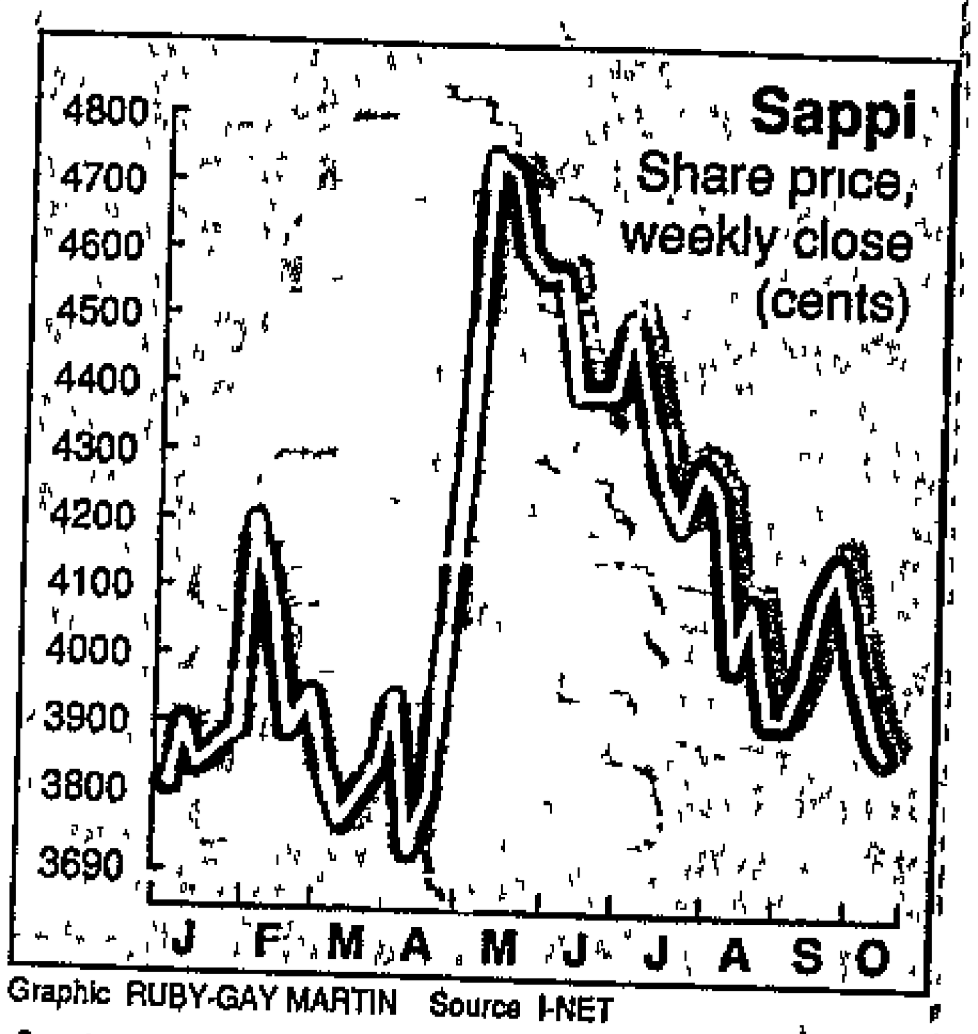
PULP and paper giant Sappi has increased net income 71% to R175,1m (R102,4m) in the six months to end-August as the proceeds from its R1bn rights issue helped to slash finance costs by more than R120m.

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

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

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

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



Graphic RUBY-GAY MARTIN Source I-NET

Operations in the UK were being hampered by difficult trading conditions, "and

☐ To Page 2

Sappi

BDAY 7/10/92. 199

☐ From Page 1

Sappi Europe managed little more than breakeven at operating level" Van As said Sappi's UK operation would be significantly restructured.

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

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

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

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

The interim dividend was maintained at 80c a share

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

It would take three years for Hannover's returns to reach the average return on Sappi shares due to under-utilised capacity and depressed prices. But after three years, Hannover should make a significant contribution to earnings

Van As said the expected recovery in pulp prices in the international market had materialised up to the second quarter, but there were no indications of further improvements

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

These factors, together with uncertainties in exchange rates, made it difficult to predict price trends.

Sappi had slowed capex and held costs below inflation, and productivity continued to increase, Van As said.

He expected Sappi's total net income to grow in the full year as a result of the increased size of the operation. But earnings a share would not show the growth experienced in the first half "unless there is a dramatic reversal of currencies"

Sappi ventures pay off

STAR 7/10/92.

By Sven Lunsche (199)

Sappi's expansion to the European pulp and paper market and subsequent refinancing paid dividends in the first half of financial 1992/3

In June Sappi acquired German group Hannover Papier for just over R1 billion, which was settled through an issue of new shares

The group then attracted foreign funds with listings in Frankfurt, Paris and London.

The subsequent 96 percent decline in net finance costs to R4,5 million (R126,4 million) and the increased size of the operation boosted net income by 71 percent to R175,1 million (R102,4 million) in the six months to August.

The higher number of shares in issue, as a result of the rights issue and the Hannover acquisition, reduced the percentage increase at the earnings per share level to 19 percent at 130c (110c)

An interim dividend of 80c a share has been maintained

Sappi reports, however, that trading conditions in its three major operational areas — the US, UK and South Africa — remained difficult

Sappi Europe, in particular, managed little more than breakeven at operating level.

Overall group turnover showed a 14 percent rise to R2,02 billion from R1,78 billion, but operating income fell by the same percentage from R257,1 million to R221,2 million

Sappi cautions that because of under-utilised capacity and depressed prices for coated woodfree products, returns from Hannover Papier are expected to take three years to reach the average return on Sappi shares

Sappi warns that the world's pulp and paper industry is experiencing the worst recession in 60 years and that Sappi cannot escape the consequences

This has been further aggravated by the relatively stable level of the rand against the US dollar, resulting in lower export margins

"The group will do well to maintain earnings per share at last year's level," Sappi says, adding net income should show modest growth because of the increased size of the operation.

FM 9/10/92 (199)

SAPPI FM 9/10/92 (199)

Caught in a black forest

At first glance it appears Sappi had a successful first half, indicated by the 19% EPS jump In fact, the pulp and paper conglomerate had a bumpy ride, shown by the 14% trading profit decline on 14% turnover growth

The explanation for this relates to the plunge in net finance costs, down to R4,5m (1991 R126,4m), the result of November's R1bn rights issue, according to executive chairman Eugene van As

Sappi has consolidated all non-SA operations for the first time, making it difficult to analyse materially the offshore operations However, Van As says operations in the UK are being hampered by extremely difficult trading conditions, while Sappi Europe managed little more than breakeven at operating level

As Hannover Papier, acquired in June, is a listed German company, separate analysis of its results will be possible when its next set of financials are published after its December year-end

However, as Hannover's acquisition date was mid-June, its results have not been included in Sappi's 1992 interim income statement Though the Hannover acquisition was "of significant strategic importance," which therefore tends to lessen the importance of short-term performance, its results are unlikely to impress near term

Hannover recently started up a 180 000 t coated woodfree machine, but nearly half its output is being sold as uncoated paper due to market conditions As a result the opportunity to generate profits by producing the added-value products is being lost at this stage For the future, it is seen as a growth opportunity

UNDER PRESSURE

Six months to	Aug 31 '91	Feb 29 '92	Aug 31 '92
Turnover (Rbn)	1 [illegible]	1 [illegible]	[illegible]
Operating income (Rm)	[illegible]57	[illegible]	[illegible]1
Attributable (Rm)	[illegible]	[illegible]	[illegible]
Earnings (c)	110	[illegible]	1[illegible]
Dividends (c)	[illegible]	[illegible]	[illegible]

Because of this under-utilised capacity, and due to the extremely depressed prices for coated woodfree products, returns from Hannover are expected to take three years to reach the average return being achieved on Sappi shares, Van As predicts

Though the offshore operations contributed substantially to the R35,9m decline in Sappi's trading profit, Van As says a significant deterioration in the domestic market, which has worsened in recent months, and the rand's relative strength against the dollar, were also material Most of Sappi's export and offshore products are priced in US dollars

Capitalised interest has jumped to R64,7m (1991 R44,2m), which he attributes to the acquisition of the large Rand Mines timber interests He stresses there has been no change to the accounting policy for capitalising the interest

Borrowings at end-August totalled a hefty R2,74bn, marginally higher than the restated level at end-February. The figure is partly explained by the consolidation of Hannover, which has substantial debt

Van As is clearly cautious on the second-half outlook He suggests it would require a "dramatic reversal of currencies" to maintain the earnings growth seen in the first half

Even though interim EPS were up 19%, he says Sappi will do well to maintain full-year EPS at last year's level

At 3 875c, the p e is a demanding 12,1 on the past 12-month earnings

William Gilfillan

Sappi discloses buyout offer

HILARY GUSH
and TIM MARSLAND 199

SAPPI yesterday announced an offer to buy the balance of the shares in German paper company Hannover Papier.

The pulp and paper giant acquired 90,5% of the shares in the German coated fine paper manufacturer in June. It is now offering to buy out minority shareholders in a deal worth about R90m in finrands.

The announcement is likely to fuel bearish sentiment in the finrand market, which fell again sharply yesterday on rumours of continuing SA acquisitions abroad.

Foreign disinvestment of between R50m and R100m from the capital market also aided the investment unit's fall.

However, a spokesman for Sappi said the deal would not affect the finrand as Sappi had "facilities" abroad to finance payment to minority shareholders.

First National Bank (FNB), whose acquisition of UK merchant bank Henry Ansbacher has also been blamed for the fall in the finrand, also denies it is to blame for the unit's decline.

But a dealer said yesterday the market did not believe FNB.

"We think they are selling, but with more finesse than previously." He said FNB was "quietly feeding" finrands into the market.

Offshore investment from SA firms weakens the finrand as more units are created for the acquisitions, thereby expanding the pool.

☐ To Page 2

B/Day 6/11/92

Sappi

B/DAY 6/11/92

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☐ From Page 1

Sappi has presented minority shareholders with two options

It said the remaining 9,5%, or 114 000 shares in Hannover could be sold to Sappi for DM265 each — totalling DM30,2m or about R90,5m in finrands — or could be exchanged for 21 Sappi shares and an additional DM40 cash payment.

The offer of DM265 a share exceeds the current price of Hannover shares, as quoted on the Frankfurt stock exchange, by more than 50%. The current price of the stock on European bourses is about DM171

The Sappi bid, which closes on December 6, is subject to the group attaining 95% of the total shares in Hannover Papier It is understood that to enable the effective restructuring of the German company, Sappi aims to reduce minority shareholding to a minimum, and at best eliminate it

The financial rand slipping to a low of R4,84 against the dollar yesterday from an overnight R4,70, before recovering some earlier loses to finish at R4,78.

Capital market dealers said foreign disinvestment from their market was partly to blame for the fall in the finrand

One said foreigners had sold "between R50m and R100m" of stock yesterday

"It's not a lot as a percentage of foreigners' holdings of SA bonds, but it is worrying in the present bearish market," he said

"It looks as if they are making a permanent exit from the market."

A currency dealer said foreigners had actively participated recently in the capital market bull run but were now rethinking their positions

They were also worried about future offshore investment by local companies

"The FNB deal has scared foreigners Any hint of a sell-off and foreigners want to pull out of the market"

HL&H hit by drought, poor consumer spending

BDAY 10/11/92 (199)

MARCIA KLEIN

REMBRANDT-controlled food and timber group Hunt Leuchars & Hepburn's (HL & H's) attributable income halved to R23,6m (R47,8m) in what directors described as a "very disappointing" six months to end-September

CE Neil Morris said all the group's companies were affected by the drought and a continuing decline in consumer spending.

Robertsons, which increased its contribution to the group's attributable income to 62% (31%), was the only division to report a satisfactory performance.

Transvaal Sugar dropped its contribution from 36% to 31%. Its production almost halved because of lower volume and poorer quality of cane

Associated companies Rainbow Chicken and HL & H Timber Holdings' performances were "unsatisfactory".

Rainbow was affected by decreased demand for chicken as other meat prices dropped. Chicken prices in the first quarter were below production costs, and Rainbow returned to profitability only in the second quarter, recording a 32% loss against a 9% contribution to earnings a year earlier.

While local demand for timber, "at its lowest level in 20 years", affected HL & H Timber's results, HL & H Mining Timber performed satisfactorily

The group showed a marginal increase in turnover to R331,9m (R325,7m) Operating income was down 23,4% to R43,7m (R57,1m) An increase in interest-bearing debt reflected funding additional working capital in subsidiaries.

Earnings fell 53% to 15,8c (33,7c) a share

The interim dividend was maintained at 13,5c a share Directors warned that HL & H intended to restore dividend cover to the level of the past two years

Morris said trading prospects in the short term would remain difficult, and there would be "extreme pressure" on operating margins. But earnings would improve in the second half on the back of a continued good performance from Robertsons and improvement in the timber operations. Rainbow was expected to trade profitably for the rest of the year However, its results for the full year would not match the previous year's.

Huntcor — its only investment a holding in HL & H — reported earnings of 31,8c (67,6c) a share and declared an unchanged interim dividend of 27,2c a share

199

BIDAY 11/11/92

Thunderstorms could give go-ahead at mill

– Own Correspondent

DURBAN — The Sappi/Saiccor plant at Umkomaas, which curtailed production this week because the level of the Umkomaas River was too low, could go back into full operation todaywed after thunderstorms in the area.

The massive dissolving pulp mill's MD R Mazery said yesterday he believed the river's flow rate had climbed sufficiently for full production to resume. However, he was waiting for confirmation, he said.

"We are quite optimistic after the thundershowers we had on Monday night," he said, adding that if rain fell last night production would definitely resume.

The level of the river "started dropping suddenly" early last week and the factory's needs were supplemented by supplies from weirs in the river.

However, by the weekend the weirs were depleted and, in spite of Sappi releasing water from its Comrie Dam in the Bulwer area, the flow was still "significantly below the needs of the mill", said Mazery.

He said supplies of potable water, which Saiccor supplied to communities in the drought-stricken Umkomaas, Widenham, Magubeni and Umzinto areas would not, "at this stage", be affected by the drop in the level of the river.

□ Umkomaas has joined the long list of Natal towns with water restrictions

Town Clerk Adrian Greco said the restrictions were not as stringent as those which were already in place in some other areas.

Under the restrictions, he said, residents could water their gardens for only half an hour a day.

'Christmas cars' for govt officials

SOUTH 14/11 – 18/11/92 [redacted]

By Karen Williams

THE HOUSE of Representatives, which plans cuts in coloured education to save money, has gone on a spending spree — buying luxury cars for officals.

Their "Christmas car" splurge cost the cash-strapped department hundreds of thousands of rands, according to a source in the House of Representatives.

Most of the cars were destined for the Department of Education and Culture (DEC), which has come under fire for plans to retrench school teachers as part of a rationalisation programme

The House of Representatives (HoR) was tightlipped on the issue this week.

"It is a once in a lifetime happening that we buy cars," said Mr George Holloway, spokesperson for the HoR.

"There are no new appointees and so we have not bought any cars recently We will also not be buying them in the future - there is no money," Holloway said

However, a source within the HoR provided extensive information

"Since April this year the department has bought about 10 cars," he said.

Most of the cars were top of the range BMWs, although some Mercedes Benz's were purchased, the source said

The government's Treasury gives money to the House of Representatives (HoR) which buys the cars with cash.

HoR officials with different designations are 'graded' differently, with car allowances varying accordingly.

"Directors qualify for an R87 000 car, while chief directors have more, usually over R100 000," said the source

Ministers, as well as ministers' representatives qualify for the luxury car perks.

Called "Christmas cars" by government office workers, the luxury cars form part of officials' service benefits

Every four years, top officials get new cars.

Four of the 10 cars bought this year were for former Labour Party ministers who joined the National Party

Despite exhaustive attempts to contact the DEC for comment, they did not respond by the time of going to press.

The South African Democratic Teachers' Union (Sadtu) slammed the department for "bad housekeeping" and "mismanagement of funds".

"We are questioning their priorities in spending Teachers have become the first casualties of the budget cuts, not the bureaucrats," said Sadtu regional chairperson Ms Vivian Carelse

In August last year the HoR bought 13 new cars for officials.

- The DEC came under fire earlier this week when it was revealed that they spent R20 760 at Club Mykonos where they held a two-day meeting to discuss teacher retrenchments.

NEWS IN BRIEF

SOUTH 14/11 – 18/11/92.

Men held for cell death

TWO MEN, aged 18 and 24, have been charged with killing a man in a Mitchells Plain police cell two weeks ago.

Mr Mogamat Jessop Majiet, 45, had been arrested for being drunk and disorderly. He was found dead in his cell the next morning [redacted]

The two men will appear in the Mitchells Plain Magistrate's Court on November 20

SOUTH 14/11 – 18/11/92

Union targets Sanlam

THE PAPER, Print, Wood and Allied Workers Union (Ppwawu) is stepping up its campaign for the reinstatement of 2 000 Sappi workers retrenched in April

The union will stage a march in the city on Saturday and will hold picket demonstrations in the coming weeks

Ppwawu believes Sanlam is responsible for the retrenchments. [redacted]

Sappi is part of the Gencor group, which in turn is owned by the insurance giant. 199 [redacted]

SOUTH 14/11 – 18/11/92

Boost for hostels

WESTERN Cape hostel dwellers received a boost this week when the Cape Provincial Administration gave more than R23 million to the Hostel to Home Co-ordinating Committee (HHCC). [redacted]

According to an HHCC spokesperson, Mr Welcome Zenzile, the money

SOUTH 14/11-18/11/92 [redacted]

will be used for first phase of upgrading migrant labour hostels in Langa, Nyanga and Guguletu

Child rape arrest

A TWO-YEAR-OLD Swellendam girl, who was allegedly raped on Saturday night, is still receiving treatment Groote Schuur hospital

A 34-year-old man, believed to be the common-law husband of the baby's mother, will appear in court this week on charges of attempted rape and attempted murder.

Reverend Bruce Duncan, director of Safeline, said. "We have to realise that communities must be educated to prevent similar cases. How many more babies have to suffer?".

'We want free houses' [redacted]

LANGA RESIDENTS marched to Cape Provincial Administration (CPA) offices in Goodwood last Saturday to demand the disbanding of the Ikapa Town Council. [redacted]

Residents allege that the Ikapa Town Council has failed "to attend to people's needs"

The residents are demanding that houses which had been rented in the area for years be given to them free of charge SOUTH 14/11 – 18/11/92

They also want a hospital and more high schools

Sawmillers cut back trade to fit demand

BIDAY 26/11/92

EDWARD WEST 199

SAWMILLERS have cut production by 20% and temporarily closed seven mills as part of a relief plan to counter slack demand, particularly from the local building industry

SA Lumber Millers Association (Salma) chairman Alf Hardwick said the strategy had resulted in firmer prices and improved prospects

The strategy entailed production cutbacks of more than 20% on average throughout the industry's 114 mills, a stock monitoring system and stimulation of exports

Executive director Andries Swart said demand had dropped to its lowest level in 30 years, to about 950-million m³ this year from between 1,3- and 1,4-billion m³ last year.

Several mills were now operating on a three-day week and seven were closed on a temporary basis

No mills had been closed indefinitely as capacity had to be preserved because of pent-up housing demand, Swart said

Spoornet knocks pulp and paper division into shape

199

By Sven Lünsche

Spoornet's pulp and paper division is pulling out all the stops to reduce the costs of pulp products to the consumer and boost the export revenues of the timber industry STAR 30/11/92

The pulp and paper division, which has a turnover of about R260 million a year, is responsible for the transport of forestry products (paper and pulp) along with mining timber

Pulp wood exceeding 2,5 million tons is transported every year, accounting for over 50 percent of the division's volumes and 40 percent of pulp transported in SA.

Karel Hancke, general manager, pulp and paper, says it is in this area that the division has introduced drastic savings over the past two-and-a-half years

"Transport costs account for up to ~~40~~ percent of the cost of paper and from our side we have effected tremendous cost savings in the past two years"

The key to lower costs has been the more effective use of its 7 000-strong freight truck fleet.

The bulk of the fleet is now attached to seven block trains used by most pulp companies to transport volumes in a more cost-efficient way

For example, the turnover time per truck has improved from 11 days in 1989 to only 3,5 days last year, while the number of trucks per train has risen from 39 to 50

Other trucks have been remodelled to suit specific needs and the division has hired about 270 surplus trucks to Tanzania and Zimbabwe.

The cost-cutting exercise has also allowed SA pulp exporters to realise larger margins

Sappi sets up new company structure

STAR - 15/12/92

By Stephen Cranston (199)

A Sappi corporate office has been set up in Johannesburg to focus on the overall management and direction of the group internationally

It will be quite separate from Sappi's Southern African operations, which will be run separately under Ian Heron who becomes MD, Southern Africa

Sappi's non-Southern African companies will report to a holding company, Global Paper Holdings, which will report to the new corporate head office

All Hannover Papier and Sappi fine paper products will be marketed in the UK by Sappi (UK) All fine paper products will be marketed in Germany by Hannover Papier

A Brussels-based company will market fine paper products in the rest of Europe

Sappi Trading will be responsible for group commodity sales worldwide and for fine paper sales in the Americas and Southeast Asia

Restructuring at Sappi after Hannover purchase

(199)

BDAY 15/12/92.

MARCIA KLEIN

SAPPI is undergoing a corporate restructure following its R1bn acquisition of German coated paper manufacturer Hannover Papier earlier this year

Executive chairman Eugene van As said dramatic growth over the past few years had necessitated a redesign of Sappi's corporate structure to cope with the demands of the new organisation and the larger and more difficult markets in which it operated

The group would set up a new corporate head office in Johannesburg and would establish independent and separate companies for its main operations

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

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

Non-SA operations in the UK and Germany would also function independently with their own board.

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

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

Hannover Papier products and Sappi Fine Paper products would be marketed by Sappi UK in the UK, and by Hannover Papier in Germany. However, a new European marketing company would be set up in Brussels "to present a single face to our customers in Europe"

Minorities

It would market the products of Hannover Papier, Sappi UK and Sappi Fine Papers outside the UK and Germany, and would be operational by the end of the first quarter of 1993

Sappi had increased its stake in Hannover Papier to 98% following an offer to minorities After acquiring 90,5% of Hannover in June, it made an offer to minorities last month for an estimated R90m

Financial director Bill Hewitt said there had been more support for the offer than was expected

Sappi would proceed with a legal process and a proposal to a general meeting of Hannover shareholders in order to gain 100% control, he said

Decor to sell timber arm

(199) IONO WATERS (188)

RETAIL and wholesale group Decor Investments would dispose of its timber products division either on a piecemeal basis or comprehensively at prices which would keep capital losses to a minimum

In his statement for the year ended June 30, chairman Charles Graham said the group's efforts to reverse the downward trend in the timber division had "been in vain" The group reported a R3,86m loss for the period BIDAY

Decor would scale down operations in the division to a break-even level, he said. The financial position of the wall-covering division remained strong 21/12/92

Parties had expressed interest in the timber division plant, its products and foreign custom base.

He said it was essential to maintain adequate liquidity levels during the scaling down of operations

MANUFACTURING – WOOD AND CORK
1993

B/DAY 1/12/93

Sappi to retrench 415

SAPPI is to retrench 415 workers at two of its plants in Port Elizabeth at the end of Febuary as declining markets and the substitution of cheap materials for fibreboard products take their toll

Its 38-year-old Sappi Novoboard plant would be shut down completely and the fibreboard plant at its Adamas Mill would be closed down, said MD Gavin Travers.

(199)

Lumber millers to use metric system

MARIANNE MERTEN

THE SA Lumber Millers' Association (Salma) will adopt international metric dimensions for its structural timber products in order to improve their marketability

Salma Export Organisation, set up in 1985, will benefit as the value-added products will become more competitive internationally.

"The adoption of metric dimensions is a move closer to international standards and markets with the same type of building regulations such as the UK and Australia," said the organisation's CE André Barnard.

The change to metric international standards would reduce the width of planks used in roof trusses, laminated products and timber frame construction materials, optimising their weight/strength ratio

A system of grading timber for different applications and industrial processes would be introduced to lower costs

Sappi set to absorb Hannover by April

SAPPI expects to gain all of the outstanding equity in German-based Hannover Papier by April.

Sappi executive chairman Eugene van As said yesterday the paper and pulp group now had a 98,5% stake in Hannover Papier following the offer to minorities in November last year.

He told an SA German Chamber of Commerce function in Johannesburg the outstanding interests would be attained "technically" so as "to proceed with the full integration of the business into the Sappi group". Sappi would then "penetrate its British and SA products into the German market, and its German products into the rest of Europe".

199 ~~230~~

Sappi purchased 90% of the equity in Hannover Papier last May, placing it among the world's 15 largest forest products groups. BDM 24/2/93.

Van As said the R825m acquisition was proceeding well. — Sapa.

Sappi will use Hannover as launching pad into Europe

STAR 24/2/93

By Stephen Cranston (199)

Germany is an attractive place in which to invest as management is loyal and honest and assets are almost always undervalued, according to Sappi chairman Eugene van As.

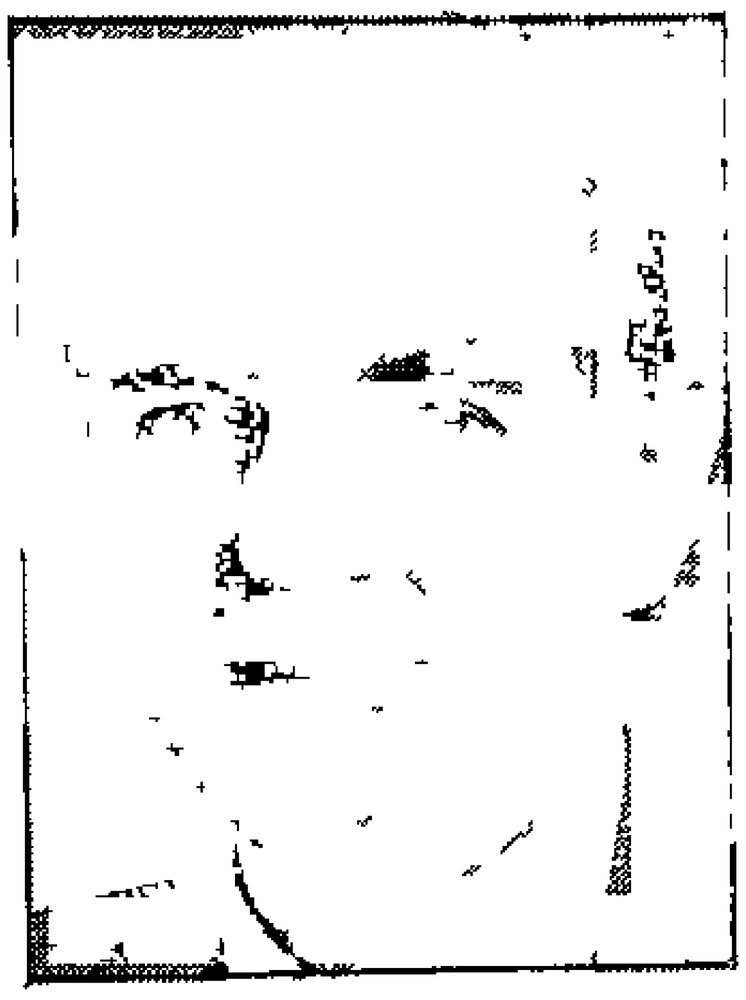
Speaking on his experience of taking over the German papermaker Hannover Papier to the SA-German Chamber of Commerce, Van As said that Hannover's management saw Sappi as its least unattractive suitor when it was put up for sale by its Swedish parent.

Van As said that Hannover management accepted Sappi because it operated from a long way away, it was not American and it was not strong in Europe.

Sappi assured Hannover that it would be used as the prime vehicle for its thrust into Europe. It would not not be integrated into Sappi and made to lose its identity. Sappi has not appointed a single South African manager at Hannover.

Van As said that Sappi found German accounting standards totally different. For example, German companies wrote off equipment which it built but found did not work but then two years later found it worked and would write it back again.

The book value of the business was Dm140 million and Sappi was criticised for buying the business for R800 million (Dm400 million). But the valuation of assets provided to the banks was Dm1,4 billion.



Chairman Eugene van As .. German middle management is superb.

The book value was particularly low even though most of the equipment was less than seven years old.

He said it was important to come to terms with Germany's corporate tax which was calculated on a group basis. One of Sappi's competitors which sought non-German advice on tax after an acquisition paid R400 million in unnecessary tax.

Van As said that German top management operated on a five-year contract unlike in South Africa where a three to six month notice period was standard.

German middle management was superb and was well trained for the job but Sappi's marketing was more creative, it offered strong financial engineering and, surprisingly, was more sophisticated in research and development.

The Reserve Bank was unlikely to approve of another deal along the lines of the Hannover acquisition, which involved paying with equity. A little over 30 percent of the deal was financed from equity capital raised in Europe.

In any case, the collapse of the financial rand made such deals less attractive.

There is no obligation to make an offer to minorities in Germany after a takeover but Sappi wanted to wholly-own Hannover. Its offer to minorities in November was accepted by almost all shareholders, bringing Sappi's shareholding up to 98,5 percent. Acquiring the remainder of the equity was now a technicality.

Sappi was forming a joint European marketing company between its British and German subsidiaries. It was difficult to penetrate the German market as non-tariff barriers such as quality controls and environmental standards were imposed.

Van As, though, was confident that Sappi's South African and British products would meet such standards.

Mondi buys up Memix

STAR 25/2/93

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."

199

FM 26/2/93 (199)

FM 26/2/93.

Oldfield says the record companies are looking at shrink-wrapping but some dealers resist this "They like storing CDs out of the boxes as a security measure Shrink-wrapped discs mean more work for the shop staff"

EMI MD Mike Edwards admits that the new plant had teething problems but, since a quality committee was formed to investigate complaints, criticism has tailed off. "We have a problem with this general idea that local is rubbish and imported is great That applies as much to shoes and TV sets as to CDs"

Oldfield says the plant would like to export but doesn't have the capacity ■

TIMBER INDUSTRY (199) FM 26/2/93

Growing new markets

It's a sign of the times that the once sanctions-bound timber industry shipped out a maiden delivery of logs to Morocco last week Though the value of the order — US$2,5m — may not be that significant, it could be the first consignment in a regular supply contract to this north African country's only pulp mill and could signal the start of an influx of international contracts

It is also meaningful that the order for 35 000 m^3 (25 000 t) of eucalyptus logs was won by Natal Co-operative Timber in the face of stiff international competition in the depressed pulp and paper industry The contract erodes the market share of established suppliers to Morocco such as Brazil, Argentina and the Congo.

The co-operative has a membership of 1 300 timber growers — representing about 10% of SA timber production — and markets about 1,2 Mt of timber a year. Until now, it has largely been confined to supplying pulping logs to paper producers Sappi and Mondi

But its associate, the Central Timber Co-operative, has built up exports, especially to Japan and more recently to Finland (in the wake of the former USSR's crumbling forestry industry) through its Richards Bay chipping plant

Natal Timber Co-operative GM Peter Keyworth says the order, negotiated by a Belgian agent, reduces his organisation's dependence on domestic markets and gives it greater flexibility, such as in negotiating prices "We can now look at the world as a market without ignoring our local commitments"

The Moroccan-bound logs will be landed at Casablanca and then railed about 200 km to the pulp mill just north of Rabat, where they will be pulped for export to Europe

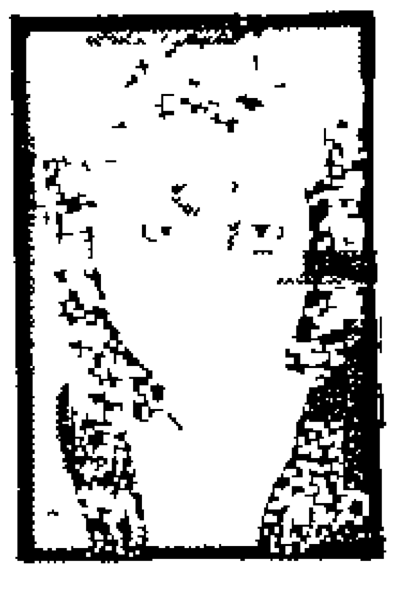
According to Keyworth, the Moroccan forestry industry can supply the mill with only about half the 1 Mt of timber it needs to produce 250 000 t-300 000 t of pulp a year "Ideally, we would hope to provide three or four shipments a year" The co-operative is now investigating other potential exports, to Spain, Portugal, France and Italy ■

You can't see the woes for the trees

(199)

S/Times (BUSS) 28/2/93.

DIAGONAL STREET



By Zilla Efrat

THE latest in the current vogue of describing last year as an *annus horribilis* is timber group Yorkcor.

The group, which on Friday announced a R3,8-million loss for the year to December, says 1992 was the worst year in living memory for lumber millers.

The volume of lumber sold by the industry fell to the lowest level in two decades. Home building, normally the biggest consumer of timber, almost came to a standstill on the back of a slump in the building industry and turbulence in the townships.

Yorkcor's turnover fell from R40-million in 1991 to R36-million and it passed its dividend.

Its timber marketing division was its main casualty because of tough market conditions. It lost R2,4-million for the year after waging a fierce discounting battle for the little business that was going in the market.

Nonetheless, chairman and chief executive Solly Tucker is not put off by 1992's loss of 38,3c a share — and earlier forecasts for the year which never materialised — in making optimistic predictions for 1993.

Based on a list of assumptions, he forecasts earnings of 20c a share and a dividend of 8c a share on a turnover of R40-million for the year.

At the end of the previous year, Tucker envisioned that Yorkcor would achieve earnings growth of about 50c a share and pay out a dividend of 20c a share in 1992.

Tucker claims Yorkcor outperformed most producers in 1992, a year when the whole of SA's timber milling industry bled.

He says Yorkcor was among SA's lowest cost producers of sawn timber. During the year it excised uncompetitive operations and pulled in its belt.

Staff was reduced from 1 273 in 1991 to 966. Even its annual report, released with the results on Friday, was produced at costs 10% lower than the previous year's.

Given its tough environment, the timber group also focused its products and services on higher levels of the value added chain. It developed new products and packages for new markets in 1992 "but not in time . to contribute decisively to this year's results".

During the year Yorkcor realised R2,6-million by selling under-performing realty and manufacturing plant. It intends to sell further assets at more than double this sum in 1993 and use these funds to improve automation and secure hi-tech development.

Tucker says the group has embarked on a two-pronged strategy to take it out of the doldrums gripping most of SA's timber industry.

It has orchestrated a special building timber thrust into the hinterland and informal sector. Known as the "Shoulder Trade," customers literally carry off on their shoulders packages of components of ready-to-erect structures.

In addition, pine-based furniture manufacturer New York Pine is expected to be a substantial contributor to group profits in 1993 on the back of a export drive.

Mr Tucker says its export order book already looks encouraging.

Yorkcor has also been working towards setting up a network of independent contractors to make furniture and components to its designs and specifications. This is because its furniture marketing capability has overtaken its capacity to make all it sells, says Tucker.

His comments on the SA Forest Company Limited (Safcol) highlight the general uncertainty among sawmillers over how this recently formed state controlled company will affect their lives in years to come.

Yorkcor, however, may be well placed as two of its directors have relinquished their posts to take up appointments on Safcol's board.

Fedsure banks on rerating insurance

S/Times (BUSS) 28/2/93

FEDSURE Holdings has yet again maintained its consistent record of producing compound annual growth in earnings of above 20% a year.

Despite much more difficult economic conditions, attributable earnings grew by 47% to R42,4-million in the year to December 1992.

Earnings a share were 21% higher at 51,8c because of the issue of 18 million new shares as part of the strategic alliance with Investec early last year.

The final dividend of 21,5c brings the total distribution for the year to 36,75c (30,5c) a share.

... uct range to the society's clients.

Last year's alliance with the Investec group, and the subsequent rights issues, has helped Fedsure to considerably strengthen its capital base. Shareholders' funds jumped from R111-million at the end of the previous year to R348-million at the end of 1992.

Total assets, which grew by 25% in 1991 to top R5-billion for the first time, increased another 28% to R6,5-billion by the 1992 year end.

Life assurer Fedlife, Fedsure's core business, improved its gross premium income by 40% to R1,2-billion. Its slice of the premium market also rose in 1992.

Recurring premiums grew by 22% to R775-million, while single premiums jumped 85% to R470-million.

... erty portfolio performed particularly well, reaching a market value of R1,1-billion. Average occupancy levels exceeded 97%, mainly because of the selective tenant mix, and the aggregate return over the year was over 23%.

The group's short-term arm Fedgen showed a creditable turn-around in performance, transforming a R5-million loss in the previous year to a R5-million profit in 1992. It benefited from the emphasis placed on careful underwriting and control of claims costs.

Unit trust Fedgro increased its value over the year from R27-million to R40-million.

New products should help boost Yorkcor

Star 1/3/93

199

By Derek Tommey

Timber miller Yorkcor expects a number of new products to result in a marked improvement in earnings this year.

Last year the continued recession bore down heavily on the company resulting in a loss for the year of R4,6 million equal to 38,3c a share. This compares with a profit of R237 000 equal to 2,4c a share in 1991. No dividends were paid.

The company had an operating loss of R1,48 million on a turnover of R36,2 million. In 1991 the company had an operating profit of R2,53 million on a turnover of R39,8 million.

Interest payments of R2,27 million (R2,26 million) and extraordinary payments of R779 000 helped lift the loss to R4,6 million.

But chairman Solly Tucker expects a new type of timber roof structures aimed at the "shoulder" market and a range of furniture decorated with African ethnic themes aimed at the export market to make a substantial difference to the company's fortunes this year.

The "shoulder" market is the part of the informal sector which lacks transport to convey goods. To meet the needs of this market Yorkcor has developed "YorKit", a timber roof structure easy to assemble and erect and aimed at the platteland dweller.

It has also developed "Easy-Truss" which is similar to "YorKit", except that it is more versatile and is pitched mainly at the urban and township markets.

The furniture with an ethnic theme received a positive reception at the Cologne Furniture Fair in January and will make a substantial contribution to group profits this year.

In fact the company's marketing capability has overtaken its capaity to make the products and it is planning to establish a network of independent contractors to make pine furniture to Yorkcor's designs and specifications.

Tucker is forecasting earnings of about 20c a share and a dividend of about 8c a share this year.

However, this forecast is based on a number of assumptions. Among these are the country's GDP will grow by 1,75 percent, the average inflation rate is below 10 percent, the dominant players in the saw-milling industry will stop their cut-throat pricing strategies, the saw-milling industry realises a 2,5 percent price increase in real terms, and an interim coalition government is installed before the end of the year.

Sappi swops wood resources

CT 1/3/93

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 Politsi 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

Timber prices up after tough year for sawmills

BDM 2/3/93

(199)

EDWARD WEST

TIMBER prices improved substantially over the past two months after a year of cut-throat competition, said York Timber (Yorkor) chairman Solly Tucker.

Commenting in Yorkor's annual report, he said a significant number of sawmills were driven out of the market in the teeth of knockout discounts — up to 45% — by dominant players who plunged prices below production costs.

Mondi held the largest chunk of the SA sawmilling market with 27%, Hans Merensky Foundation held 17%, Bonuskor 10%, Yorkor 8% and Sappi 5%, he said

Despite the last two-month upswing, timber industry sales volumes were the lowest in two decades due to the building slump and township violence, he said.

Yorkor was planning an export thrust with new pine furniture, and a hinterland marketing drive with timber components of ready-to-erect structures, Tucker said.

"Confidence in our pine manufacturing facility at New York Pine has been vindicated by a substantial order book of new and repeat export business for several parts of the world," he said.

He forecast 1993 earnings a share at 20c and the dividend at 8c

In the year to end-December 1992 Yorkor reported a loss of 38,3c a share from a profit of 2,4c in 1991.

SA Lumber Millers' Association executive director Andries Swart said that up to five mills had been temporarily closed.

Last year's sales volumes — 970 000 cubic metres compared with an industry capacity norm of around 1,35-million cubic metres — was the lowest in two decades, he said.

Industry sources said SA's third largest sawmilling group, Hunt Leuchars & Hepburn, was reviewing its assets for a shift in direction from rough sawn building timber toward value-added products with export potential.

Meanwhile, a Sappi spokesman confirmed yesterday that it had acquired Hans Merensky's Clan plantation and sawmill in Natal and Hans Merensky's Zululand sawmill and timber supply contracts.

YORKCOR
FM 5/3/93

Price squeeze

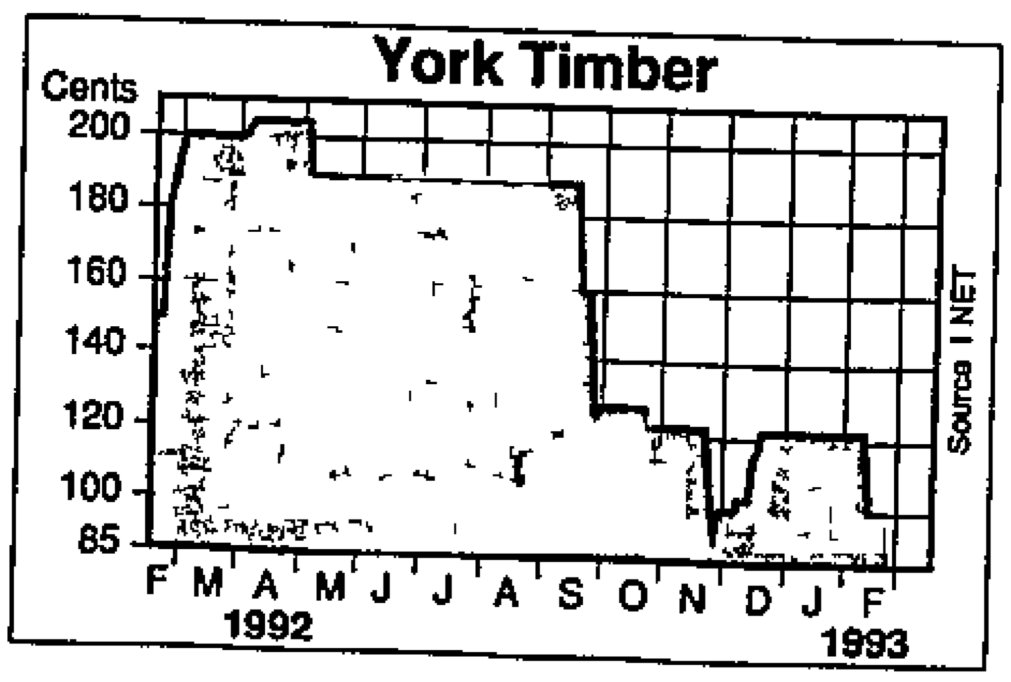
199 Timber

Activities: *Sawmiller and maker of wood products, as well as property investment*
Control: *Max Tucker & Sons (Pty) 42,8%*
Chairman: *S Tucker; MD: I S D Tucker.*
Capital structure: *9,98m ords Market capitalisation R9,98m*
Share market: *Price 100c. 12-month high, 205c, low, 100c. Trading volume last quarter, nil shares*

Year to Dec 31	**'89**	**'90**	**'91**	**'92**
ST debt (Rm)	1,7	1,8	2,0	2,1
LT debt (Rm)	8,1	8,4	7,0	11,0
Debt equity ratio	0,27	0,51	0,36	0,67
Shareholders' interest	0,5	0,5	0,6	0,5
Int & leasing cover	7,3	1,6	1,1	n/a
Return on cap (%)	14,8	7,5	6,2	n/a
Turnover (Rm)	36,0	36,9	39,8	36,2
Pre-int profit (Rm)	5,8	2,8	2,5	(1,5)
Pre-int margin (%)	16,2	7,6	6,4	n/a
Earnings (c)	39,9	21,6	2,4	(38,3)
Dividends (c)	13,0	14,0	14,0	—
Net worth (c)	205	199	240	194

1992 has been a difficult year for timber group Yorkcor, which suffered severe price competition in the second half of the year with up to 45% price discounts to its major clients. Volumes also came under heavy pressure — about two-fifths of sales come from the depressed construction market — resulting in a negative R1,5m operating profit after a 9% fall in turnover.

A comparison of Yorkcor's forecast 1992 results (made at the end of 1991) and the actual results illustrates how bad the conditions were: instead of the forecast EPS of 50c there was a loss of 38,3c and the dividend, forecast at 20c, was passed.



Yorkcor's Tucker . *still open to acquisitions*

FM 5/3/93 Timber 199

Chairman Solly Tucker says: "We are not a big ship but it still takes time to turn around." The group is changing its focus away from construction and industrial timber to more value-added products, like furniture. The export market is expected to provide about four-fifths of the furniture division turnover; furniture is targeted to account for about a third of group sales.

Yorkcor's 1993 forecasts, (EPS 20c; DPS 8c) look ambitious given negative cash flow of R2m and net interest charges of R2,2m in 1992. The construction and industrial markets remain significant contributors to earnings, a pickup in these sectors is not expected for 1993. But a recent focus on informal sector demand is expected to reduce dependence on the formal construction sector.

Net interest charges will continue to undermine profitability unless interest-bearing debt can be reduced. Gearing increased from 0,36 to 0,67 in 1992 after the acquisition of Phoenix Doors, the Cape door maker and exporter. Tucker says he remains open to acquisition opportunities, but does not expect this to affect gearing, existing assets will be sold to allow for the purchase of new, more productive assets.

The share is on its 12-month low at R1, down from over R2. The obvious risk is negative cash flow coupled with high financing charges. There has been little activity in the shares, they did not trade during the last quarter. A recovery will depend on improved timber prices, a pickup in the construction market and the performance of the furniture division.

Louise Randell

Dumping of paper probed

BDay

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

KELVIN BROWN

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

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Sappi shares slip back in wake of new tax format

B/DAY 19/3/93. (199)

MATTHEW CURTIN

SHARES in Sappi sank more than 14% on the JSE yesterday as investors assessed implications of the new company tax regime announced in the Budget for the pulp and paper producer

Sappi shed 405c to close at a year low of R24,20, after touching R24.

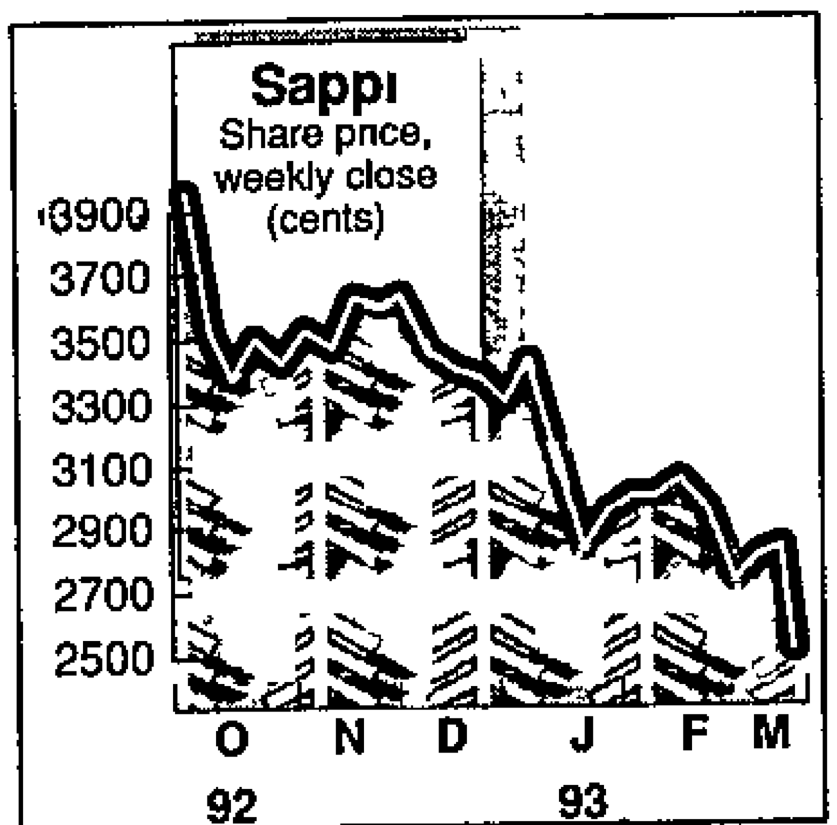
Market sources said Sappi paid little tax, making it one of the most vulnerable companies to the 8% cut in the company tax rate to 40% and the new 15% dividend tax.

The group was a capital-intensive business with huge available tax losses, benefiting from export allowances, while it maintained relatively high dividend payments.

It has paid next to no tax in the past 10 years, handing in only R3,2m (R2,1m) to the Receiver of Revenue in the 1992 financial year on pre-tax profit of R306m (R348m), equivalent to an effective tax rate of 1% The group showed estimated tax losses of R740m (R704m) in 1992.

Distributable profit stood at R313m, of which R225m was paid to shareholders leaving a dividend cover of 1,4 times, compared with average cover of 2,7 times in the past decade.

The unfavourable tax implications for Sappi come at a time when its earnings are under pressure from



Graphic LEE EMERTON Source I-NET

weak international paper and pulp prices, upset by European currency fluctuations and oversupplied markets

The local market, dominated by Sappi and Mondi Paper, has been affected by increasing imports

Meanwhile, amid the generally favourable market reaction to the Budget, analysts and industry sources said exact implications of new tax rates for gold mines and mining holding companies with gold interests were not clear

Anglo American gold and uranium division finance director Keith Hosking said it would be disadvantageous if mining holding companies like Amgold, Freegold, Ofsil and Welkom had to pay a 15% dividend tax on income from gold mines The mines, likely to opt for the existing tax and lease system, would have already paid an effective 48% tax

Analysts said this interpretation could see the unscrambling of gold mining holding companies, spurred by investor unwillingness to stay with companies whose dividends would be taxed when they could invest in individual gold mines They were given the option in the Budget to stick with the current mining tax and lease formula instead of paying the new dividend tax

However, Hoskin said it was improbable that Finance Minister Derek Keys intended to prejudice these companies, given his comments in Wednesday's speech expressing concern that gold mines should not be "disadvantaged"

The issue might have been addressed already in the detailed legislation, or would be tackled before it was promulgated, he said.

Chamber of Mines president Bobby Godsell said the new form of company tax was "an interesting concept", but implications required further study.

Anglovaal group tax manager Graham Richardson said the new tax structure could prompt a review of Anglovaal gold mine company structures The gold mines' choice between old and new tax systems would require careful study

COMPANIES

Paper dumping adds to 'catastrophic' Mondi year

BIOM 31/3/93

BIOM 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

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Analysts forecast Sappi will pass final dividend

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BDay 15/4/93

MATTHEW CURTIN

SAPPI is likely to pass its final dividend when it announces results for the year ended February 28 on Monday, market sources say.

The pulp and paper producer paid an unchanged 80c interim dividend on earnings of 130c a share in the six months to August 1992

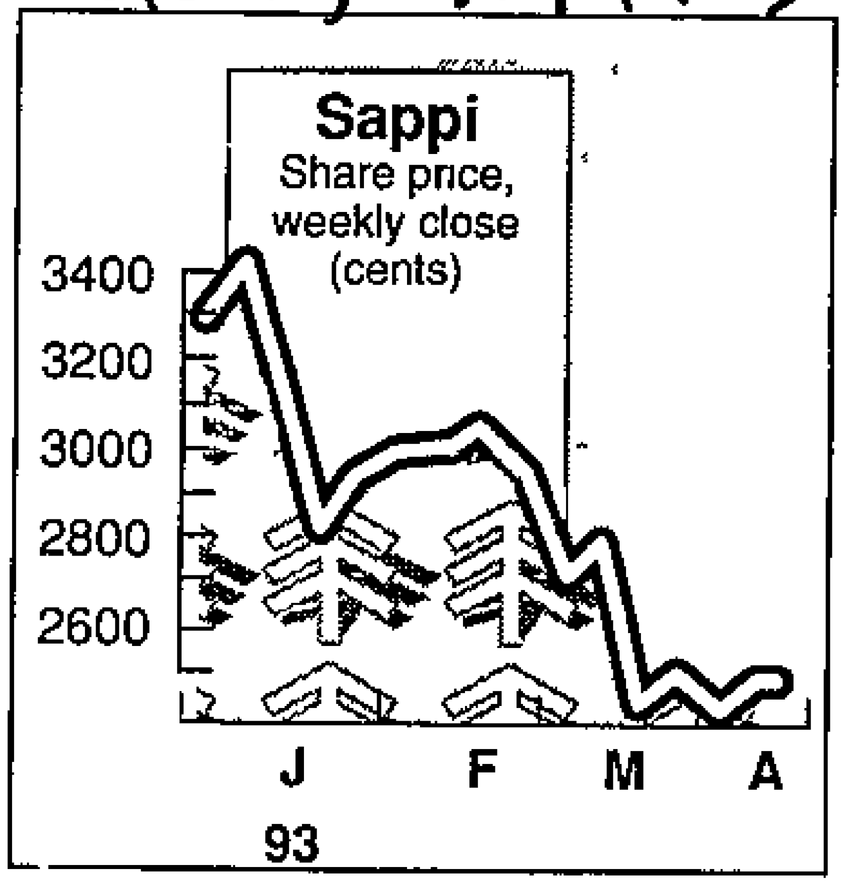
The group declared an unchanged 200c total dividend in 1991/1992 on earnings of 300c a share

Analysts canvassed yesterday said the deterioration in the local and European pulp and paper markets since December had been such that Sappi's earnings would fall significantly. Forecasts ranged from a low of 225c to a high of 250c

Lower earnings alone would put pressure on Sappi's final dividend because dividend cover had already fallen to 1,4 times in 1991/1992 compared with average cover of 2,7 times in the past decade

However, Edey Rogers analyst Franco Busetti said Sappi was perhaps the company "worst affected" by introduction of the new 15% tax on distributable profits, the secondary tax on companies

The group had indicated earlier this year it would strive to maintain the dividend but the secondary tax proposed in the Budget last month changed Sappi's position altogether



Graphic LEE EMERTON Source I NET

Busetti, forecasting earnings of 245c, said Sappi's vulnerability stemmed from its low effective tax rate The group would receive no benefit from the lower 40% (48%) company tax rate, because it paid so little tax, having an effective tax rate of 1% in 1991/1992 Then Sappi paid R3,2m on pre-tax profit of R306m, while showing estimated tax losses of R740m

At the same time, the group was immediately liable for the new tax because of its February 28 year-end Finance Minister Derek Keys had said the tax would apply to all companies declaring dividends after March 15

Busetti added Sappi had underestimated the depth of the recession To maintain the dividend at 200c in the hope of a turnaround was dangerous

Another analyst who declined to be named said "Thoughtful marketing of Monday's result will be very important Chairman Eugene van As must explain that forgoing the final dividend is not a sign that the company is in dire straits financially."

He said institutions were prepared to accept a nil payout, given the special circumstances facing Sappi, and realised the secondary tax gave the group a good argument for passing the final dividend

Anderson Wilson analyst Doug Ellish, forecasting earnings of 220c to 230c, said Sappi would hold the dividend or pass it, with a nil dividend making the most financial sense

He said although there might be pressure from major shareholder Gencor for some sort of final payout, business conditions were so poor that the Sappi board would opt for passing the dividend

Sappi shares closed unchanged at R25 on the JSE yesterday, compared with the most recent peak of R48,50 in May last year

Commercial timber now responsibility of Safcol

199

BDAY 16/4/93

MARINNE MERTEN

THE SA Forestry Company Limited (Safcol), formed in September, this week officially took over SA's commercialised timber production which previously fell under the Forestry Department

All assets and liabilities relating to commercial timber productions were acquired by Safcol on April 1

The organisation has two years in which to reach agreement with government on compensation for the assets it has taken over. The timber plantations will remain government-owned, and lease agreements are being negotiated

Safcol board chairman Leendert Dekker said at the launch this week that the organisation was committed to being cost-effective and profitable in the long term Priorities were customer satifaction and market development, he said

Safcol public relations officer Bosman Olivier said government was still the sole shareholder in the company and there were no definite plans to privatise it However, the company did not enjoy "fiscal privileges" from government

As part of the commercialisation process, Safcol has reduced its timber growing areas from nine to five plantations and cut head office staff from 140 to approximately 30 Further rationalisations were expected

Safcol had an annual turnover 175 000m³ of timber in the form of pulp, logs and by-products such as wood chips, with an estimated value of about R200m

Forest Owners' Association executive director Mike Edwards said he would be happy for Safcol to join the association because it was the right place for the company to be Safcol's membership application was still being discussed

Sapa reports CEO Tiennie van Vuuren said Safcol expected to start showing a profit within two years

"If we can't show a profit by the end of the second year of our existence, we're going to have to take a hard look at ourselves"

Safcol runs 265 000ha of former state forests, about a quarter of the total land under afforestation in the country, and predominantly supplies sawlogs to domestic clients as well as to the Far East and Pacific Rim nations

Van Vuuren said Safcol would be "demand-driven" however, according to private sector principles in running its interests

He said this could involve supplying more wood for pulp used in papermaking at the expense of its longer-term timber product operations

He envisaged Safcol co-operating with other private sector forest product groups such as Sappi and Mondi as part of its rationalisation thrust

Star 19/4/93

Sappi lifts net income 16 percent

Sappi's net income for the 12 months to February was 15,7 percent ahead of last year

The rise occurred despite depressed international trading conditions, with producers affected not only by the recession and overcapacity, but by extreme currency volatility.

Sappi says because of the greater number of shares in issue, earnings declined from a restated 312c a share to 262c

It says the figure is ahead of most analysts' forecasts

Sappi generated a net R553 million in cash from its operations in the 1992/1993 financial year, R390 million of which arose from depreciation and fellings

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Turnover

Turnover rose 28,5 percent to R4,677 billion, reflecting for the first time the inclusion of Hannover Papier for only six months of the year

"If Hannover's turnover is annualised, Sappi's turnover has reached R5,5 billion, of which 63 percent is derived offshore," Sappi says

Executive chairman Eugene van As says one of the successes of the past year was Sappi's improved production volumes and productivity.

"In our Southern African operations, in particular, new production records were achieved at several of our major operations," he says. — Sapa

Sappi cuts payout on lower earnings

BDay 19/4/93.

(199)

MATTHEW CURTIN

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

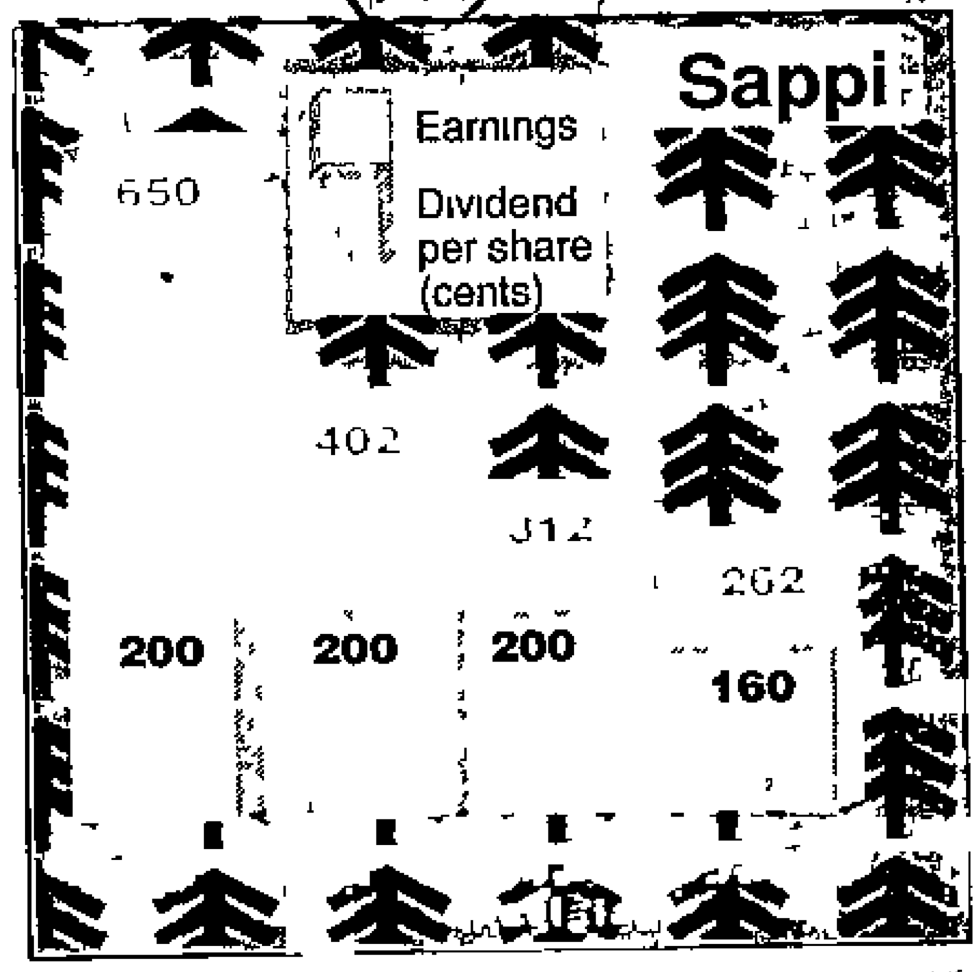
Earnings, diluted by the larger number of shares in issue after Sappi's DM440m purchase of German paper producer Hannover Papier in June 1992, fell to 262c a share, compared with 312c

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 under-

□ To Page 2

Sappi

BDay 19/4/93.

(199)

□ From Page 1

estimating 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 Van As said a trend of rising pulp and paper prices from 1991 came to an end in October, when, after the devaluation of Nordic and EC currencies, prices collapsed to their 1991 lows

Costs were contained throughout the group, rising only 2% year on year, but the adverse market conditions "more than negated the benefits flowing from the notably improved production volumes and productivity levels" achieved by most operations. 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);

Sappi's balance sheet remained strong, but the group was addressing the deterioration in its current ratio Van As said the position reflected the maturing of debt previously ranked as long term

He said Sappi would go ahead with its R1bn upgrade of its Saiccor mill, would not affect the group's debt to equity ratio

Market relief over modesty of Sappi's earnings decline

Star 20/4/93

(199)

By Stephen Cranston

There is some relief in the market that Sappi contained the decline in its earnings per share to 16 percent in the year to February. The share price gained 75c to R26 yesterday.

Its 262c earnings per share compare with forecasts of 220c by Anderson Wilson, 245c by Edey, Rogers and 250c by Senekal Mouton & Kitshoff.

Sappi's earnings, however, were boosted by its decision to include the secondary tax on companies of R17,9 million below the line rather than as part of normal tax.

Taken above the line, as normal accounting convention dictates, earnings per share would have been 249c.

The biggest surprise of the results is that a final dividend has been paid, though cut by a third to 80c.

An analyst said yesterday that equity had been raised overseas for the acquisition of Hannover Papier with the implicit commitment that a dividend would be paid

It is also believed that Gencor, which holds 50 percent of Sappi, needed cash for its capital commitments.

The dividend is only covered 1,6 times by earnings, but the dividend payout of R238,2 million is comfortably covered by R552,8 million in cash generated by operations.

One of the encouraging features of the results is the increase in cash flow from R176,8 million to R552,8 million.

Another promising feature is the containment of cost increases at the Southern African operations in the year to two percent.

Sappi Europe's unit costs have fallen by six percent.

But the turnaround in commodity cycles does not look any closer. Prices firmed at the beginning of the year, but from October onwards slid to below 1991 levels.

Even Sappi's ever-optimistic chairman Eugene van As is not predicting an increase in earnings in the current year, and says first-half earnings will be down substantially.

Sappi's earnings per share have fallen every year since 1990 from a peak of 650c The recovery in earnings is likely to be considerably lower than the decline because of new capacity which has recently come on stream from Indonesia and Brazil

Senekal Mouton's Rob Cattich says Sappi offers some value on a two-year-or-more view.

It has a generous dividend yield of 6,9 percent, compared with 2,6 percent offered by the industrial index. The P/E ratio of 9,6 is well below the index's 14,5 P/E.

Sappi's results will be diluted by the purchase of Hannover for several years. Plant was recently expanded and it faces the problem of marketing its rising production in increasingly difficult conditions.

The strength of the mark has made Hannover an uncompetitive exporter. While the mark has continued to appreciate against the dollar, for example, the Swedish kroner was devalued by 52 percent in the last six months of the financial year.

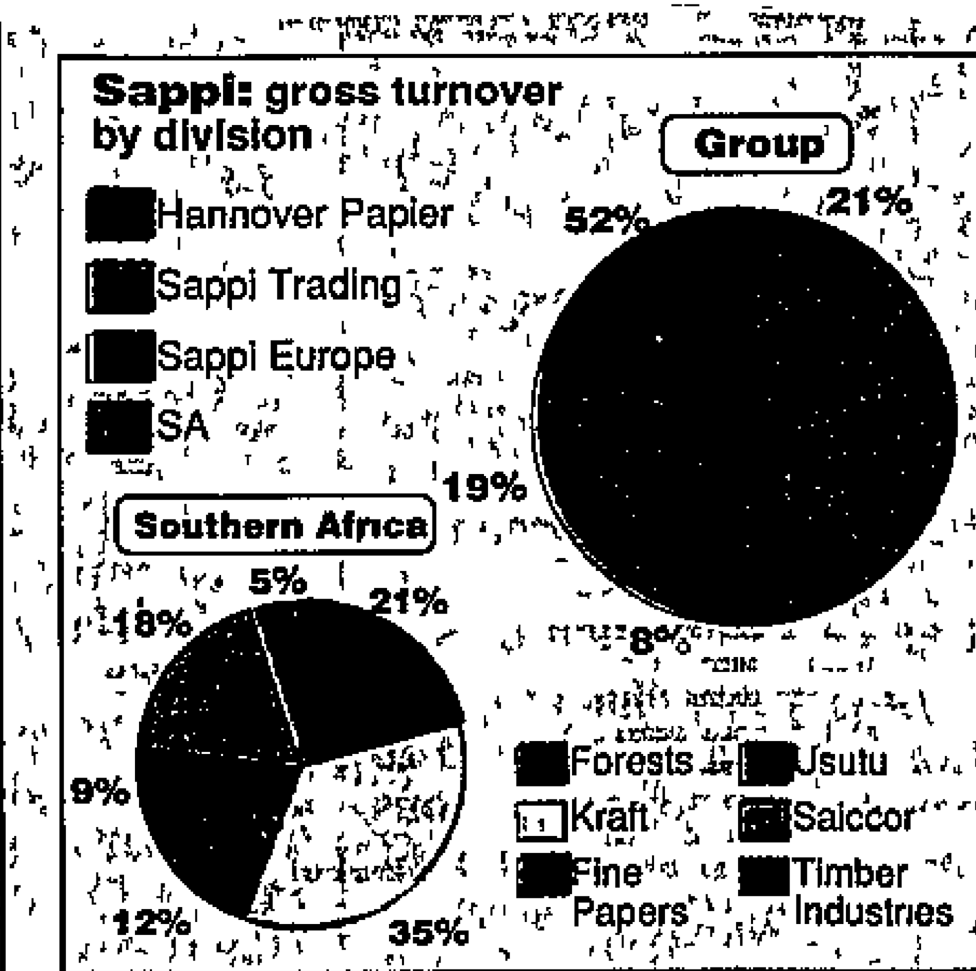
Hannover ended the year on the wrong side of breakeven.

The UK operation, Sappi Europe, also operated in difficult conditions and made a loss.

It does not seem to be the wisest time for Sappi to spend R1 billion on the expansion of the Saiccor mill, which produces dissolving pulp used to make viscose.

Sappi promises that the deal will not affect gearing, which stands at 48 percent, thanks to innovative funding, though there is no indication a rights issue is being considered.

The expansion will be completed in early 1995, by which time Sappi expects prices to have substantially improved, but nobody else is counting on recovery by then



IDC puts up R500m for Sappi project

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MATTHEW CURTIN

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.

B DAY 21/4/93

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

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Sappi

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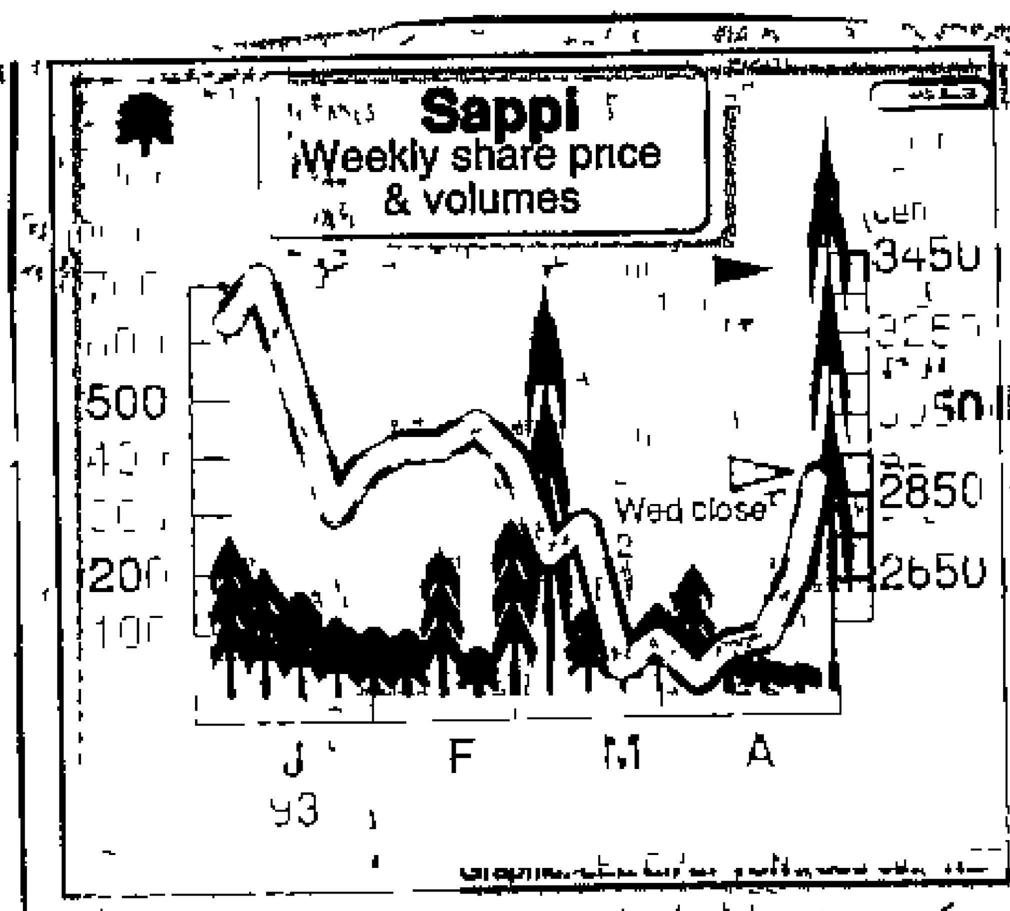
commissioned in early 1995.

Saiccor's yearly turnover is in the order of R800m. It exports all its output, largely to rayon manufacturers abroad.

Sappi bought Saiccor for R1bn in 1989, acquiring the controlling stake held by UK-based chemicals and textiles group Courtaulds and the IDC's 33% holding. At the time, Courtaulds signed a 10-year supply contract with Sappi.

It is developing a new cellulose-based fabric, superior to rayon, which is likely to boost demand for Saiccor's production.

Sappi, which derives nearly a fifth of its R4,68bn turnover from Saiccor, reported a 16% fall in earnings a share to 262c (312c) in the year ended February 28.



Hefty gains for Sappi's shares

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Bloem 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

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Sappi

Bloem 22/4/93. 199

☐ 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 (199) 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*

Storm helps product prove itself

(199) 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

Star 26/4/93 (199)

Sappi sets up another European arm

The weekend saw the launch of a new company by the Sappi group — Sappi Europe SA

The company is based in Brussels and dedicated to marketing Sappi's range of paper products in Europe.

Jointly owned by British-based Sappi Europe Ltd, and Hannover Papier AG, the German paper maker which Sappi acquired last year, Sappi Europe SA will offer users and distributors a range of almost 2 000 products

The Brussels team, headed by Michel Villamayor as MD, is made up of graphics and speciality marketing and sales executives with years of experience in the paper industry, Sappi says

"While Sappi Europe will continue to supply its own brands and those of Hannover Papier to its customers in Britain, and Hannover Papier will supply its products and Sappi Europe's to the German market, Sappi Europe SA will cover the rest of the European market."

The company will also market Sappi fine paper products manufactured in South Africa

To coincide with the launch, a series of new products has been introduced," says Sappi. — Sapa

Mass action to go ahead if govt fails to meet demands

BIDRY 29/4/93

WILSON ZWANE

THE ANC/SACP/Cosatu alliance yesterday said it would press ahead with plans for mass action unless government met its demands by the end of May.

The alliance said it believed finality had to be reached on an election date, a transitional executive council and joint control of the security forces.

It said if government acted "irresponsibly" and continued to drag its feet beyond May, "a complete review of the negotiations will have to take place".

The organisations added that unless government met their May deadline, a programme of action, which would include a boycott of taxes and national strikes, would be embarked upon.

The first phase had begun with regional actions. These included consumer boycotts, marches, demonstrations and occupations The far right would be made a special target of regional mass action, including consumer boycotts, as well as international campaigns against those supporting them abroad.

May Day would launch these regional programmes and alliance speakers would address more than 70 rallies throughout the country.

Our Cape Town correspondent reports that ANC regional chief Tony Yengeni said yesterday that the alliance would include a consumer boycott in its mass action campaign in the western Cape.

Speaking at a May Day rally news conference yesterday he said. "We are still in the process of finalising our mass action plans for the Western Cape but you can rest assure that consumer boycotts figure high on the agenda."

Yengeni did, however, give his assurance that consumer boycott action would not simply be directed at all white-owned businesses. "We will focus on specific areas of business," he said.

Yengeni said the mass action campaign would also be focused at the grass roots level of specific areas of power, such as local government, health services and the education crisis.

Our Durban correspondent reports that Natal is bracing for a month-long deluge of marches, rallies and city blockades by the alliance.

No stayaways have been planned yet.

Maritzburg looks set to become the focus of most of the rolling mass action, beginning with a lunchtime memorial service in Market Square in the city at noon today to mark the death of the ANC national chairman Oliver Tambo.

The events of the past three turbulent weeks have given impetus for what the alliance calls "the final push" beginning on Workers' Day.

☐ Sapa reports from Cape Town that President F W de Klerk said a rolling mass action programme was in order as long as it was conducted with great responsibility.

Witnesses corroborate massacre accused's alibi

Own Correspondent

MARITZBURG — Two men gave evidence in the Maritzburg Supreme Court yesterday supporting the alibi of Nkanyezini massacre accused, Nkayiso Wilfred Ndlovu, 20, for the duration of an attack on minibus passengers that left 10 dead and four wounded. BIDRY

Ndlovu denied that he took part or was present when the minibus was ambushed on March 5 allegedly to avenge the killing of Inkatha-affiliated schoolchildren a few days earlier.

He denied evidence by co-accused Mabhungu Absolom Dladla, 23, that he provided the firearms and forced Dlada to take part in the attack. 29/4/93

In evidence before Natal's Judge President Howard, Ndlovu said he had been at the home of Bonginkosi Ntombela in the company of KwaZulu policeman Michael Mkhize, on the day of the incident.

Ntombela and Mkhize gave evidence supporting his version.

Ndlovu alleged that Dladla had arrived at his residence on the evening in question with a shotgun and had asked him to keep it. Ndlovu said he had concealed it behind a wall.

Dladla had also indicated a place across the river and had said he had concealed other firearms there, Ndlovu said He later pointed out the spot to police who recovered an AK-47 rifle and an R1 rifle.

Les Roberts, SC, yesterday urged the court to convict Dladla and Ndlovu. He described Dladla as a "clearly lying witness" and said the version offered by Ndlovu was extremely improbable. Ntombela and Mkhize's evidence should not be relied on as they were clearly "sympathetic" to Ndlovu and vague about events.

Judge Howard is expected to deliver judgment in the case today

Warning on timber use

BIDRY 29/4/93

MARIANNE MERTEN

THE Water Affairs and Forestry Department warned yesterday that at current levels of consumption SA's natural timber resources would be exhausted within 30 years.

It said about 30% of the population depended on wood as its primary energy source. It projected that from 2 000, about 8,3-million tons of firewood would be consumed every year.

For this reason, said Water Affairs and Forestry Minister Japie van Wyk, the department would move from promoting commercial timber growing to rural forestry extension schemes. This shift in emphasis was "a matter of necessity". (199)

The department had identified more than 3 000 rural forestry projects to be implemented over the next decade. The success of the projects would, however, lie in community involvement and not with policymakers

SAPPI

The latest paper chase

A veil of secrecy has been drawn over Sappi's most recent financing deal with the Industrial Development Corp (IDC) The news trickled out last week that Sappi had secured an investment of R500m from the IDC towards its R1bn expansion programme at wholly owned Saiccor

However, Sappi officials won't disclose the precise terms of the deal Speaking from Singapore, executive chairman Eugene van As told the *FM* the final agreement between the parties "still hasn't been signed " In the circumstances, he couldn't release any further details And IDC senior GM Malcolm Macdonald was equally tight-lipped "We never release any information about arrangements with our clients," he says

In a detailed statement accompanying Sappi's audited results for 1993, Van As and MD Ian Heron say that funding for the Saiccor project has been arranged so as to preclude a "deterioration in the group's debt equity ratio " Later, it transpired Sappi had concluded a deal with the IDC in terms of which the IDC will contribute R500m in exchange for shares in Saiccor, an unlisted company Unusually, Sappi has the right in three years to decide whether to repay the IDC's cash injection or convert part of it into Sappi shares at the market price prevailing at the time

That means the IDC's involvement is at least a partial loan Heron confirms the money carries a coupon but refuses to disclose the interest rate In addition, Heron says the arrangement carries a maximum cap, again, he declines to disclose how that is triggered

Nevertheless, the Saiccor expansion is important for the long-term strategy of Sappi It involves increasing Saiccor's capacity to 600 000 t of dissolving pulp by January 1995 and it will open two important new markets to the group These include acetates in which the major product is cigarette tow — the filter

Heron says it's a business which provides high margins and is ideally suited to Saiccor, the world's cheapest producer of dissolving pulp products And the group is intent on moving into the production of pulp in reels, a product preferred by American consumers Presently, Saiccor delivers its product either in sheet form or in flock, both antiquated methods

The development is expected to have a major impact on Sappi's bottom line Heron says the group's position is unique because Saiccor is a dominant player in this particular area It is the largest supplier to the viscose market (rayons) and is the world's lowest-cost producer

The project sits strangely with Sappi's rather unhappy track record in other areas When the group embarked on its Hannover Papier expansion last year, part of the acquisition cost was funded by the sale of Sappi shares to European institutions They must be smarting now They bought in at around US$12 the share price now is about $6 It's small wonder so few Sappi shares remain in foreign hands

Van As *dance of the seven veils*

And some analysts now believe Sappi's recent dividend declaration of 80c, taking the year's dividends to 160c a share, was made as much to pacify remaining overseas shareholders as anything else "Why else," asks an observer, "would the dividend cover be reduced to 1,6, and why would the company be prepared to pay Secondary Tax on Companies (STC) of R17,9m?"

Nor has it passed notice that Sappi has deliberately gone against the recommendation of the Institute of Chartered Accountants (ICA) in taking STC below the line "We are aware," say Van As and Heron, "that this does not conform with the latest announcement of the ICA "

Clearly, there's some explaining to be done

David Gleason

HL & H turns in 'very disappointing' results

BIDAY 7/5/93 (199)

MARCIA KLEIN

FOOD and timber group Hunt Leuchars & Hepburn (HL & H) has dropped its earnings by 65,7% to 28,1c (82c) a share on the back of significant losses in associate Rainbow and deteriorating agricultural sector conditions.

CE Neil Morris said the group, in the Rembrandt stable, had produced very disappointing results

All group companies had been affected by the economy and the worst agricultural conditions in many years, and only Robertsons had performed satisfactorily

Turnover had increased 9,3% to R758,4m (R693,7m), but drought and increased pressure on margins due to reduced consumer demand had resulted in an 8,5% decline in operating income to R113,3m (R123,8m)

Dividends and interest received had declined significantly as no dividend had been received from Rainbow Chicken — which yesterday reported a R76,7m attributable loss — and a reduced dividend had been received from HL & H Timber, Morris said.

Lower borrowings and rates had enabled the group to reduce its interest bill, and pre-tax income was down 19,9% to R89,2m from R111,3m previously.

The effective tax rate had been increased due to reduced dividend income and secondary tax on companies, and income after tax was 32,4% lower at R58,3m (R86,3m).

Losses incurred by Rainbow had been reflected in a R16,3m negative contribution from associates (income of R32,9m).

This had caused net attributable income to plunge 64,8% to R42m from R119,2m.

HL & H had declared a final dividend of 8c a share, bringing the full year dividend down 33,8% to 21,5c (32,5c) a share.

In January, agreement had been reached for HL & H to assume management control of the troubled Rainbow, and Morris said restructuring had been implemented.

Transvaal Sugar (TSB) had begun to build a mill on the eastern Transvaal at an anticipated cost of R480m.

Morris said good late summer rains had improved TSB's prospects.

HL & H Timber had made some acquisitions, and was now SA's largest exporter of value added softwood products.

The Densa sawmilling operations, which had incurred substantial losses in the past year, has been sold.

Morris forecast significant earnings growth — off a low base — in financial 1994. He said lower inflation, reduced interest rates and an improved agricultural year should lead to increased economic activity in the second half of 1993.

Huntcor, whose only interest is its holding in HL & H, reported earnings of 56,4c (164,4c) a share, and declared a final dividend of 16c a share.

Paper giants in row over prices

S/Times [Buss] 9/5/93

(199)

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"

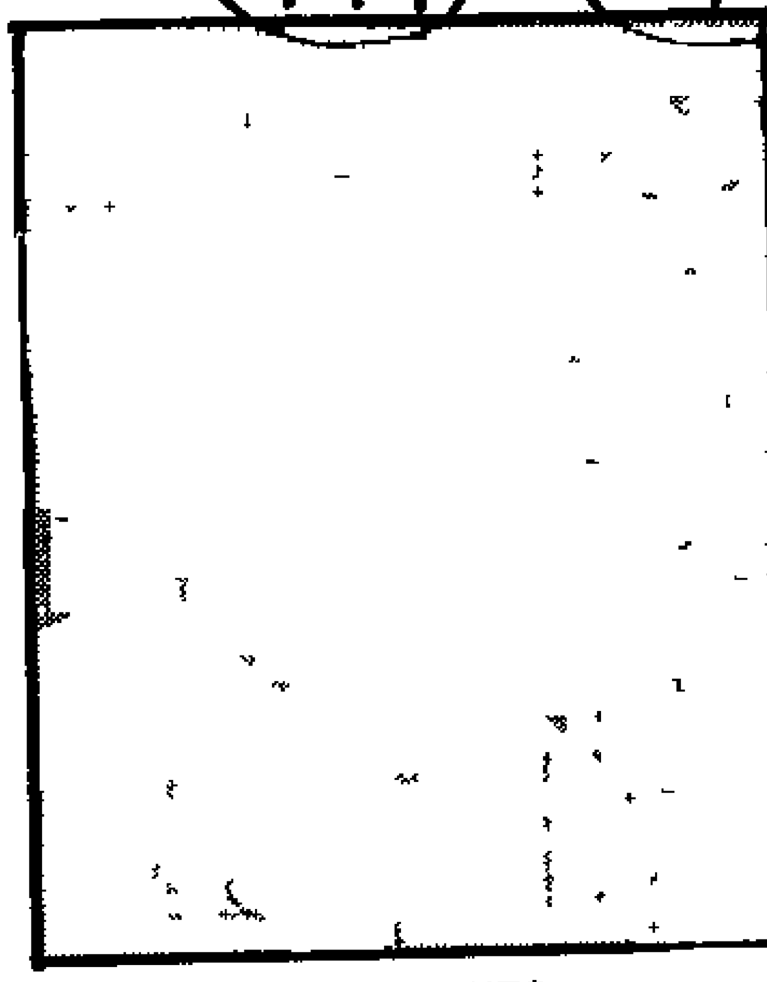
Printers say the high cost of paper is a major reason for the 15% decline in employment in the paper and packaging industry over the last year

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

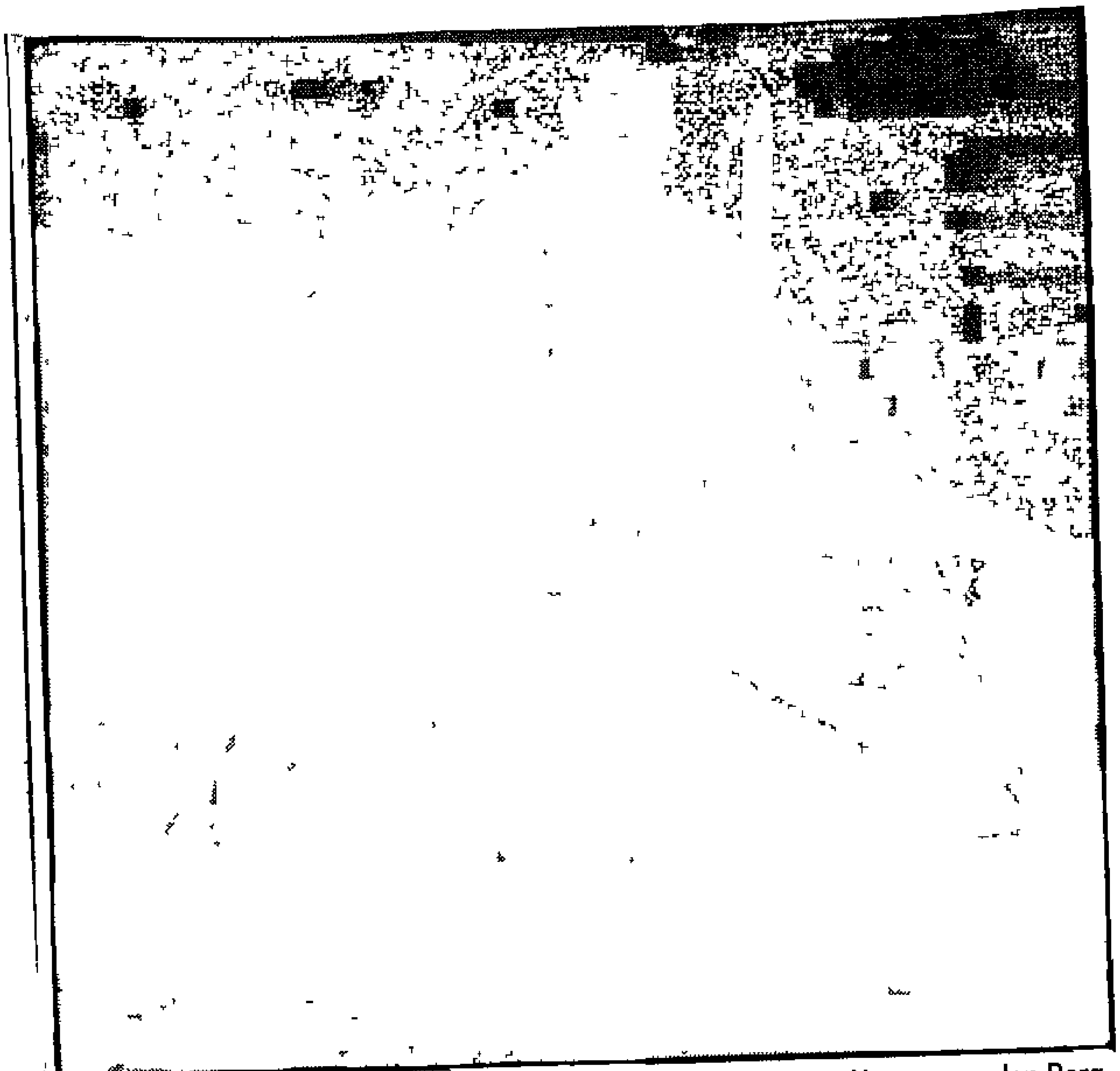
"If there were more producers I am sure the price differences would be greater"

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"



MOUNTAINS OF WASTE: Mondi Paper Waste Transvaal manager Hennie van den Berg

Waste not want not, pick it up and use it

STimes [Buss] 16/5/93.

By DON ROBERTSON

THE collection of wastepaper is not only about protecting the environment, it has become a multimillion-rand business for manufacturers

199

South Africa's two main paper producers, Mondi and Sappi, recover about 600 000 tons of wastepaper each year They convert it into corrugated boxes, newsprint, cartons, egg boxes, speciality paper, newsprint and tissue paper

SA is becoming one of the largest users of wastepaper in the world in terms of capacity It uses about 30% recycled paper in total production

Annual world use of wastepaper is 80-million tons and the average recovery rate is 30% Some countries, such as the Netherlands and Japan achieve 50% recovery The figure for Europe is 35% and for Australia 25%.

It is estimated that the use of recyled paper will increase to 120-million tons by the turn of the century to meet expected legislation in some countries New laws will require that at least 50% of paper and board production come from waste

John Lay, general manager of Mondi Paper Waste, says that depending on quality, companies will pay between R150 and R220 a ton for waste It is separated into 15 different categories, depending on its eventual use

Mondi has opened a R120-million plant at its Merebank factory in Durban. It uses recycled paper only Sappi has a similar plant in the Western Cape.

Both companies have introduced "post-consumer collection" schemes by which they collect paper from households Mondi operates about 30 trucks for the scheme

The Mondi scheme, which operates nationally and was launched in Johannesburg last month, has had a 12% response from householders.

Sappi's "war on waste" concept has resulted in a 300% to 400% increase in collections in the past 18 months

Refuse

Steve Harley, marketing manager of Sappi Waste Paper, says the scheme has saved Western Cape municipalities alone about R13-milion a year in refuse removal

Mondi and Sappi also collect from "paperbanks" on street corners and other locations and from schools and welfare organisations They offer shredding services for documents and buy from hawkers who collect paper for a livelihood

Boost for economy as Sappi expansion project gets going

Star 24/5/93

199

By Derek Tommey

The economy is about to receive a major boost with the start of Sappi's R1 billion expansion project at its Saiccor plant at Umbogentwini.

Site-clearing had already begun, Sappi MD Ian Heron said at the weekend.

Contracts for the bleach plant and the pulp mill will be issued in the next few weeks.

The project will employ four main contractors and 60 subcontractors.

It will increase Saiccor's capacity to 600 000 tons of dissolving pulp by January 1995 when prices are expected to be higher than they are today.

The expansion will open up important markets.

Saiccor is the world's cheapest producer of dissolving pulp products and the largest supplier to the viscose (rayons) market.

To meet customer wishes, the pulp will be produced in reels instead of in the current sheet form or flock, which is regarded as antiquated.

The expansion will reinforce Saiccor's pre-eminent position as a supplier of dissolving pulp to the world's viscose manufacturers.

The Industrial Development Corporation (IDC), which was a major player in establishing Saiccor, is financing half the costs of expansion by injecting R500 million into the undertaking in exchange for shares.

Sappi directors say funding for the Saiccor expansion has been arranged so that there will be no reduction in the group's debt/equity ratio.

One aspect of the expansion programme that is likely to cause comment in construction circles is that Sappi has gone overseas to find a project director.

Ian Heron . . . only the best wanted

It recently advertised abroad for a qualified engineer for the job. He would have to be 40 to 50, be fluent in English, and have at last six years' experience of taking projects from inception to final commissioning.

He will have to ensure that "contracts are kept on compliance, scheduling and financial control and performance of the core team operates at optimum levels of efficiency".

Inducement

Initial salary, negotiable, will be between US$200 000 (R636 000) and US$300 000 (R954 000) a year, plus housing, water, electricity, car, medical insurance, children's education allowance and home leave costs.

A further inducement is that the successful applicant has the prospect of a substantial end-of-term contract bonus based on performance.

This is a substantial remuneration package by local standards.

But Heron said at the weekend that the project was an important one and Sappi wanted "only the best" to run it.

Sappi had looked for suitable candidates in SA, but had been unsuccessful, he said.

Therefore it had no choice but to look overseas and be prepared to pay overseas salaries.

David Brink, head of construction giant Murray & Roberts, said the remuneration package was greater than anything a South African would receive for a similar appointment.

But in view of the importance of the project, it was understandable that Sappi wanted the best.

However, the package does show that while there is a huge difference between rich and poor in SA, there is also a huge difference between salaries of skilled people, particularly of engineers, here and overseas.

Trevor Woodburn, head of executive search company Woodburn Mann, said the package offered was in line with what people received in similar jobs overseas.

The need for Sappi to go abroad to find the right man was a reflection of the poor performance of the South African economy in recent years.

This had resulted in South African managers being unable to get experience in large-scale chemical projects, he said.

Although South African executives ranked among the best in the world, he found that sanctions and low economic growth had prevented local managers from generating certain skills, particularly in international marketing.

Consequently many South African companies were being forced to hire foreigners to sell their products, he said.

Buss day

low in SA

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. 2/6/93

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.

Industry takes action, declares war on waste

Star 2/6/93. (199)

■ Doubling efforts: Waste paper is a valuable product and paper mills have intensified their efforts to recycle paper by involving the public in waste-collection projects.

THE paper industry is trying to decrease the burden on the environment by declaring war on waste

Waste paper is a valuable product, and paper mills have traditionally bought tonnage of paper from companies and hawkers, many of whom would be otherwise unemployed The waste paper is recycled and used to substitute new trees in the manufacturing process

SA recycles about 600 000 tons of paper waste a year, equivalent to 31 percent of overall paper consumption According to PaperWaste, a division of Mondi, this represents 20 million cubic metres — enough to fill Ellis Park Stadium to the top of the stands 19 times

Sappi Waste Paper director Dennis Skeate says the amount of waste paper used by the local industry compares well with countries such as Japan and Germany, where the figure is closer to 50 percent.

In a bid to increase the percentage of recycled paper in the manufacturing process, paper mills recently started national projects which involve the collection of paper waste from the general public

Mondi and Sappi are two paper giants who have been at the forefront of this drive Mondi's Paper Pick-Up project, which was started three years ago on the East Rand, involves free collection services to households around the country.

Sappi Waste Paper's War On Waste (WOW) campaign, started at the beginning of last year, does not run collections from houses but pays institutions such as businesses and schools for waste paper.

The environmental benefits of these projects is that waste paper becomes a profitable renewable source.

Newsprint with a recycled content also reduces the number of mature pine trees required to make the paper. To make 100 tons of conventional newsprint 188 more trees are required than newsprint with a recycled content of 25 percent, says Mondi PaperWaste

Mondi's Paper Pick-Up regional marketing manager, Graham Dunlop, says that not only is the collection of waste-paper an environmentally friendly task, but the quality of the paper improves if waste-based recycled fibre is introduced into newsprint Its "smoothness" is superior to conventional newsprint manufactured entirely from virgin wood pulp and this results in clearer, stronger and crisper printed colours, improved printing densities and savings in ink usage

Potential

Mondi's Paper Pick-Up, which has been in operation in greater Durban, Maritzburg, the Cape, Pretoria and other areas on the Reef, began operating in Johannesburg in March this year, after being given the go-ahead from the Johannesburg City Council

Recently the service was given a boost in Johannesburg areas with the introduction of a brown bag supplied to all households in the suburbs in which the project is operating

Paper Pick-Up national manager Peter Killick says that collections have jumped from 2,7 tons a day to 5,5 tons a day in a five-day week after the introduction of the bags.

"The potential is there to collect in excess of 500 tons a month, which we hope to achieve in a very short time as public awareness and support grows," says Killick.

A special recycled fibre plant commissioned by Mondi in Durban last year cost R100 million. It has the capacity to process 85 000 tons of used magazines and newspapers a year — replacing the need for up to four million pine trees

Sappi Waste Paper's (WOW) campaign has captured the imagination of the public by mobilising schools, businesses, municipalities and other institutions in a large-scale educational effort to bring about a change in waste recycling

Skeate says businesses and especially Model C schools have responded enthusiastically to WOW and more than 4 000 queries have been received. The campaign has been instituted in 800 schools countrywide and a further 1 200 are waiting to join

"Children are naturally 'green' and are the ideal agents of change once they know what the implications of recycling are. We have positioned households as the front-line in the war, with school children being the warriors"

One such school is Sweet Valley Primary in Bergvliet, Cape Town, which in less than a year boosted its funds with more than R16 000 by selling its waste, says Skeate

More than 40 companies have introduced WOW and they have embraced the project as a way of educating staff about waste-recycling, with WOW bins placed in offices all over the country

"One of the most important objectives of WOW is to increase the lifespan of municipal landfills Roughly 30 percent of the waste stream consists of paper products and if these are recycled, it stands to reason that the lifespan of landfills can be increased by at least a third."

Anti-waste warriors . Pupils at Mangeti Primary, a rural school in Zululand, display their enthusiasm for the Sappi War on Waste project

Local firms face stiff competition

Star 2/6/93.

THE South African paper industry has become a whole new ball game in the past few years and one of the biggest challenges facing the industry is to adapt to the increase in competition from the overseas market, according to Graphtec chief executive Derek Smith

Explaining the changing climate, Smith said that over the past 10 years "the local mills have naturally had the market pretty well their own way

"This was because of sanctions, the weakness of the rand and the fact that the economies of the major paper-producing nations were in good shape For these countries, SA was not an attractive market"

He said that the changed economic environment in Europe, particularly with the collapse of the Soviet Union, meant that European manufacturers had to find new markets to sell their products. For example 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

199

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 floods of new and competitive products from overseas, though 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 ment, says Conradie.

Sappi takes lead in chlorine-free bleaching process

Buss. Day 4/6/93

TRADITIONAL processes are being constantly re-examined to find methods that will not harm the environment (199)

One area under the world spotlight is the use of chlorine in the process of bleaching paper. Sappi group environmental manager Paul de Bruyn says there are two main processes involved

"Elemental chlorine free (ECF) indicates the paper has been produced without the use of elemental chlorine. Other chlorine chemicals, such as chlorine dioxide, could still be used. It is common knowledge that chlorine dioxide causes far fewer organo-chlorines than elemental chlorine.

"Total chlorine free (TCF) shows that no chlorine was used in the pulp bleaching process

"As a group we took the first commercial step towards ECF and TCF bleaching 20 years ago when we introduced oxygen bleaching, a process that drastically reduced the amount of chlorine needed in the bleaching process."

Sappi's Enstra mill has been producing ECF pulp since the late '70s and Sappi Saiccor recently completed an investment in excess of R20m on additional chlorine dioxide production, to switch completely to ECF bleaching Further expansion is underway to introduce oxygen bleaching and pave the way to eventual TCF bleaching.

Sappi is also engaged in recycling waste paper. Its mill in Cape Town operates entirely on recycled paper and other mills use a significant portion of recycled paper.

The company is engaged in a War On Waste campaign, designed to conserve valuable landfill space — which consists of 30%-40% paper waste. The programme intercepts clean, uncontaminated office and domestic waste paper before it enters the municipal waste stream

Specially created bins are distributed directly to offices and schools for the domestic campaign.

Sappi Waste Paper regional manager Dou Plenaar says "The waste paper is separated from other waste at source and placed in the bin. The paper is then collected via our extensive collection infrastructure, which consists of collection vehicles, hawkers and appointed agents."

The scheme is receiving wide support from schools around the country and is being backed by major SA companies and organisations, including Engen, Old Mutual, Johnson & Johnson, the Agriculture Department, the Water Affairs Department, Shell SA, OK Bazaars, and Pick 'n Pay.

FIND OUT MORE ABOUT RECYCLING

The success of Sappi's and Mondi's waste paper projects depend on the support of the public.

Recycled paper not only reduces the number of new trees used in the manufacturing process, it is also improves the quality of paper, according to Mondi.

If you wish to find out more about these projects, or are interested in participating, contact:

- Mondi PaperWaste's Paper Pick-Up project: telephone (toll-free) 08000-22112.
- Sappi Paper Waste's War On Waste (WOW) project: write to S Harley, Box 114, Eppindust, 7475.

Star 11/6/93

R10-m damage in Sappi blaze

199

A raging fire caused damage estimated at R10 million to a process plant at Sappi in Springs last night

The blaze was apparently caused by an electrical fault

Firemen received the call at 8.10 pm and it took about four hours to get the fire under control. No one was injured, and an investigation to determine the cause is expected to start today.
— East Rand Bureau

SAPPI

Markets still flattened

Activities: *Vertically-integrated timber group primarily involved in pulp and paper production*
Control: *Gencor 46%*
Chairman: *E van As, MD I Heron*
Capital structure: *149m ords Market capitalisation R4,7bn*
Share market: *Price 3 150c Yields 5,0% on dividend, 8,3% on earnings, p e ratio, 12,0, cover, 1,6 12-month high, R46, low, R24 Trading volume last quarter, 2,7m shares*

Year to Feb 28	'90	'91	*'92	'93
ST debt (Rm)	557	349	529	833
LT debt (Rm)	868	1 263	1 643	1 539
Debt equity ratio	0,36	0,45	0,29	0,42
Shareholders' interest	0,65	0,62	0,61	0,61
Int & leasing cover	6,4	4,6	3,1	6,9
Return on cap (%)	14,1	7,7	6,5	5,0
Turnover (Rm)	2 727	2 669	3 638	4 677
Pre-int profit (Rm)	773	444	501	445
Pre-int margin (%)	28,3	16,6	13,7	9,5
Earnings (c)	650	402	312	262
Dividends (c)	200	200	200	160
Tangible NAV (c)	3 154	3 345	3 185	3 408

* Re-stated

For Sappi 1993 has been a year of change Results were generally better than expected despite currency swings, drought and overcapacity in some markets The devaluation of sterling and Nordic currencies — some declined by 50% against the US$ — caused havoc to pulp and paper prices

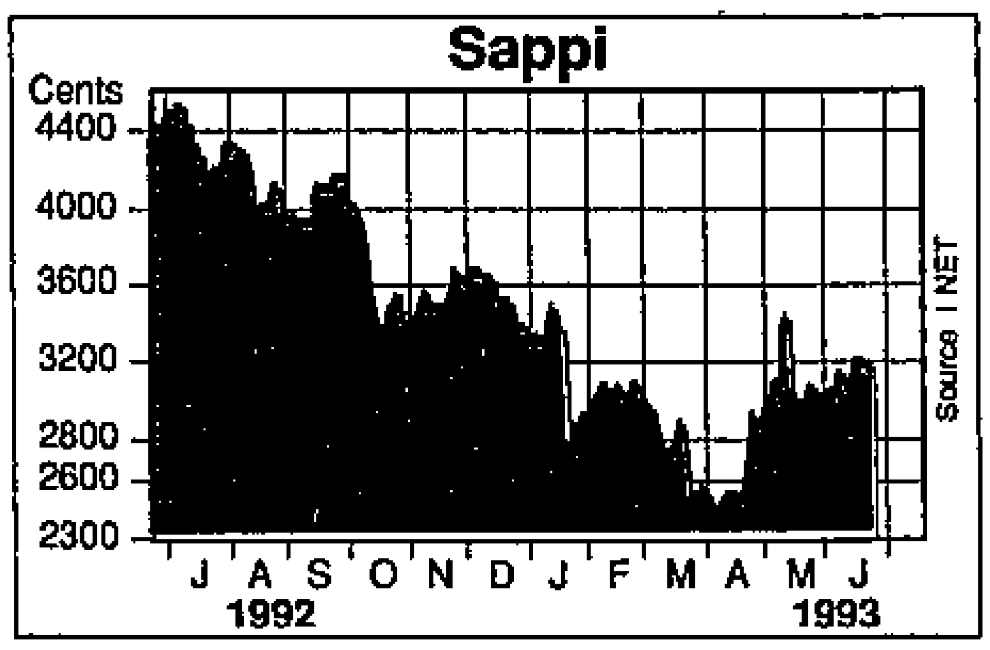
Turnover increased 28,5%, but this was almost entirely because of the acquisition of 98,3% of Hannover Papier (for DM422,3m) which has been consolidated for the second half of 1993 The effect of competitive pricing becomes clearer at operating level operating profit fell 11,4%, bringing margins down from 13,8% to 9,5% Production volumes were increased, particularly in the UK and SA EPS fell 16% from 312c to 262c

Of Sappi's gross sales, 88,4% comes from pulp and paper The pulp end-market is largely textile, viscose fibre and rayon garments, all of which are exported in equal amounts to the US, Europe and the Far East Finance director Bill Hewitt says that apart from the US and possibly Japan, the other markets are depressingly flat

The paper pulp products are suffering from low prices Sappi is exporting more than it would like — the margins on domestic sales are higher, largely because of transport costs, according to Hewitt However, because of the high fixed cost nature of the business — fixed costs are about half the total — Sappi must sell as much as it can It is now working at full capacity

More than half of Hannover Papier's production goes to the local market, demand in the German market remains depressed Two-thirds of the remaining production is exported to the EC, which is suffering excess capacity in the coated woodfree market The outlook for 1994 is not expected to improve much

Since year-end the big news is the R1bn dissolving-pulp expansion project, to lift pro-



duction by 30% to 600 000 t of capacity The new mill is expected to open in January and will create opportunities to enter new markets such as the acetate and Tencel markets

The IDC will be footing half the bill in exchange for shares in nonlisted subsidiary Saiccor At least half these shares will later be converted into Sappi shares The IDC "loan" takes the pressure off cash flow and the balance sheet Net gearing has risen from 29% to 42% over the year because of the consolidation of Hannover Papier

Interest charges nonetheless fell steeply over the year from R163m to R65m this has improved interest cover from 3,1 to 6,9 According to Hewitt, the reduction in finance charges was primarily due to the November 1991 rights issue, rescheduling debt and the fall in interest rates

The share price has risen from a low of R24 in April this year to R31,50 Hewitt says this is not so much a rise as a correction "It shouldn't really have dropped to those levels "

But Sappi will depend now on a turnaround in the economy both within and outside SA On a p e of 12 and a yield of 5,0, the share looks fairly valued, though dividend cover is low at 1,6 The market had expected the dividend to be passed, and received the cut of only a fifth to 160c as a sign of confidence *Louise Randell*

Hunt Leuchars expects strong turnaround

BDay 5/7/93

MARCIA KLEIN

FOOD and timber group Hunt Leuchars & Hepburn (HL & H), was expecting significant earnings growth off a low base in the coming year, after disappointing end-March results, chairman Dave Marlow and CE Neil Morris said in the annual review

The group, ultimately controlled by Rembrandt, reported a 65% drop in attributable income to R42m (R119,2m) in the year to end-March, on the back of a significant loss in associate Rainbow Chicken.

Directors said low consumer demand would continue, but prospects for the economy in general were better than in the previous year. They expected increased economic activity in the second half of 1993.

Robertsons would show real growth, although at a lower rate than in the past HL & H Timber also expected real growth with the contribution of SilvaCel's woodchip operation Rainbow was expected to return to profitability The major cause of the disappointing results was the loss in Rainbow, which represented 38% of the group's total investment.

Robertsons, which increased turnover by 16% and earnings by 13%, was the only group company to achieve a satisfactory performance.

Rainbow still had the potential to become a major contributor to earnings, they said. Real volume growth would be achieved through increasing per capita consumption and demographic expansion. It was the only company which could effectively service the entire local market, and it had the infrastructure to take advantage of growth in demand without major capital investment

Transvaal Sugar had begun construction of the R480m Komati sugar mill, and production would begin in the new financial year.

SilvaCel's woodchip operation at Richards Bay was commissioned ahead of schedule and within budget.

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. (199)

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.

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.

SUNDAY TIMES, Business Times, July 18, 1993 3

BUSINESS BRIEFS

Sappi expects lower earnings

THE deteriorating international pulp and paper market has caused Sappi to revise downwards its expectations for the year's earnings

S Times (Buss)

Sappi chairman Eugene van As said at the Friday AGM he expected second and first half earnings to fall below last year's.

18/7/93

Mr van As says that while currencies have moved in Sappi's favour in recent weeks, the pulp market has deteriorated with some northern hemisphere pulp-makers attempting to increase market share by sharply reducing prices.

199

Holdains muscles into can market

HOLDAINS' acquisition of a significant stake in Crown Cork SA has given it a strategic entry into SA's beverage can market. The acquisition has coincided with SA's return to the international economy, and will enable the group to embark on a steady expansion throughout the continent

Crown Cork has two plants in Johannesburg, one in Cape Town, and one in Kenya, Nigeria, Zambia and Zimbabwe.

Its products include two-piece drawn and iron metal beer and soft drink cans, crown corks, aerosol cans, food cans and aluminium can-ends (199)

The company says its international partnership with its original international parent will benefit it by blending the best of local and international resources. B/Day

Crown says its partners are SA's second largest packaging group, Holdains, and the US leader and one of the world's packaging giants, Crown Cork & Seal (182)

Protected

Crown says the isolation years saw SA build up resources that were often strategically rather than commercially driven. In addition, locally focused companies were protected "from the vagaries of international exposure"

Crown SA has enjoyed a relationship with US Crown Cork & Seal for more than 60 years. MD Harry Lavery says Crown is finding it easier to benefit from the US company's talents and experience under the new political dispensation. 19/7/93

He says Crown Cork's lead in technology began with the original Crown cork, invented in 1892, and it has retained its position to this day, with a little modernisaiton.

There have been a variety of other developments, including Crown fillers for bottles and cans, crowners, bottle washers and conveying equipment does not react with its con- its fifth glass factory at Consol glass factories SA to do so

Taking advantage of opportunities keeps firms ahead

BDay 19/7/93 (188)

THE plastic packaging industry had an unmemorable year as low consumer demand resulted in pressure on volumes

But there are many opportunities for plastics, even in relatively quiet times, and plastic packaging manufacturers are focusing on improving market share and on taking advantage of opportunities like substitution, which has opened up new markets for their products

One of the major players in this market is Consol Plastics, which was formed in 1962 when Consol bought Pretoria Industrial Plastics and relocated it to Wadeville

Divisions include the blown containers division, which specialises in packaging for laundry additives and detergents, motor oils and additives, food packaging, pharmaceuticals and cosmetics, and a variety of closures

The beverage packaging division produces packaging for carbonated soft drinks and mineral waters, long life fruit juices and related closures

MD Tony Jansen says packaging has, for the first year in a long time, suffered equally with other industries

Although the past year has been difficult in terms of demand for its products, Jansen says Consol Plastics had seen the downturn coming and had taken steps to curtail costs and increase productivity, and it had not relied on organic growth

Despite the current conditions, there are still many opportunities within the industry, and Jansen says he is positive about substitution opportunities

The bottles and closures industry has grown by substitution, and is taking over from glass and tin in some areas, especially with lower price inputs

Expanding

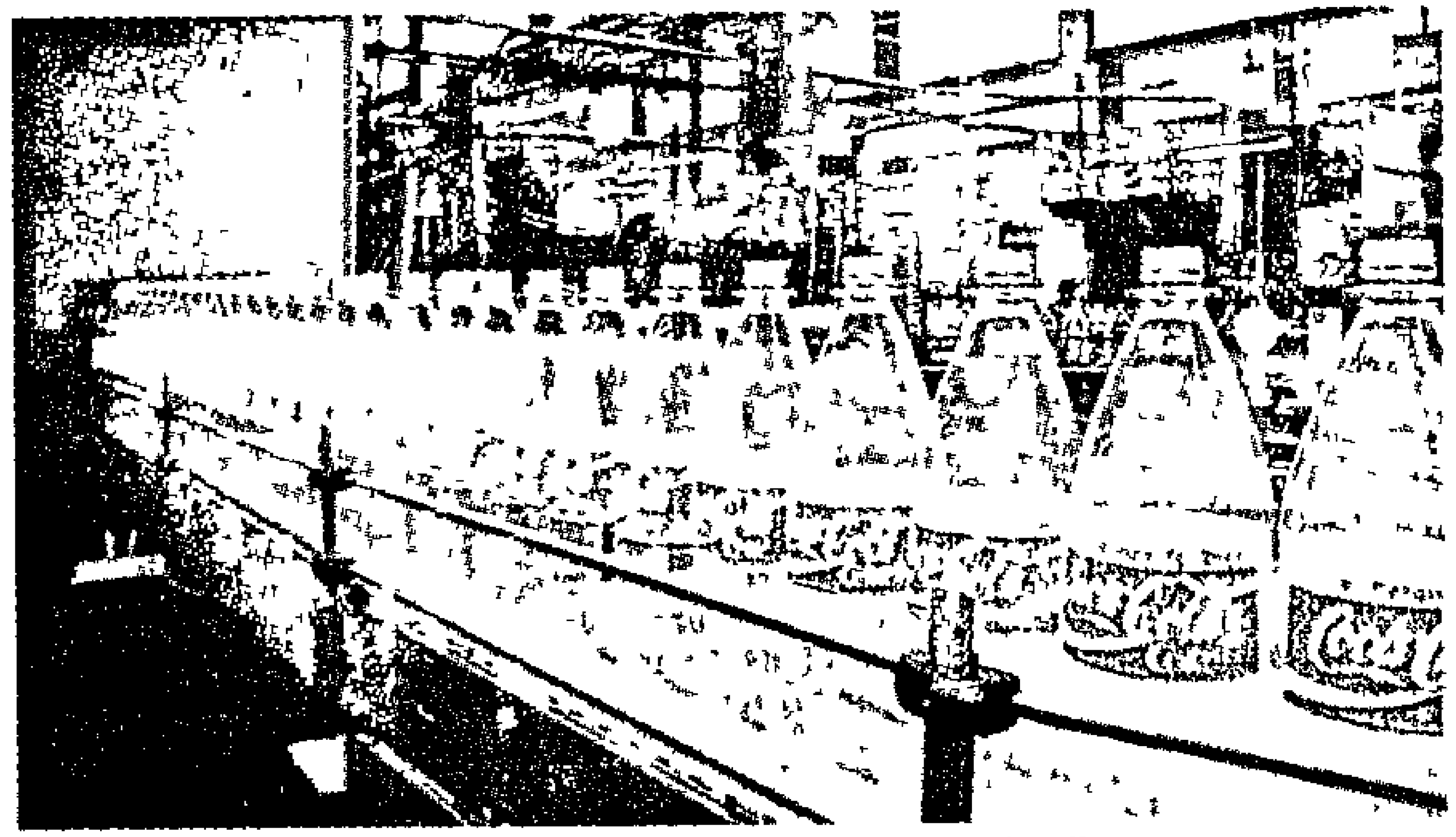
Consol is committed to expanding the operation of the high value-added flexible packaging market, largely for snack foods and counter lines

Currently, its major area of penetration is in beverages, healthcare, household goods and some foods

Jansen says an area of concern is strong price pressure from the buyers of packaging manufacturers' products, and this price consciousness has put pressure on quality in the industry But most of the major players have quality of world standards

Over the years, the industry is becoming more capital intensive, and the barriers to entry are real

Opportunities for exports are few, but there are opportunities in the flexible area and in healthcare and closures He says SA is protected against imports, and this has provided a boost for local industry.



Consol Plastics' 1,5l container production line

Bottle banks help to clean up the country

BDay 19/7/93

SA's major glass manufacturers, Consol and MB Glass, together collect about 20% of annual glass production through bottle banks

The Glass Recycling Association, set up by the two companies, has more than 1 000 bottle banks in 70 towns and cities in SA and Namibia

Association spokesman Ken Ensor-Smith says glass recycling is one of the industry's major contributions to a cleaner and safer environment "Recycling glass conserves non-renewable resources and saves energy in glass production, as its use enables furnaces to operate at lower temperatures"

But Ensor-Smith says a relatively small proportion of all glass recovered is done so through bottle banks, so they have enormous potential

In the year to October, the association collected about 7 000 tons of cullet, which is broken glass, bottles and jars This tonnage did not have to be handled by municipal authorities, and meant a real saving of R1,1m for ratepayers.

By diverting glass back to the industry for re-use, ratepayers save more than R150 a ton in disposal costs, refuse sites save space, recycled glass saves energy in the melting process, raw materials are conserved and jobs are created in collection and handling, Ensor-Smith says

Companies using glass packaging have been asked to sponsor bottle banks in public places, and they receive payment for tons of glass generated

With glass recovery now at more than 20%, 91 000 tons are being redirected from landfill sites at a saving of R14,6m Ratepayers save money in disposal costs, refuse sites save space, use of recycled glass saves energy and manufacturers save raw materials

SA firms active in environmental schemes

BDay 19/7/93 (199)

MANUFACTURERS in the paper, packaging, plastics and printing industries are making a concerted effort to tackle environmental issues because of the long-term problems that could evolve if nothing is done about collecting waste and re-using it

Paper and pulp producers Sappi and Mondi have made significant inroads into paper collection and paper recycling in SA.

Sappi has been involved in the waste paper industry for about 20 years Sappi Waste Paper, as it has been known for the past 13 years, has collected 600 000 tons of waste paper so far this year

Sappi says a 33% collection level of all paper consumed is recovered Its projected recovery rate by the year 2020 is 45%, but it believes this will be achieved sooner

Sappi is also the first company to produce 100% recycled printing and writing paper at its Adamis mill The first grade paper, called Reviva, is made from recycled paper collected by Sappi Waste Paper

Sappi says more than 600 000 children are involved in collecting waste from homes and schools

Mondi recently extended its Paper Pick-up free paper collection service to Johannesburg Unlike bottle and can collection, where the public is paid to hand in items for collection, householders who leave their used newspapers and magazines receive no payment But money is given to city councils to donate funds to charity

Diversity

Sappi, Mondi hit hard by market forces

BDay 19/7/93.

SA's paper and pulp industry, dominated by Sappi and Mondi, has been characterised by poor trading conditions in the domestic market, an increase in dumping in SA, and significant movements offshore

In one of the largest offshore deals in the past year, Sappi acquired Germany's largest producer of coated graphic paper, Hannover Papier, for DM430m.

Last year, a consortium including Mondi's parent Anglo, as well as Mondi, De Beers, Centenary and Minorco, paid R550m for a significant stake and joint control of Austrian pulp and paper group Frantschach

Although these acquisitions have positioned SA's major pulp and paper producers as significant international players, worldwide overcapacity and recessionary conditions locally and offshore have had their effect in the past year.

Unlike packaging companies, which have managed to maintain or improve profitability without volume increases, paper and pulp companies have reported lower earnings as they have been unable to offset poor conditions locally and abroad

The groups were also affected by a significant amount of paper dumped on the SA market

Sappi said recently it would have a "significantly worse" first half than the previous year, but expected a recovery in the second half

Executive chairman Eugene van As said in his annual review that earnings for the full year to end-February should be close to earnings reported for financial 1993 (1991)

In the year to end-February, Sappi's earnings fell by nearly 16% to 262c a share on a 28,5% turnover rise to R4,7bn The increase in turnover reflected the acquisition of Hannover Papier, whose results were consolidated for the second six months only.

Difficult

Van As said the instability of currencies and uncertainty about recovery in the economies in which Sappi operated made it difficult to forecast This calendar year would remain difficult for the industry and Sappi.

In the local market, demand for the group's products would be static, and it would continue to face competition from lower-priced imports. Margins would be under pressure, but cost increases would be kept well below inflation

The UK and US markets would show improvement Sappi Europe should show a a modest profit for the year, but Hannover Papier was likely to show a loss

Sappi initially acquired 90,6% of Hannover, then raised its stake to 98,3%, and would integrate the remaining minoroties to make it wholly-owned.

Earlier this year, unlisted Mondi, which is 53% held by Anglo, said a poor domestic market and a jump in the amount of paper dumped in SA, had led to "a catastrophe" year for the paper and pulp markets

In the year to end-December, Mondi's earnings fell by 54% to R51m This was attributed largely to a poor local market — where Mondi closed between 10% and 20% of its 1,5-million ton a year capacity — and a bad year for the sector abroad

Analysts said that in the local market, SA's major printers and publishers were also using less paper as advertising volumes had fallen

Drop in demand for timber hits Yorkor

THE York Timber Organisation plunged deeper into the red in the six months to end-June 1993 after local demand for timber plummeted to the "lowest in living memory", chairman Solly Tucker said

Published results for the Pretoria-based forest products company with sawmills in the eastern Transvaal, showed turnover lower by more than quarter to R14,2m (R19,7m) Operating loss was R3,3m compared with a R134 000 profit B/Day

Loss a share fell to 43,8c from a 9,7c loss in the first half of last year and a 38,3c loss at year-end in December 1992 The interim dividend was passed

EDWARD WEST

An operating loss was budgeted for in the first half because of falling demand, but a return to profitability was expected in the second half, said Tucker 24/8/93

"In what can only be described as a death wish, sawmillers, almost without exception, offered substantial and quite unnecessary discounts in a misguided struggle to increase sales," he said (199)

Yorkor had resisted the downward price spiral by halting production for most of the first three months of the year, he said

Sappi sinks to five-year low

B/Day 8/9/93

MATTHEW CURTIN

SHARES in Sappi have sunk to a five-year low on market warnings of worse-than-expected interim earnings and a likely dividend cut

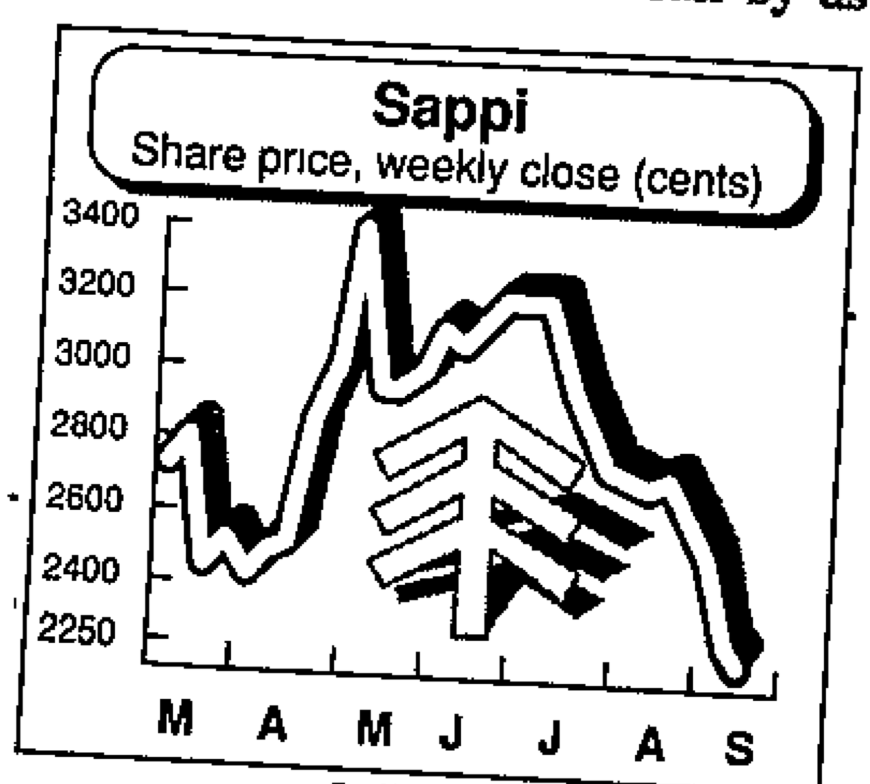
The shares fell 50c to R22,50 on the JSE, yesterday, their lowest level since May 1988, and less than half their value in mid-1992 when they peaked at R47,50

Market gloom also derives from the consequences of the unbundling of Gencor, with the mining house's shareholders set to receive extra Sappi shares at a time when they may be less than attractive

Sappi took a large party of local and European analysts to see its mills in Britain and Germany last week where they were briefed on the poor conditions in the European paper market

The group derives a third of its sales — worth R4,7bn in all in 1992/3 — from its European operations. The profitability of German quality paper producer Hannover Papier, acquired for DM400m in mid-1992, has been dented by the local recession and the havoc wrought on the company's export competitiveness by the currency gyrations in the EC and Scandanavia

Market sources said yesterday they expected Sappi's earnings in the half-year to August 31 to fall by as much as 50% from last year's 130c a share The fall in earnings a share would be aggravated by the group's 1992 rights issue.



Graphic KAREN MOOLMAN Source I NET

One said "The group is yet to show any return on the scrip it issued to buy Hannover" Hannover broke even in 1992/93 but was making losses so far this year Sappi turned in attributable earning of R370m equivalent to 238c a share last year and declared a reduced 160c (200c) total dividend

The dire predictions follow blunt warnings in July by chairman Eugene van As that interim earnings would be much lower

199

An analyst said all Sappi's competitors in Europe and Scandinavia were losing money, but the industry had not contracted because many producers were surviving on soft bank loans and government support

Some analysts forecast a turnaround only in the 1994/5 financial year.

Poor prices burn into Sappi's profit

B/Day 21/10/93

MATTHEW CURTIN

PULP and paper producer Sappi has passed its interim dividend after reporting a two-thirds crash in earnings to 43c (167c) a share in the half-year to August 31

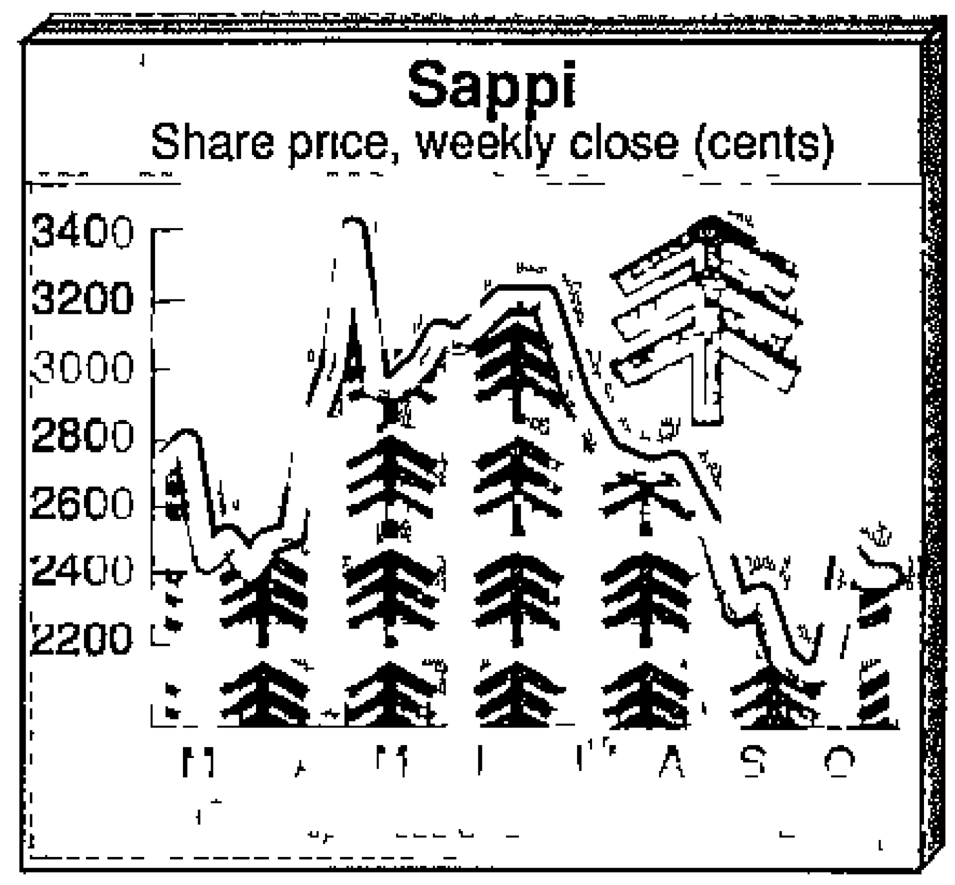
Bad international pulp and paper prices, made worse by last year's currency devaluations in Europe, ensured the group won no relief from the full contribution from German paper producer Hannover Papier, bought last year for DM440m.

The outlook is little better. Executive director finance Bill Hewitt said the decision to pass the dividend — Sappi paid an 80c interim and total 160c dividend last year — reflected the difficult half-year results and the gloomy immediate outlook Sappi's second-half earnings would not match the interim performance (1993)

In addition, Sappi faced a possible R20m charge before year-end relating to an unresolved claim by a third party in SA The claim could be subject to litigation, but Hewitt declined to disclose more details

Although the consolidation of Hannover's results was solely responsible for the jump in sales to R2,75bn (R2,02bn), the company turned in significant but unspecified losses, exaggerated by the Deutschmark's strength against the rand

Operating profit fell by half to R101m (R221m) Reduced net finance charges of R31m (R37m), due to the R500m IDC cash



injection Sappi secured in May, provided little relief at the pre-tax level where income collapsed to R64m (R184m)

Sappi paid negligible company tax of R1,5m and avoided secondary tax on companies through shelving its dividend payout After-tax profit stood at R62,8m (R178m) which, after a R1,5m loss attributable to outside shareholders, left attributable earnings at R64m (R175m)

Hewitt said prices were "somewhat catastrophic" in the period Sappi's overall turnover was static if Hannover's contribution was stripped out, reflecting some increase in volumes

He said UK and German operations con-

☐ To Page 2

Sappi

B/Day 21/10/93

☐ From Page 1

tinued to reel from the impact of last year's devaluation in Scandinavian currencies which had a threefold impact on Sappi's sales Nordic producers became extra-competitive at a stroke, able to undercut already weak prices in Europe They were able to target the German market most effectively because of the strength of the Deutschmark — hitting Hannover hard. And they staved off almost certain closure, making the oversupply of pulp and paper in Europe even worse (1993)

Hewitt said the market for coated wood-free paper, Hannover's core product, was 25% oversupplied while growth in demand for fine paper in Germany had slowed from 10% to about 1% a year. Sappi's UK mills benefited from the relative weakness of the pound, but were only able to break even in the period. Far East export sales were also affected by lower prices and stiff US competition, while domestic sales remained depressed

All Sappi's operations continued to trim costs and improve productivity, and management was investigating restructuring high-cost areas of its German business Hewitt said Sappi was well-placed for an upturn in markets, reflected by its underlying profitability Results reflected a high degree of depreciation, and yearly operational cash flow stood at about R450m

Although US analysts were predicting a strong turnaround in the fortunes of paper and pulp producers in 1995 after a modest recovery next year, Sappi was more cautious, "happy to be proved wrong" Limited new plant capacity and possible plant closures from financial and environmental pressure could improve the demand-supply balance, but there was little sign that world economies were poised for strong recovery, Hewitt said.

Sappi outlook still grim despite higher prices

BIDAY
25/10/93

MATTHEW CURTIN

INCREASES in international pulp and German coated paper prices this month have failed to dissuade Sappi from its grim short-term outlook for the sector, chairman Eugene van As said at the weekend.

"Some increases are there, but whether they'll stick is another matter," he said.

He said margins were so thin for Sappi's domestic and European operations that small changes in prices for Sappi's products would have a big impact on results. Consequently, it was hard to predict second-half earnings accurately. Sappi passed its interim dividend last week after reporting a 63% dive in earnings to 43c (116c) in the six months to August 31.

Van As said paying no interim dividend gave the group flexibility in deciding what to pay at year-end when market conditions could be clearer. One option might be to pay a scrip dividend.

In the longer term, the pulp and paper markets would turn around within 18 months, but there was little evidence that current US confidence of a sharp recovery in 1994 was reflecting anything more that improving sentiment.

A stronger US economic revival would drive prices higher internationally because of the industry's domestic orientation. Better local consumption would restrict US supply to export markets.

Van As said Sappi was content to wait for recovery, push new niche products and concentrate on sustaining market share.

Sappi's European operations were benefiting from the creation of a Europe-wide marketing operation giving customers quick access to all Sappi products.

Management was restructuring German producer Hannover Papier to cut costs. Redundancies were likely.

(199)

Market sources have questioned the timing of Sappi's Hannover purchase in mid-'92 — when investors subscribed for new Sappi stock at more than double the current R21,25 — especially as the depressed state of the European industry means several paper companies are up for grabs at low prices.

Van As said Sappi might have bought Hannover more cheaply this year than last, but conditions today were rather different. Stricter Reserve Bank exchange control regulations were in force while Sappi had to fight off rival offers last year.

He believed Sappi had not overpaid for Hannover. While the choice of country had proved unfortunate in the short-term — Hannover is barely operating at break-even because its domestic and export sales have been affected by the strength of the Deutschmark — in the medium term, ownership of a German paper supplier with good access to eastern Europe's markets would be advantageous.

Cheap imports send paper prices tumbling

BiDay 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. (199)

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 2/11/93

Lion Match keeps alight

Durban — SAB match and shaving products subsidiary Lion Match has reported a seven percent increase in turnover to R147,9 million for the six months to August, compared with R138,9 million for the same period last year.

Group trading profit increased 13 percent to R19,1 million (1992 R17 million), reflecting the benefit of improved productivity and reduced overheads in all operations.

(199)

Lower finance costs at R3,1 million (1992. R3,7 million) and corporate tax of R6,8 million (1992. R6,3 million) enabled the group to improve consolidated taxed profit by 33 percent to R9,1 million (R6,9 million)

Finance costs should be reduced considerably in the second half, with Lion Match receiving R205 million in cash from Consol for Interpak.

A substantial decline in electrical appliance sales and further rationalisation costs resulted in a loss being reported by Amalgamated Appliances

Attributable earnings for the period increased 17 percent to R7 million (1992 R6 million), representing 15,49c per share

An interim dividend of 6,15c has been declared (1992 R5,25c). — Sapa

Hunt Leuchars helped by healthier associates

B/Day 8/11/93

MARCIA KLEIN

FOOD and timber group Hunt Leuchars & Hepburn (HL & H) increased attributable earnings 36% to R32,1m (R23,6m) in the six months to end-September on the back of a much improved performance by Transvaal Sugar and significantly reduced losses in associate Rainbow Chicken.

CE Neil Morris said despite the state of the economy and difficult agricultural conditions, the results were a significant improvement. This improving trend in operating performance would continue in the second half.

(199)

The group's first half turnover grew 13% to R571,6m (R507m), and margins were held as operating income improved 14% to R72,5m (R63,6m).

Lower rates saw the interest bill fall 6% to R25m, improving pre-tax income 27% to R49,4m.

The effective tax rate rose to 32% (19%) because of an increased tax provision by Transvaal Sugar and STC. As a result, income after tax was 7% higher at R33,5m. But a cut in the group's share of Rainbow's losses saw bottom-line income rise 36%.

Earnings rose similarly to 21,5c (15,8c) a share, and the interim dividend was maintained at 13,5c a share.

Morris said Robertsons, which contributed 37% (45%) of attributable income, gained market share in most of its product categories.

Transvaal Sugar showed a significant earnings increase, and contributed 43% (32%) to attributable income.

The new Komati Mill would be brought into production in March. The benefits flowing from capital allowances would have a significant effect on second half earnings, Morris said.

HL & H Timber's contribution was 23% (37%), as volumes in HL & H Mining Timber came down.

Although domestic chicken sales dropped 7%, Rainbow turned around and showed a trading profit before interest and a small bottom-line loss for the period. This compared with significant losses in the previous year.

Huntcor, whose only investment is its holding in HL & H, declared an unchanged interim dividend of 27,2c a share.

1 000 paper mill workers to lose their jobs

Sowetan 9/12/93

By Ike Motsapi

MORE than 1 000 workers will lose their jobs through mass retrenchments at paper mills countrywide, according to the Paper, Printing, Wood and Allied Workers' Union.

Ppwawu said in a statement yesterday that Mondi, Sappi and Nampak planned to close several plants, which will result in about 1 302 workers losing their jobs.

Mr Rob Rees, an organiser of Ppwawu, said: "Mondi plans to close its Belville paper mill in Cape Town and this will affect about 300 jobs.

"Sappi is retrenching 372 workers at Enstra in Springs and a further 300 at Sappi Tugela

Replace workers

"Nampak is closing two machines at its Kliprivier plant on the East Rand and has also introduced new machinery to replace workers at Corrugated Wadeville, meaning that 380 jobs will be lost "

199

A spokesman for Nampak, Miss Zelda Jonker, confirmed that there would be some retrenchments as a result of the closure of certain paper mills.

Jonker said management was engaged in talks with Ppwawu regarding the issue and a statement would be released today.

Rees said "Ppwawu is demanding a moratorium on retrenchments until at least the end of January next year.

"This would give the union time to conduct an investigation and pursue negotiations on an informed basis to reach an acceptable outcome," said Rees

Keen buying takes Sappi shares to five-month high

BDay 29/12/93

199

MATTHEW CURTIN

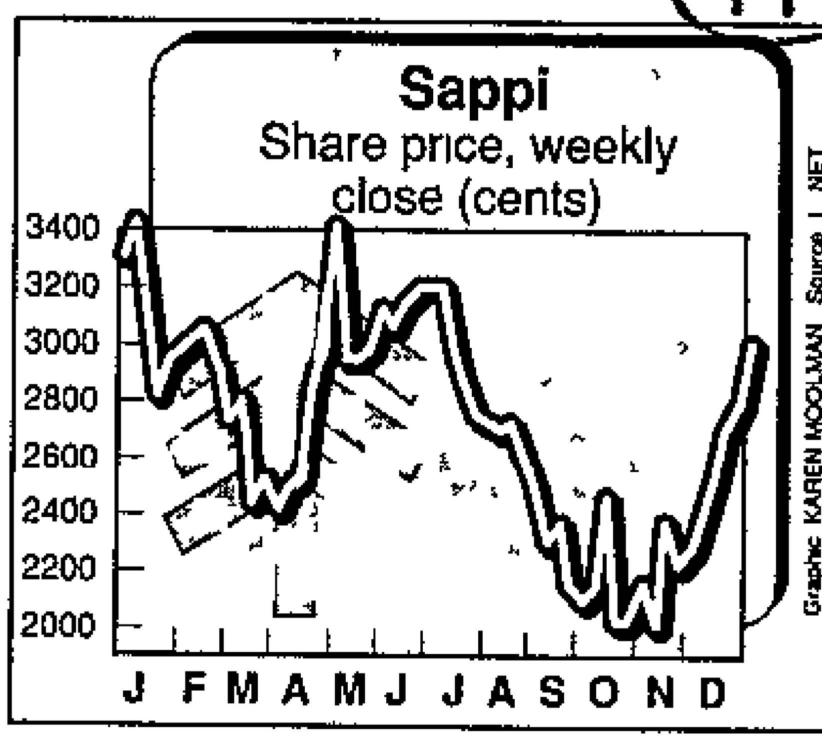
THE recovery in Sappi's share price gathered momentum yesterday as confidence in the pulp and paper producer's medium-term prospects took the stock to a five-month high in active trade on the JSE

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 He reaffirmed Sappi's intention to emerge as a leading international player after an expected shake-up in the industry in the mid-1990s.

In the short term, the company has said it is confident of no more than maintaining interim earnings in the second half of the financial year to February 1994

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 — WOOD & CORK

1994

Sappi clinches R100m deal

B'Day 20/1/94

MICK COLLINS

SAPPI yesterday announced the sale of two German paper converting businesses in a deal said to exceed R100m.

The two companies, Sachsa Verpackung and Landre Papierwaren, were acquired in the Hannover Papier transaction in mid-1992 Hannover will invest the proceeds of the sales in its mainstream activities

Sappi said the move was in line with its strategy of concentrating on its core business of manufacturing quality graphic and speciality papers in Germany (232)

Sappi executive chairman Eugene van As said paper converting was not on Sappi's agenda "At the time we bought Hannover Papier, we indicated that these two businesses were not part of our core business, but we were in no hurry to sell and would wait for the right price This has now been achieved and Hannover Papier will plough the funds into its existing business — the manufacture of high quality graphic and speciality papers"

Hannover MD Franz Neudeck said the company would use the funds to consolidate and expand its position as one of Europe's major producers of coated paper.

Sachsa Verpackung, which produced 76-million sacks a year and achieved sales of DM52m last year, was sold to French wood, paper and packaging company Gascogne SA Dax. Stationery producer Landre Papierwaren, which had a turnover of DM57m last year, had been sold to Neptuno Verwaltungs, a subsidiary of Sal Oppenheim jr and Cie based in Cologne

The transactions were effective from January 1 (199)

Sappi in German deal

Star 20/11/94

■ BY SVEN LUNSCHE

Sappi has sold two of the German businesses it acquired in the 1992 Hannover Papier deal for R100 million.

Sappi said in a statement that the deal was in line with its strategy of concentrating on its core business of manufacturing quality graphic and speciality papers in Germany.

Hannover Papier will invest the proceeds of the sales — in excess of R100 million — in its mainstream activities.

Hannover managing director Franz Neudeck said the company would utilise the funds to consolidate and expand its position as one of Europe's major producers of coated paper.

Commenting on the sale Sappi executive chairman Eugene van As said that paper converting, the main business of the two subsidiaries, was not on Sappi's agenda.

"At the time we bought Hannover Papier, we indicated that these two businesses were not part of our core business, but we were in no hurry to sell and would wait for the right price. This has now been achieved," van As said.

The two businesses that have been sold are Sachsa Verpackung to a French group, Gascogne SA Dax, and stationery manufacturer Landre Papierwaren to Sal Oppenheim subsidiary Neptuno Verwaltungs. Both businesses had annual sales in excess of Dm50 million.

Yorkcor rallies in second half as timber industry straightens out problems

ST Times (Buss)

By ZILLA EFRAT

YORKCOR rallied in the second half of 1993 as conditions in the timber trade picked up 20/2/94

Operating profit for the year to December was R800 000 compared with a loss of R1,5-million in 1992

But after interest charges, the group recorded an attributable loss of R1,12-million. The previous year's loss was R3,75-million. (1992)

Chairman Solly Tucker says in the annual report, released with the financial results, that Yorkcor earned 33c a share (1992 loss 28c) in the second half.

This followed a successful quest for new markets and products, productivity improvements and better management of cash and assets

But the loss for the year was 10,8c a share (38,3c loss in 1992)

An operating loss of R4-million was incurred in the first half of 1993 when conditions in the timber trade were described as the worst in memory

Yorkcor stopped its sawmilling operations for three months "rather than join the carnage in the market place"

The biggest problem is continuing predatory price cutting by the industry's leaders

There is word that the Competition Board will become involved

Mr Tucker says conditions have improved after rationalisation and plant closures

Lumber millers have become more efficient and improved their margins and capacity use

Mr Tucker believes that there is no better time to look for acquisitions and confirms that Yorkcor is shopping around

It seems, however, that its rivals have similar intentions and a low-level scramble for sawmills and timber resources has been evident for some weeks.

Indications are that the industry will face two price increases — both of 25% — in 1994 from the state-owned SA Forest Company Ltd (Safcol) which supplies most of its timber.

But Mr Tucker forecasts a return to profitability in 1994 — earnings of about 20c a share and a dividend of 10c

He says Yorkcor's niche and export strategies make it less dependent on domestic timber prices.

The group also assumes that Safcol will ultimately be satisfied with an initial log-price increase of less than 15% and that it will give additional value for the higher price.

Stability after the elections could also mobilise pent-up resources for tackling the housing backlog

Demand for timber would improve as a result.

Mr Tucker says 300 000 houses are needed each year to make a serious impact on the backlog of more than 1,3-million.

ANIES

Yorkor looks ahead to improved performance

B/Day

ROBYN CHALMERS

THE York Timber Organisation (Yorkor) expected to post earnings of 20c a share and dividends of about 10c a share during the 1994 financial year, said chairman Solly Tucker in the group's annual report. 2/2/94

Yorkor was hard hit in 1992 and the first half of 1993 by competition. In the first six months of last year, it lost more than R4m in operations and decided to halt sawmilling operations completely for three months.

Tucker said the group's performance took a turn for the better during the second half, raising earnings to 33c (28c loss) a share. He said this placed Yorkor's prospects for 1994 on a profitable footing.

The group's sawmilling division put in a creditable performance during 1993, and Tucker said its contribution to group profits increased to R5,51m from R4,85m in the previous year (199)

Yorkor's furniture division sustained a loss of R2,17m in 1993, compared with a loss of R1,88m during 1992.

"It is no secret that few in the business of pine remanufacturing have made money in recent times," said Tucker. He said the SA Forest Company (Safcol) had proposed a price hike of 25% in March and in September.

"Although our niche export strategies will render us less dependent on domestic timber price levels for sawn timber, we have assumed that Safcol will ultimately be satisfied with an average log price increase of less than 15% from March 1."

Yorkor was looking to the post-election period for "pent-up resources" to be mobilised for housing.

YORKCOR FM 4/3/94

Still dressed in red

Chairman Solly Tucker rightly continues to place much emphasis on the quality of disclosure to shareholders The annual report is a compendium of information, not all of it easily accessible but there nonetheless (199)

However laudable this may be, it shouldn't disguise Yorkcor's real difficulties over the past two years Though things have improved, the income statement is still written largely in red Turnover fell for the second successive year, however, tighter control over costs and a better trading margin

Yorkcor's Tucker *successful quest for new markets*

resulted in net operating profit of R801 000 (1992 R1,5m loss) FM 4/3/94

Yorkcor's main difficulty has been cash flow Borrowings climbed over the five years to 1992, and this year the interest bill of R1,9m (1992 R2,3m) wiped out the achievements at operating level But headway has been made the positive turnaround in net cash flow from 1992 to 1993 was nearly R10m (199)

Tucker says three factors contributed to this capital expenditure was contained to R155 000 (R2,7m), money was not absorbed by discontinued operations as was the case the previous year, and working capital management tightened — borrowings fell 19% to R10,6m

Management is bullish on Yorkcor's ability to improve profitability this year It is forecasting turnover up 43% to R50m, EPS of 20c against 1993's loss of 10,8c and a dividend of 10c This confidence stems from the improvement seen in the second half and from an expected release of pent-up demand after the elections.

Though turnover fell 28% on year-ago levels in the six months to June, it was nearly 26% up year-on-year in the second half, and more than 46% up on the first half Tucker attributes this to Yorkcor's successful quest for new markets and new products, and better productivity and asset management

Though the trading environment remains adverse, the possible curtailment by the Competition Board of predatory price-cutting — 35%-40% — by the industry's Goliaths would support operating margins Two price increases — both 25% — are expected from the State-owned SA Forest Co (Safcol), but he believes Safcol will ultimately be satisfied with an average log price increase of less than 15%

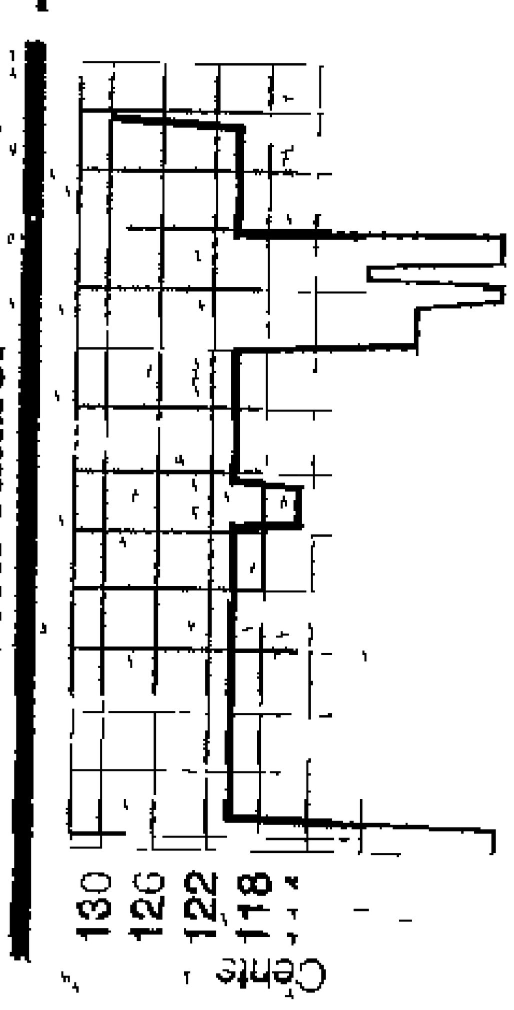
The core business, the sawmilling division, performed creditably during 1993 contributing R5,5m (R4,9m) to group profit Though Yorkcor is moving its focus from construction and industrial timber to value-added products, like furniture, the transition has been made more difficult by recession The furniture division lost R2,2m (1992 R1,9m loss) Action to rectify this has been taken — disciplines were stepped up, costs tightened and business was moved from non-performing markets abroad

Tucker believes progress made with exports in the Far East, including China, and Pacific Rim countries should, in the years ahead, contribute significantly to sales from this division Possible mergers or acquisitions with manufacturing companies would, he says, reinforce this

The share, at 140c, is at a 12-month high, though much of the movement (8%) came over the past few days The price is at a 30% discount to NAV, but better product prices and firmer demand in the construction and retail markets are needed to justify further appreciation

Marylou Greig

York Timber



Activities: *Sawmiller and maker of wood products, as well as property investment*
Control: *Max Tucker & Sons (Pty) 45,8%*
Chairman: *S Tucker, MD I S D Tucker*
Capital structure: *9,98m ords Market capitalisation R13,9m.*
Share market: *Price 140c 12-month high, 140c, low, 100c Trading volume last quarter, 36 100 shares*

Year to Dec 31	'90	'91	'92	'93
ST debt (Rm)	1,8	2,0	2,1	0,9
LT debt (Rm)	8,4	7,0	11,0	9,7
Debt equity ratio	0,51	0,36	0,67	0,39
Shareholders interest	0,5	0,6	0,5	0,5
Int & leasing cover	1,6	1,1	n/a	0,42
Return on cap (%)	7,5	6,2	n/a	2,0
Turnover (Rm)	36,9	39,8	36,2	34,9
Pre-int profit (Rm)	2,8	2,5	(1,5)	0,8
Pre-int margin (%)	7,6	6,4	n/a	2,4
Earnings (c)	21,6	2,4	(38,3)	(10,8)
Dividends (c)	14,0	14,0	nil	nil
Tangible NAV (c)	199	240	194	184

State timber company sees small profit in its first year

S Times (Buss). 13/03/94

BY CIARAN RYAN

STATE timber producer Safcol should post a small profit in its maiden year as a commercialised company

It was launched in April last year to take over the commercial interests of the Department of Forestry and is proving to be an interesting case study of the pressures facing newly commercialised operations

Timber users protested last year against the increase in the price of saw logs by 50% this year in two equal instalments But without a "reasonable" increase, Safcol will return to the red and the state will be forced to subsidise timber

Safcol aims to bring the price of domestic saw logs more in line with international norms SA users pay about R55/m³ for standing high-quality pine logs. The international price is R220/m³

Safcol chief executive Tienie van Vuuren says that even with the proposed increase, SA prices will be well below those of other countries.

Nora Hill, of the Timber Products Exporters Association, says "If prices go up 50%, dozens of wood-furniture exporters will have to close Three of our members have been liquidated because they could not pass on higher operating costs to customers Timber manufacturers are being held to ransom by a cartel of growers."

Safcol is likely to find itself in front of the Competition Board if it imposes the price increase

Safcol has 34% of the saw-log market, the balance being shared among Sappi, Mondi and small growers. Other producers are expected to follow Safcol's price increase

Price leadership is not a restrictive practice But the Competition Board may — as it did with Abakor last year — recommend an accommodation of timber exporters, who are particularly at risk because of the sensitivity of their foreign customers to price increases

TIENIE VAN VUUREN

The Timber Products Exporters Association comprises 47 members employing an estimated 28 000 The prospect of even a quarter of these losing their jobs poses a dilemma for the board

Rocky Pretorius, of Popular Furniture, says "If prices rise by even half the proposed amount, the timber export industry cannot survive"

Letters to Business Times from the Timber Products Exporters Association show that foreign customers will not countenance an increase because they can buy cut-price timber from Brazil.

Timber exports earn SA more than R120-million a year

Saw millers will be able to absorb some of the cost increase, but will have to pass on between 13,5% and 23% to manufacturers from April 1

Mr Pretorius says "The wood we are offered in SA is not the same standard as Sweden's But we are to be charged international prices"

Several of his customers have flown to Brazil in search of furniture bargains

Mr van Vuuren replies that 45% of SA logs are pruned, surpassing even Japanese quality standards

Some manufacturers have started to import saw logs from Zimbabwe, where the government subsidises the industry There is no import duty on timber, but it costs $120 to freight a cubic metre — roughly a ton — from Brazil to SA.

Safcol is huge by any measure It owns 400 000ha of forest land, 265 000ha of which are cultivated Its turnover for the year to March will be about R250-million

Mr van Vuuren says difficulties in valuing its enormous assets has delayed the balance sheet But a rough calculation puts the value of the forests at between R600-billion and R1,2-billion

There is a shortage of saw logs in the world, in contrast to SA where annual supply of 3-million tons exceeds demand by 40% The world shortage is the result of environmentalists' pressure to curb the clearing of natural forests

One timber user says Safcol wants to raise prices ahead of the expected housing boom (1991)

"Timber is a major component in low-cost housing This surely has serious consequences for low-cost housing," he says

Mr van Vuuren replies "As a commercialised company we have to show an acceptable return for our shareholder, the State If we do not raise prices, we cannot show a profit"

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TIENIE VAN VUUREN

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(199)

"Timber is a major component in low-cost housing. This surely has serious consequences for low-cost housing," he says.

Mr van Vuuren replies: "As a commercialised company we have to show an acceptable return for our shareholder, the State. If we do not raise prices, we cannot show a profit."

Upturn in pulp prices bodes well for Sappi

Star 6/4/94

BY STEPHEN CRANSTON

The improvements in international pulp prices since January have been considerable.

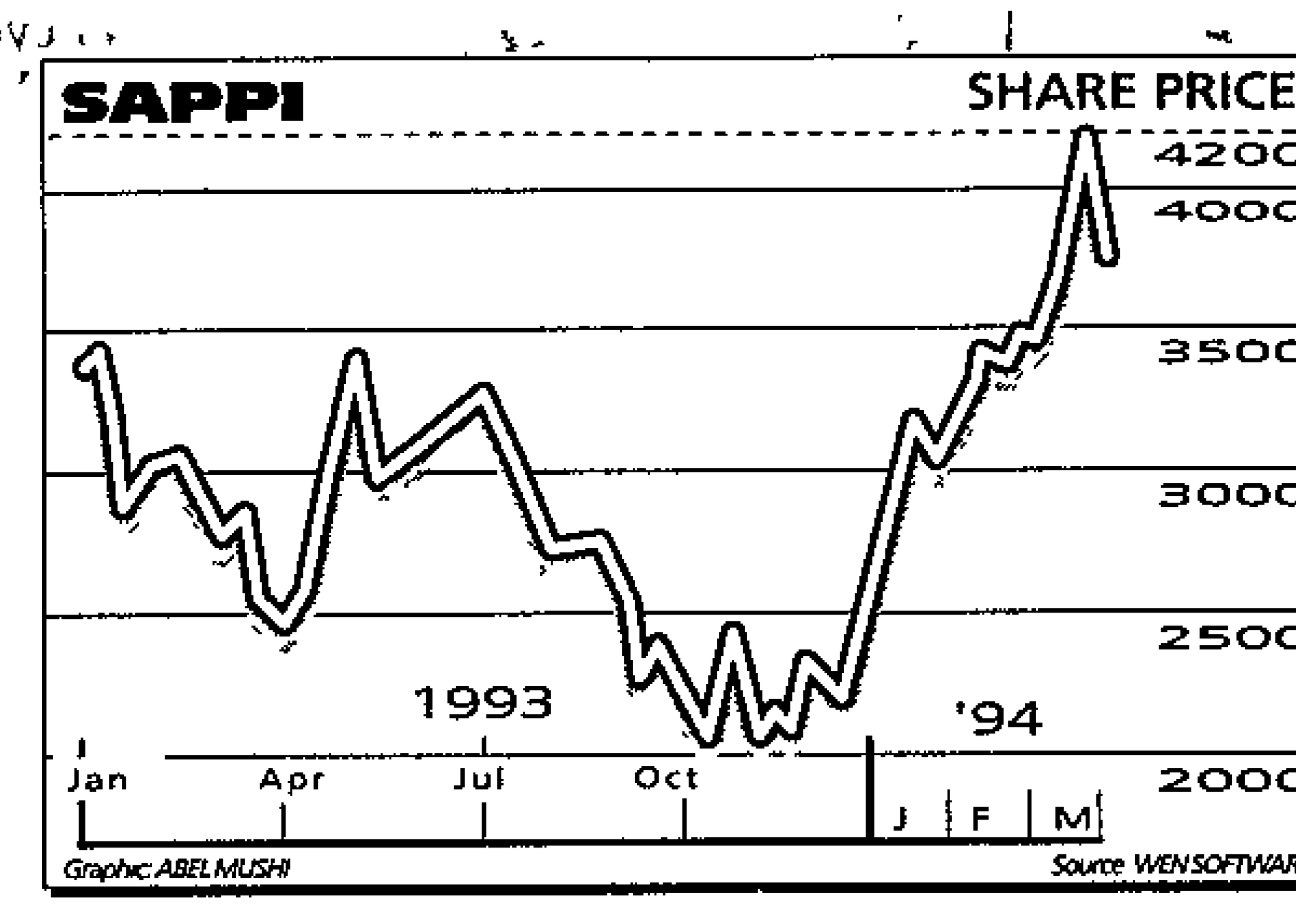
Derrick Minnie, MD of pulp and paper producer Mondi, says a reduction in capacity and a shortage of birchwood have enabled some pulp prices to increase by as much as $180 a ton from their low point last year — their first major increase for three and a half years.

Prices of other major paper products, such as uncoated woodfree, newsprint and kraftliner have also hardened

But the improvement has been too late to make a dramatic difference to the results of Mondi's archrival Sappi for the year to February, due later this month

Sappi's second-half numbers should be better than those in the first half, when earnings per share fell by 67 percent, partly because prices in the December-to-February quarter in the 1993 financial year were particularly weak

A recent forecast by Bruce Krugel, an analyst at Mathison & Hollidge, predicted that Sappi's earnings per share or the full year would be 90c, with second-half earnings of 47c after the first half's 43c contribution



This forecast, however, dates back to six weeks before year-end and price increases in the intervening period, and Sappi's internal cost savings might well add a further 10c to 15c to earnings in the 110c to 115c range

This is still a fall of 50 to 60 percent for the year as a whole, but prospects are good for a recovery in the 1995 financial year, if not to 1993 levels, then at least a 50 percent hike to about 170c

Sappi's share price more than doubled from R20 to R42 from October to March before a correction brought the price back to R37.

Part of the reason for its strength has been the results of its unlisted competitor Mondi, which were released along with those of parent company Amic a year ago

Its earnings before an abnormal tax credit increased by 64 percent to R100 million for the year to December

But important differences between the two groups need to be considered

Mondi's business is less export-oriented, and its large domestic newsprint and sawmilling operations have been relatively stable

Moreover, much of Mondi's recovery was internally generated, with reduced losses at the cartonboard division and a R20 million cost-saving from the mothballing of the Bellville mill

But the most important difference is that Mondi only has a small share in Mondi Europe, which is controlled by Minorco, whereas Sappi has direct control of Hannover Paper and Sappi Europe

Hannover is not expected to contribute to Sappi's bottom line until the 1996 financial year at the earliest

Its coated paper plant at Ehingen in Germany has been forced to sell half of its current production as uncoated paper because of the poor state of the European coated paper market

(199)

Its outlook has worsened recently because of the devaluation of Scandinavian currencies and the relative strength of the Deutschemark, which is overvalued in view of the poor state of the German economy.

Sappi Europe, which owns five mills in the UK, at least broke even in 1993 because of the weakness of the pound

Its exports to Europe and the Far East have improved so it was almost certainly profitable in this past financial year, but the likely strength of the pound in the coming year does not augur well for the 1995 year

So the core Sappi Southern Africa business will be responsible for the lion's share of profits in the 1994 and 1995 years

It has immense potential for recovery, not least for dissolving pulp producer Saiccor, as a number of competitors have closed and prices could increase sharply. It is increasing capacity by a third and promises to be a major source of medium-term growth

The Sappi share looks expensive unless it is kept for at least two years

MASONITE
FM 8/4/94

Out of the woods

199

Masonite is steadily finding its way out of the woods A year after 1992's disaster, when earnings plunged by more than two-thirds, a respectable 86% improvement in EPS has been recorded This was achieved without volume growth or significant price increases

Finance director Dave Cooper says the benefits of having plant running at full capacity from May and favourable manufacturing cost variances contributed to improved margins Another feature of the year was the closure of Ezebilt, which made prefab huts, site offices and accommodation units In 1992, it traded at a loss of R778 000. The hut section has been closed while the remaining businesses are dormant Ezebilt had no effect on the bottom line in financial 1993.

Chairman and MD Alan Wilson says manufacturing and forestry performed "exceptionally well" under tough conditions. After 10 months in which one press was shut down because of poor market conditions, the manufacturing division returned to full hardboard capacity A record was set for exports, which accounted for nearly 40% of total hardboard dispatches

Forestry, meanwhile, had the worst drought in memory The lack of rain had a negative effect on the growing cycle and trees in some areas died Since November, however, rainfall has been good and conditions are returning to normal

Cash generated by operations increased from R12,7m to R17,2m In addition, a reduced working capital requirement and lower capital expenditure of R6m against 1992's R7,8m resulted in a stronger balance sheet. Gearing fell from 24% to 5%, and interest paid halved to R700 000.

Cooper says earnings this year should match those of 1993 The market seems to have accepted that a recurrence of 1992's bleak performance is unlikely. On a p·e of 9,3, the share has gained 50% in the past five months

Kate Rushton

FM 8/4/94

Activities: *Makes and markets hardboard and related products*
Control: *Masonite Corp (USA) 66%*
Chairman & MD: *A H Wilson*
Capital structure: *6,8m ords Market capitalisation R63m*
Share market: *Price· 925c. Yields. 3,8% on dividend, 10,7% on earnings, p.e ratio, 9,3, cover, 2,8 12-month high, 950c; low, 575c. Trading volume last quarter, 52 000 shares.*

Year to Dec 31	'90	'91	'92	'93
ST debt (Rm) . .	2,3	4,2	2,7	4,7
LT debt (Rm)	13,6	4,7	11,5	2,3
Debt equity ratio	0,33	0,15	0,24	0,05
Shareholders interest	0,54	0,58	0,59	0,66
Int & leasing cover	5,9	8,9	4,6	15,5
Return on cap (%)	13,5	19,1	6,7	10,8
Turnover (Rm)	113	126	120	137
Pre-int profit (Rm)	12,1	19,6	6,8	11,0
Pre-int margin (%)	10,7	15,5	5,7	8,0
Earnings (c) .	108,5	167,4	53,0	99,0
Dividends (c)	43	60	10	35
Tangible NAV (c)	708	875	882	983

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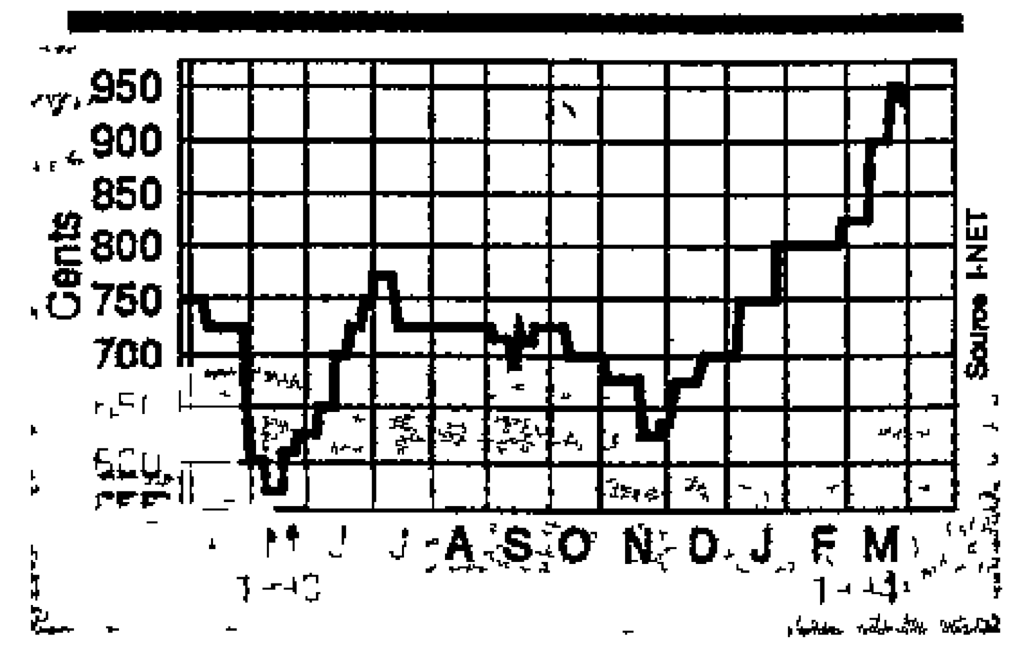
Masonite (Africa)



Price of SA lumber jumps 16%

CT 13/4/94

(199)

By MAGGIE ROWLEY
Property Editor

INCREASED input costs, including a 20% hike in the roadside log price, has resulted in the price of SA lumber jumping by 16% from April 1

This, said market sources, will put upward pressure on both building costs and furniture prices

According to Dr Tienie van Vuuren, CE of the SA Forestry Company Ltd (Safcol) the 20% increase in the roadside log price — the price paid to producers — contributed at most to 6% of the 16% increase

This, he said, could be calculated by the fact that the roadside log price had increased by R14,60 a cubic metre from R73 to R87,60

The average price charged by the saw mills once the logs had been processed into planks was R508/m^3

"There is an average recovery rate of 46,5% and growers can only be 'guilty' of 6% of the resultant increase," he said

In addition, he pointed out that growers could get up to 200% to 300% higher prices for SA pine on the export market "We don't want to have to resort to this, but if these figures are taken into account the 20% increase is very small"

Executive director of the SA Lumber Mills Association John Mortimer said that while the road side log price had increased annually over the recession, saw mills had been under extreme pressure over the past three years and prices had been depressed

"While the roadside log price might account for a small portion of the lumber price, if all our input costs were to rise by 20% we would be in serious trouble"

Mortimer said that saw mills looking to regain some of the lost ground of recent years and to return to a level of profitability could account for a "small portion" of the 16% hike in lumber prices

"However all our input costs have risen"

He pointed out that demand for lumber had fallen back again this year after showing some improvement at the end of 1993

Recession

"Our industry really does suffer during the recession as we are very dependent on the building industry Half of our product goes into building and most of the balance into furniture Both these industries are severely affected in periods of economic downturn"

Mortimer stressed that irrespective of demand, the saw mills had the same overheads and the price of lumber had been depressed in recent years just to keep capacities up at certain levels.

A timber home manufacturer, who asked not to be named, said that the hike in SA pine prices could affect many of their standing orders

"With the official inflation rate running at least than 10%, this increase is a disgrace," he said

Paper and pulp market fears possible oversupply

AMANDA VERMEULEN

STRENGTHENING world demand for paper and pulp since last October was boosting prices, but an oversupply could still hold 1994 earnings back, market sources said yesterday.

Sappi financial director Bill Hewitt said increased demand had lifted prices, leading to 5% growth in the market However, a 20% overcapacity still existed

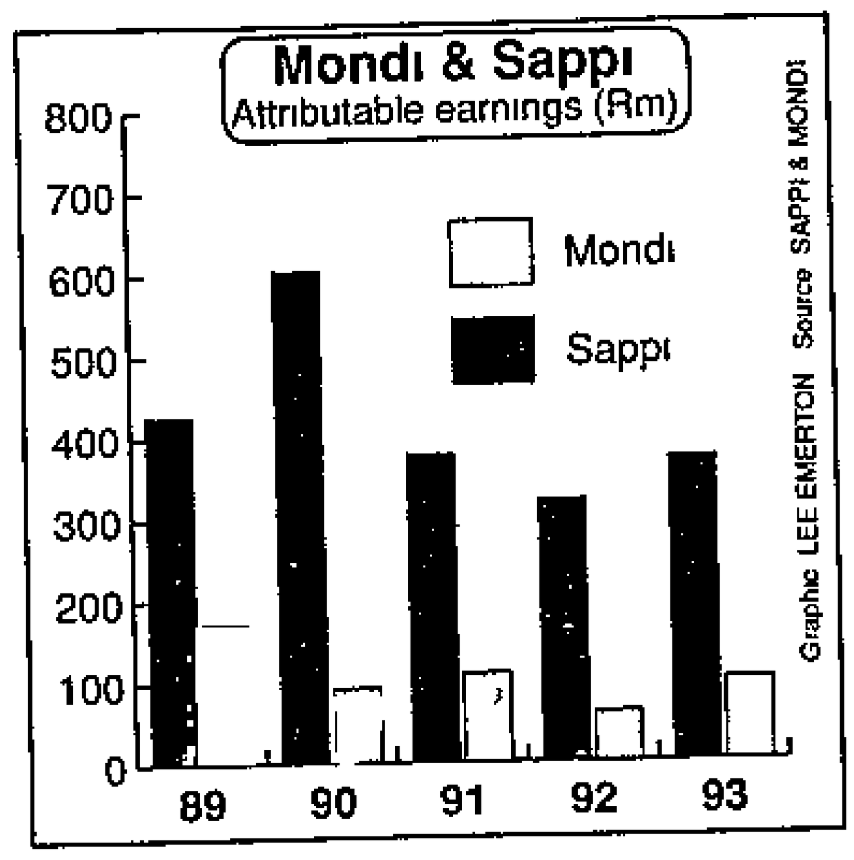
"The market is difficult to read because paper manufacturers could be filling inventory demands," he said "When inventories are full, prices may even out"

The upturn in the pulp and paper market has bolstered Sappi's share price, lifting it to a current year high of R37,50, up 25% on the beginning of the year

Sappi's earnings had not fared so well, crashing to 43c for the six months to last August, against 262c in the year to February 1993.

Hewitt said turnover this year would be about R5,5bn, similar to 1993 But he predicted a 10% or 15% growth for 1995 if the current price trends continued.

Hewitt said Sappi was looking at emerging markets in eastern Europe as potential long-term growth areas.



"Many of these countries will take at least a generation to reach the western European consumption levels. China has very good growth prospects but is hampered by foreign currency shortages However, these are expanding markets and we would be foolish to ignore them."

Sappi sales were equally divided between the local market, the export market and the off-shore production and consumption market serviced by its European operation.

Anglo American Industrial Corporation (Amic) subsidiary Mondi has also seen improved performance as market stability returned and the SA economy picked up

1992

Its contribution to Amic's earnings in 1993 rose to R72m from R32m, a 125% increase and was expected to increase this year by 60%.

No date has been announced by Amic chairman Leslie Boyd for the Mondi listing, but analysts believe that it should happen within the next three years

Mondi said yesterday it would spend R70m upgrading its magazine paper production plant near Durban, lifting its capacity 50% to 120 000 tons a year.

Executive chairman Tony Trahar said "The project will also allow Mondi to meet developing local and international market requirements for paper reels with wider and larger dimensions"

The upgrade was expected to be complete by 1995

Amic said poor markets, excess production capacity, high stock levels and low economic activity hit pulp prices last year.

Currency devaluations in 1992 in countries like Finland and Sweden had also created turmoil in the industry, it said

This had prompted Mondi to streamline operations and rein in costs But the company reaped the benefits of second-half improvements, which underpinned a strong recovery in earnings

Sappi share price holds up despite earnings forecast

BDay 20/4/94

MARCIA KLEIN

LOW selling prices and depressed world paper and pulp markets will see Sappi's earnings tumble by nearly two-thirds in the year ending February, analysts said yesterday.

They said the results, which were expected soon, would reflect earnings of between 80c and 90c a share from 262c a share in financial 1993

At the August interim stage, when earnings were 67% lower at 43c (130c) a share, Sappi warned that second half earnings would be well below those in the same period in the previous year, and similar to those of the first half.

They said that the international pulp and paper markets had been weak, prices were low for most of the financial year and demand was not great.

Paper prices had bottomed out in November, but had been falling in dollar terms until then In this light, Sappi had done well to show a profit, albeit significantly lower than that achieved in the previous year

Losses at German paper-producer Hannover Papier, acquired in financial 1993, would be substantial in rand terms in view of the depreciating rand Analysts were expecting its losses to be between R80m and R100m.

Sappi previously paid a dividend on a sharp drop in profits, but analysts doubted there would be a dividend payment at year-end. The interim dividend was passed.

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One described this year's results as "a non-event", saying they had been anticipated. While this year's results had been discounted, the market was looking at what Sappi would achieve in the next few years This was evident in the share price movements over the past few months Despite expectations of a sharp drop in earnings, the share closed yesterday at R41,25, just off its March high of R42 and sharply up on its October low of R18

Analysts said Sappi's earnings would be in the region of 250c a share in financial 1995, and would continue to grow strongly thereafter for at least another two to three years While the company's results would always be cyclical, indications were that it was entering a period of good growth

Oversupply, falling prices sap Sappi

BDay 26/4/94

MARCIA KLEIN

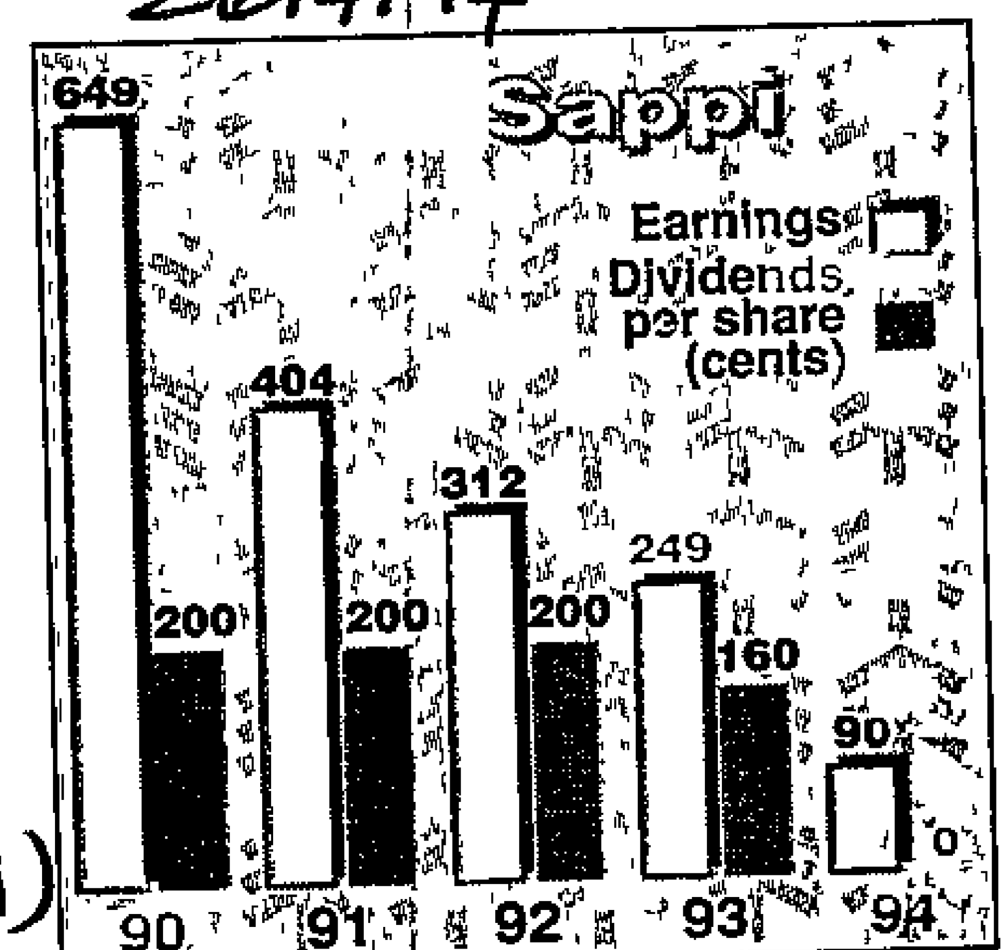
PAPER and pulp producer Sappi cut its earnings 64% to 90c (249c) a share and passed its dividend in the year to February as it took the full force of oversupply and falling international prices.

Sappi, which paid a dividend of 160c a share in financial 1993, said it hoped dividend payments would resume at the next interim stage as conditions improved

The group's 19% rise in turnover to R5,5bn (R4,7bn) reflected the consolidation for the full year of the results of German-based Hannover Papier, which was acquired in the last financial year (199)

Executive chairman Eugene van As said that although costs were controlled across the group, pressure on selling prices resulted in a 63% drop in operating income to R165,5m (R443,7m)

This was partly offset by non-trading



Graphic KAREN MOOLMAN Source SAPPI

income of R26,9m (R1,7m), relating to profit from the sale of some non-core assets — including German sack and stationery op-

□ To Page 2

Sappi

BDay 26/4/94 □ From Page 1

erations and SA residential properties

Despite the incorporation of Hannover's debt, finance costs came down to R45,2m (R65m) on the back of steadily declining interest rates and a R500m capital injection received when the Industrial Development Corporation (IDC) invested in Natal-based dissolving pulp producer Saiccor

Taxed income was 61% lower at R142,2m (R360,1m) after a minor tax liability of R5m (R20,3m), reflecting assessed losses brought forward from previous periods and tax allowances on capex

A R3m loss (R7,7m profit) attributable to outside shareholders, reflecting in part the losses at Hannover, saw net income drop 59% to R145,2m (R352,4m) (199)

Van As said world markets for pulp and paper were in oversupply, and selling prices of pulp "showed the sharpest decline in recent memory".

Prices continued to decline in the second half, but bottomed out towards year-end

Hannover took measures, including redundancies and pay cuts, to reduce operating costs But the company, which accounts for 28% of turnover, "made a large loss" of about R100m.

UK operation Sappi Europe, which accounts for 10% of turnover, showed an improvement but could not eliminate its losses.

However commodity trading business Sappi Trading continued to make a healthy contribution to profits

Southern African operations, which account for 41% of turnover, operated in a sluggish economy Depressed world demand led to a price war, while a weaker rand and productivity improvements could not compensate for lower selling prices

Van As said the R1bn Saiccor expansion would be completed below budget and on time early next year.

Sappi had undertaken to acquire the IDC's share in Saiccor at a later date, and earnings were calculated as if Sappi had already exchanged shares.

Van As said Saiccor would come on stream when market prices for dissolving pulp had improved substantially.

Pulp and paper prices had risen sharply recently and it seemed the oversupply situation was coming to an end. "We believe the tide has turned and that the upward trend will stabilise and then grow in 1995."

Sappi had reviewed its policy of increasing prices just once a year, and "will increase prices from time to time as the market improves".

Van As believed shareholders could look forward to an improved performance, but most of the improvement would be seen only in the second half

Sappi shows expected decline

Star 26/4/94

BY STEPHEN CRANSTON

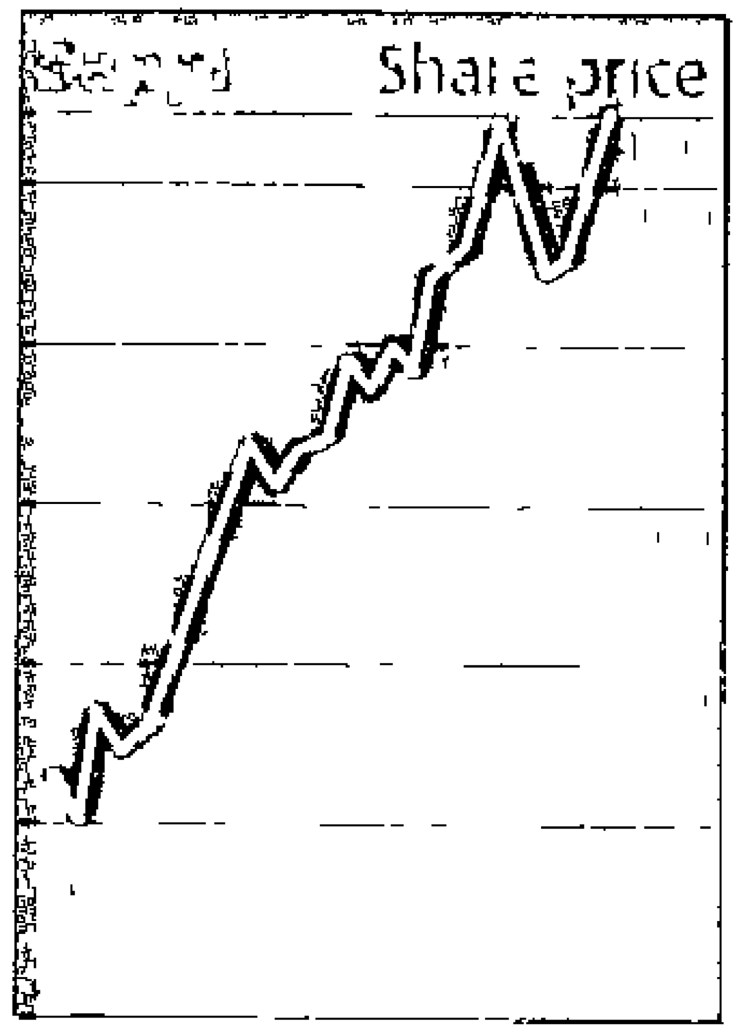
In line with market expectations, earnings of the pulp and paper giant Sappi slumped by 64 percent to 90c a share in the year to February.

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.

Earnings per share were calculated on the basis that Sappi had already exchanged shares for the Industrial Development Corporation's interest in dissolving pulp producer Saiccor, even though it has not yet been decided whether the purchase will be for cash or shares.

Expansion

199

The R1 billion Saiccor expansion is scheduled for commissioning in early 1995, by which time dissolving pulp prices should have improved considerably.

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.

Van As says the tide has turned and the upward trend of the market will stabilise and then grow in 1995.

But he says most of the improvement will only flow through in the second half of the calendar year.

The Sappi share price has recently doubled to R42, even though the market expected profits to fall to this level and expected the dividend to be passed.

There is considerable potential for earnings to recover if the upward trend in world prices continues, though they are unlikely to get back to the levels of the late Eighties.

Sappi looks a fair buy up to about R32, but at present prices is unjustifiably expensive.

Fm 29/4/94

sappi limited

Reg No 05/08963/06

(199)

CONSOLIDATED INCOME STATEMENT

	Year ended 28 February 1994 Rm	Year ended 28 February 1993* Rm	% Change
Turnover	**5 540,6**	4 677,0	18,5
Operating income	**165,5**	443,7	(62,7)
Non-trading income	**26,9**	1,7	
	192,4	445,4	(56,8)
Net finance costs	**45,2**	65,0	(30,5)
Income before taxation	**147,2**	380,4	(61,3)
Taxation	**5,0**	20,3	
Income after taxation	**142,2**	360,1	(60,5)
(Loss)/Income attributable to outside shareholders	**(3,0)**	7,7	
Net income	**145,2**	352,4	(58,8)
Ordinary dividends	**—**	238,2	
Retained income for period	**145,2**	114,2	27,1
Average number of ordinary shares in issue ('000)	**162 111**	141 447	
Earnings per share (cents)	**90**	249	(63,9)
Dividends per share (cents)	**0**	160	

ABRIDGED BALANCE SHEET

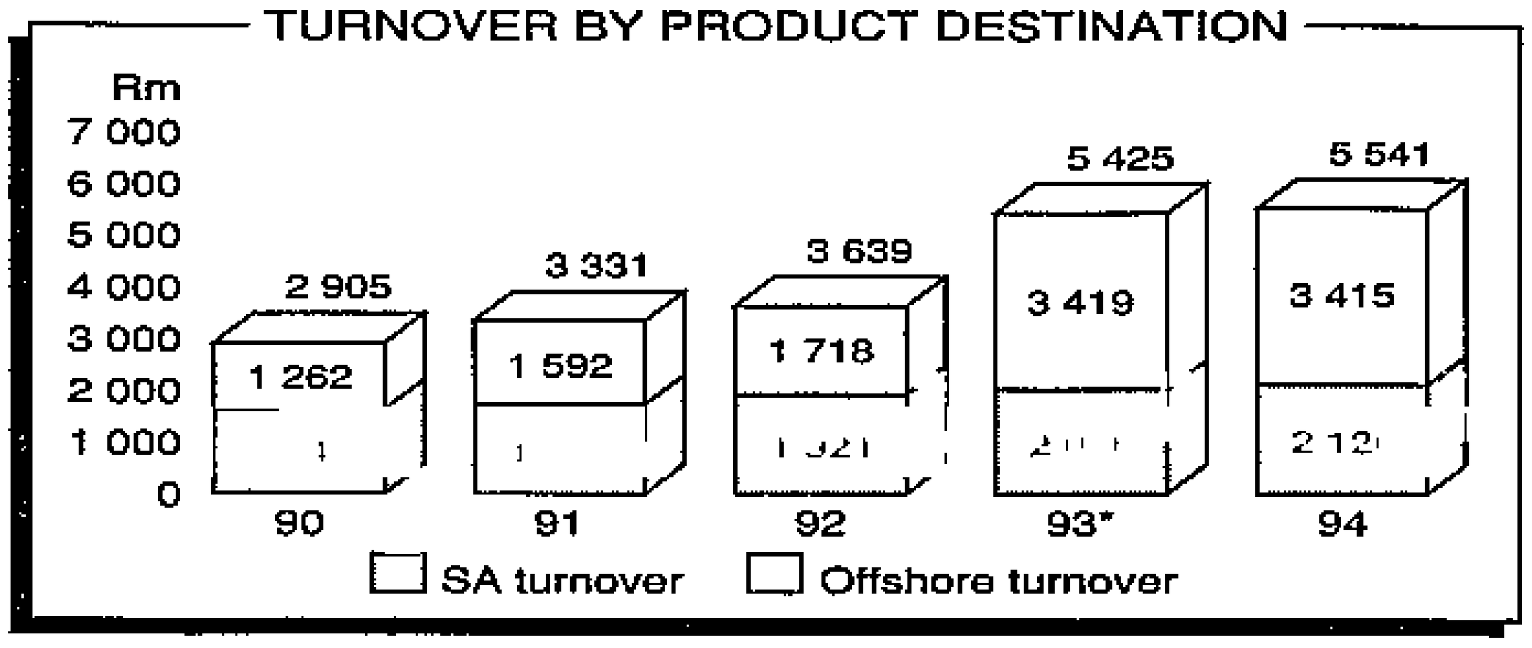
	at 28 February 1994 Rm	at 28 February 1993* Rm
Funds employed		
Ordinary shareholders' interest	**5 822,5**	5 077,3
Outside shareholders' interest	**85,1**	88,1
Long-term borrowings	**1 945,5**	1 852,9
	7 853,1	7 018,3
Employment of funds		
Non-current assets	**7 405,4**	6 988,0
Current assets	**2 066,2**	1 861,2
Cash	**319,4**	89,2
Total assets	**9 791,0**	8 938,4
Current liabilities		
Interest bearing	**822,4**	832,7
Other current liabilities	**1 115,5**	1 087,4
	7 853,1	7 018,3
Shares in issue ('000)	**167 217**	148 967
Net income to average shareholders' interest (%)	**2,7**	7,8
Debt/equity ratio	**0,41**	0,47
Current ratio	**1,2**	1,0
Ordinary shareholders' interest (cents)	**3 482**	3 408

*Restated to provide more meaningful comparisons

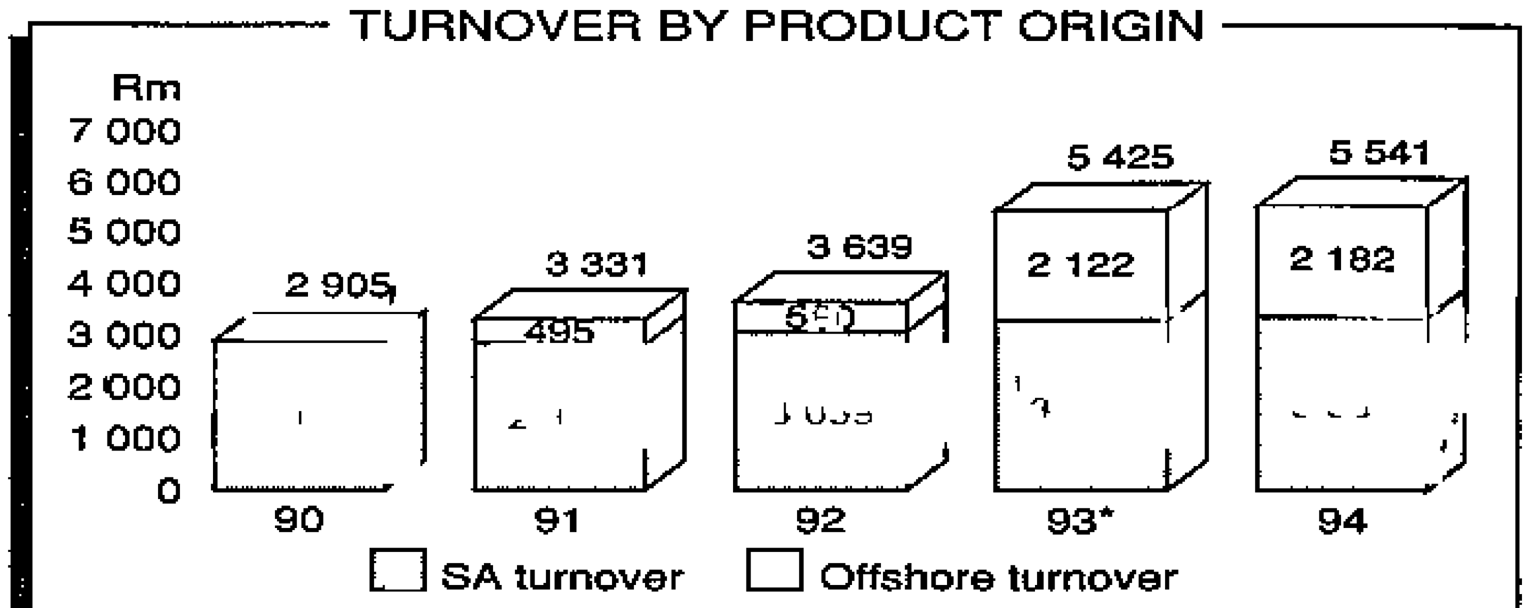
ABRIDGED OPERATING CASH FLOW

	Year ended 28 February 1994 Rm	Year ended 28 February 1993 Rm
Profit before finance costs and tax	**192,4**	445,4
Depreciation and fellings	**441,4**	391,9
Other non-cash items	**(46,2)**	(61,3)
Working capital increase	**(5,1)**	(24,4)
Finance costs and taxation	**(195,3)**	(205,9)
Cash generated from operations	**387,2**	545,7

TURNOVER BY PRODUCT DESTINATION

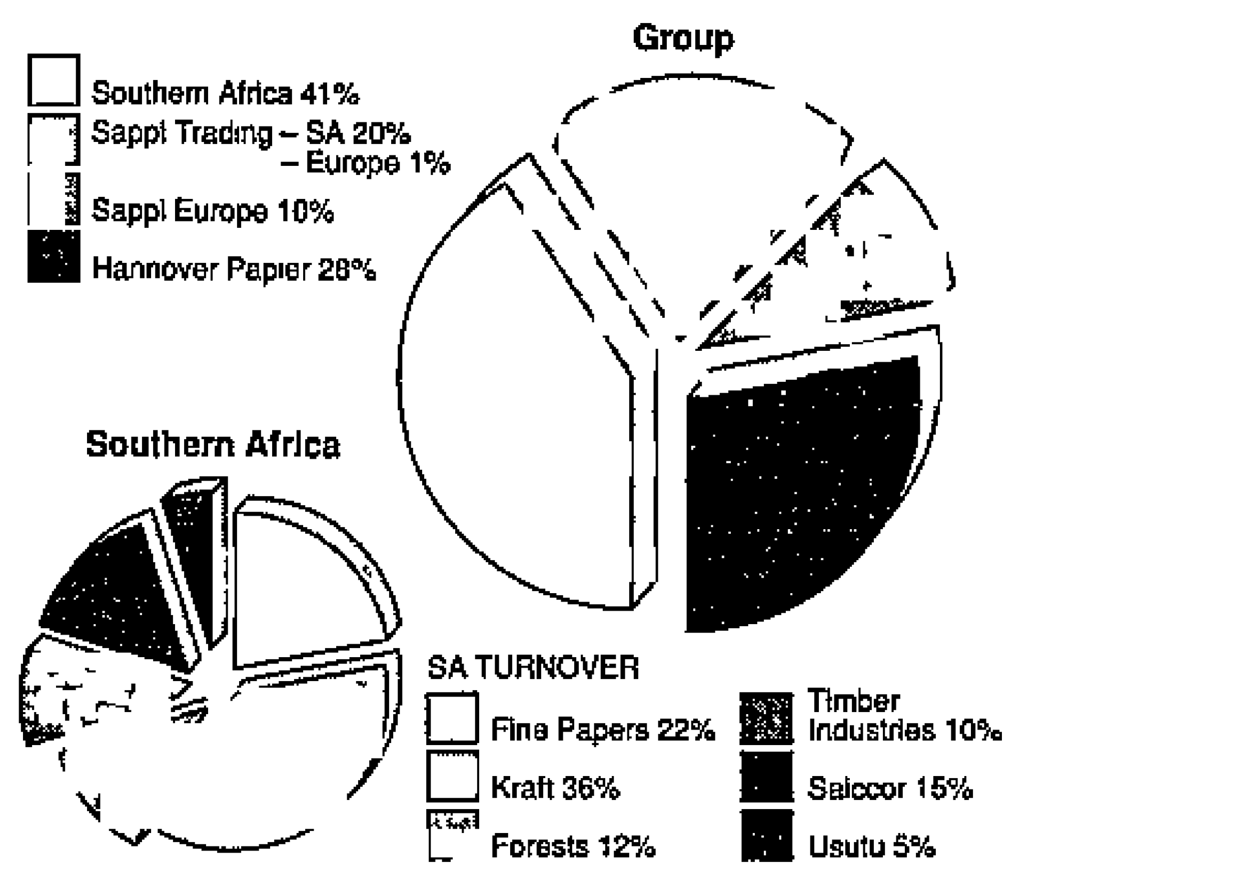


TURNOVER BY PRODUCT ORIGIN



*Hannover annualised

TURNOVER BY DIVISION



Comments

Most of the economies in which we operated were depressed last year World markets for pulp and paper were in oversupply and selling prices of pulp, and 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

In Southern Africa where our main operations are located, the economy was sluggish, although some growth was seen in the latter part of the year Depressed world demand encouraged greater competition from imports for our products and a price war erupted so that the prices of many paper products such as kraft liner, corrugating medium and many of the writing and printing products showed sharp declines in an environment in which inflation was running at approximately 9%

The uncertainty which has prevailed before the election depressed the country's balance of payments and the rand weakened, but this, together with productivity improvements in the group and severe cost cutting, was not sufficient to compensate for these selling price declines

Most of the markets in Europe were also depressed, although our main business area, coated wood-free paper, showed a 5% increase in volume against the general declining trend In our largest market, Germany, a severe recession hit industrial production particularly hard Industrial production declined by 6% and the devaluation of the currencies of competing nations put severe pressure on German pricing with coated wood-free prices dropping by a further 20% during 1993 The oversupply situation in the coated wood-free paper market stabilised towards the year-end because of down-time taken by producers and a welcome increase in demand caused prices to rise across the board

Hannover Papier took strong measures to reduce its operating costs *Inter alia*, this involved redundancies and the entire workforce taking a cut in remuneration Even so, it made a large loss

AUDITED RESULTS

for the 12 months to 28 February 1994

FM 29/4/94

Market outlook improves

Saiccor expansion on schedule

(1997)

No final dividend because of reduced earnings

Sappi Europe Limited, our United Kingdom operation, showed an improved position, but was unable to fully eliminate its losses for the year The improved level of competitiveness emanating from the devaluation of sterling, was largely offset by imports from countries whose currency had devalued by even greater amounts than the UK

In this difficult environment Sappi did well to improve its market position in Europe The new Brussels marketing operation showed significant penetration and exports from the UK and Germany grew by approximately 24%

Our commodity trading business, Sappi Trading, continued to make a healthy contribution to profit and did well to keep the group strongly positioned in its markets in spite of heavy competition

Results

Consolidated turnover at R5 541-million was 19% higher than the previous year's total of R4 677-million because Hannover's results are now consolidated for a full year (as opposed to a half year in 1993) Costs were very well controlled throughout the group but the heavy pressure on selling prices reduced operating income by 63% from the previous year

The reduction in operating income was partly offset by net non-trading income which contributed R27-million resulting in net income being down by R207-million (59%) from 1993 Non-trading items relate mainly to profits from the realisation of certain non-core assets, such as the sale of the sack and stationery operations in Germany and the disposal of residential properties in South Africa offset by losses arising from the rationalisation of activities The sale of residential properties realised a profit of R65-million of which R35-million has been deferred until the relevant township has been proclaimed

Interest rates reduced steadily during the year and finance costs decreased from R203-million in 1993 to R184-million despite the incorporation of interest on Hannover Papier's own debt for the full year A major benefit flowed from the equity injection of R500-million into Saiccor by the Industrial Development Corporation Interest capitalised amounting to R139-million (1993 R138-million) relates mainly to the holding cost of our forests and is partly offset at operating income level by higher stumpage costs of felling timber

Earnings per share

Earnings per share on the fully weighted increased share capital (following the Hannover Papier acquisition) showed a decrease from 249 cents for 1993 to 90 cents

Sappi Limited has undertaken to acquire from the Industrial Development Corporation (IDC) its equity investment in Saiccor at a future date This acquisition will be paid for in the form of Sappi Limited equity, although Sappi has an option to acquire the investment for cash

For this reason the earnings per share are calculated as if the relevant Sappi Limited shares (deferred equity) had been issued in exchange for the IDC investment in Saiccor

Taxation

There is only a minor liability for taxation because in most of the companies in the group the assessed losses brought forward from previous periods, together with the tax allowances on the continuing level of capital expenditure, exceed the profits

Debt ratios

The debt-equity ratio at the financial year-end improved from 0,47 in 1993 to 0,41 mainly as a result of the equity injection from the Industrial Development Corporation Both these figures are well within our objective range The current asset ratio has moved positively, reflecting a change in the profile of debt

Disputed claim

As reported at the interim stage there is a dispute in regard to a prior year claim of approximately R20-million against a third party Whilst some progress has been made towards resolving the dispute, the outcome is not yet clear No specific provision for the non-recoverability of this claim has been made

Cash flow

Because Sappi is a capital intensive group its cash flow from operations is generally strong as the flow from profits is supplemented by the high depreciation charge An abridged operating cash flow elsewhere in the announcement highlights this further

Dividend

In view of the reduced earnings your directors have decided not to declare a final dividend The situation will be reviewed at the time of the next interim report when it is hoped that improved conditions will clearly be evident and that dividend payments can be resumed

Share capital

During the period under review the issued ordinary share capital was increased from 149-million shares to 151 million shares to enlarge the number of shares available to the executive share purchase scheme

Expansion and rationalisation

Shareholders will be pleased to hear that the R1-billion Saiccor expansion is progressing well and should be completed on time and below budget Commissioning is scheduled for early in 1995 at a time when it is anticipated that market prices for dissolving pulp will have improved substantially

This expansion will reinforce Saiccor's pre-eminent position as a supplier of dissolving pulp to the world's viscose manufacturers

In Europe we commissioned the automated warehouse at Ehingen on time, in March The group has approved approximately DM53-million and £3-million of investment to rationalise production between the German and the UK operations and to take advantage of the pre-eminent position which Sappi has established in fast growing specialised coated paper businesses The bulk of this investment will be spent at Alfeld in Germany and at Wolvercote in the United Kingdom

As part of the continuing programme to upgrade production facilities to stay competitive and maintain product quality and service, a number of important new investments which were delayed because of the recession, will now proceed to upgrade the Enstra and Tugela mills in South Africa A project for the development of Usutu is also under consideration At Cape Kraft the first phase of a 50% expansion of the mill will commence later this year At Ngodwana the group is committed to make the mill virtually chlorine-free and the environmentally friendly ozone bleaching process will be installed shortly at a cost of R55-million

Foreign exchange

No material foreign exchange risks exist other than the overseas equity investments in foreign subsidiaries

Outlook

The world economic situation, and in particular the South African situation, has changed markedly since the group last reported The United States is showing reasonably strong growth and the United Kingdom and all the other English-speaking countries have come out of recession The Japanese and German recessions seem to have bottomed and in general, the outlook for the South African economy is positive with a modest growth rate expected in spite of the inevitable disruptions with the many holidays during April and May

In the pulp and paper industry, prices have been rising sharply in recent months The indications are that the longest oversupply period in the industry's history is now nearing an end The benchmark bleached softwood kraft pulp which was trading at $360 a ton in November 1993, is now on offer at $560 from May 1994 Paper prices are also rising sharply and will continue to rise to compensate for rising pulp input costs Although the large backlogs now being experienced by the industry are likely to diminish by the third quarter, we believe the tide has turned and that the upward trend will stabilise and then grow in 1995 In this scenario integrated producers, like Sappi, benefit disproportionately to others

In the dissolving pulp market we see a similar trend A new viscose staple line has been announced in South-East Asia and two Tencel lines in America and Europe, and we see the opportunity for significant price rises for this product over the next few years

In South Africa the improved political situation and the prospect of a settled economy after the election, should result in reasonable growth for our products Prices have already started to rise After the sharp declines of the past years, Sappi has reviewed its policy of increasing prices only once a year and will increase prices from time to time as the market improves The effect of improving prices in the container board market will unfortunately be delayed, however, because of longer term price commitments in this market to match competitive action A recovery will, however, begin from 1995 onwards

In these circumstances shareholders can look forward to an improving performance from Sappi which we expect to continue In many of our markets, prices are set quarterly and therefore, the realisation of the sharply increased prices will lag somewhat Most of the improvement will only be seen in the second half of the calendar year

Signed for and on behalf of the board

E van As
I C Heron
Directors

Johannesburg
25 April 1994

PG/SPP 2830

SAPPI

Fm 29/4/94

Operating profit falls out of bed

199

Paper and pulp producer Sappi has come up with year-end results almost exactly in line with market expectations However, the income statement shows all the signs of significant wear and tear

Turnover zoomed to R5,5bn, up 18,5% (though consolidating Hannover Papier distorts the result) To achieve that, operating income fell out of bed — R165,5m from last year's R443,7m, a massive R278,2m negative turnaround Finance charges were a modest R45m (1993 R65m), tax a negligible R5m and attributable income comes out at R145m (R352m) or 90c a share (249c)

Not surprisingly, the final dividend is passed Indeed, Sappi hasn't paid a dividend at all this financial year

By comparison with the interim, the second half shows a welcome improvement, particularly in the important area of pre-tax income Turnover was little changed, but net income after tax was nearly R16m better Unfortunately, this was insufficient to compensate for a thoroughly depressing interim

It is worth doing the annual sums in another way; to explain in more detail how things went so badly wrong If, not unreasonably, from declared operating income of R165,5m you deduct nontrading income of R26,9m and capitalised interest of R139m the answer is a fat zero Deduct, in addition, the finance charge of R45m, and investors are left staring at a large negative

Is this fair? Nontrading income arises, say the directors, from net disposals in Germany (thought to have produced R100m) plus the sale of residential properties (believed to be Ngodwana township) of R30m less what is called "rationalisation of activities" From this it is possible to infer that rationalisation in SA could have cost as much as R103m These amounts have been netted out and taken in above the line, a practice on which the *FM* (and the SA Institute of Chartered Accountants) frowns

LIGHT PAPERWEIGHT

Year to Feb 28	1993	**1994**
Turnover (Rm)	4 677	5 541
Operating income **(Rm)**	443 7	165 5
Net income (Rm)	352,4	145 2
Earnings (c)	249	90
Dividends (c)	[illegible]	[illegible]

Capitalising interest of R139m is traditional Sappi practice it takes the view that the cost of holding forests to the point of reaping is a fair capital charge It is a method which isn't followed by many northern hemisphere producers, but has been adopted to some degree recently by Mondi Whether it's fair is a matter for argument

These results show the extent of the damage caused by the slowdown in world trade and its impact on the pulp and paper industry The move in prices over the last two months came far too late to be of much help to this set of results

There are some additional factors worthy of comment First is that the company has chosen to ignore — at least for the time being — a disputed claim of R20m with a third

Van As *in a price war*

party (who?) If Sappi's claim fails, next year's bottom line will have to bear the loss

Second is the coy reference to a local "price war" Chairman Eugene van As complains this sharply hit profitability of many products The free enterprise argument with Mondi cost what one analyst calls "a mega-share of the liner board market Mondi," he adds, "is crowing about its successes"

Finally, though these results are less than satisfactory, they need to be seen against a burgeoning world market Sappi will benefit strongly from this over the next two years Happy times are not far off Some analysts expect recovery over the next year to produce truly dramatic results, perhaps as good as 250c earnings for financial 1995

The counter stands on a new high of R42, against a 12-month low of R18 in October On this basis, its p e on the latest results is a stunning 47 The more I look at this number, the more I am certain it cannot long be sustained — not even a buoyant market can stomach for long such an extraordinary expectation

David Gleason

Bleak year for Sappi

Sowetan 3/5/94

By Mzimkulu Malunga

SOUTH Africa's listed pulp and paper giant, Sappi, has suffered heavy losses in it last financial year which ended on February 28 (199)

Due to the losses, the company is not going to pay its shareholders dividends

The management of this Sanlam-linked outfit says due to a reduced demand for paper in countries such as Germany — Sappi's traditional international market — the company had to reduce the selling price.

As a result, income from operations was severely reduced by 63 percent compared to the previous year

The sluggish South African economy, characterised by uncertainty in the run-up to the first nonracial elections and increased competition, also reduced Sappi's profits.

"World markets for pulp and paper were in oversupply and selling prices showed the sharpest decline in recent memory," says company chairman Mr Eugene van As

However, Sappi continued to make promising gains on its European market share with the United Kingdom and Germany market penetration growing by 24 percent

Van As says he is hopeful that the changing situation in this country and as well as an end to the recession will lead to improved performance this year.

COMPANIES

Sale of Interpak gives Lion Match a hefty boost

B/Day 4/5/94

MARCIA KLEIN

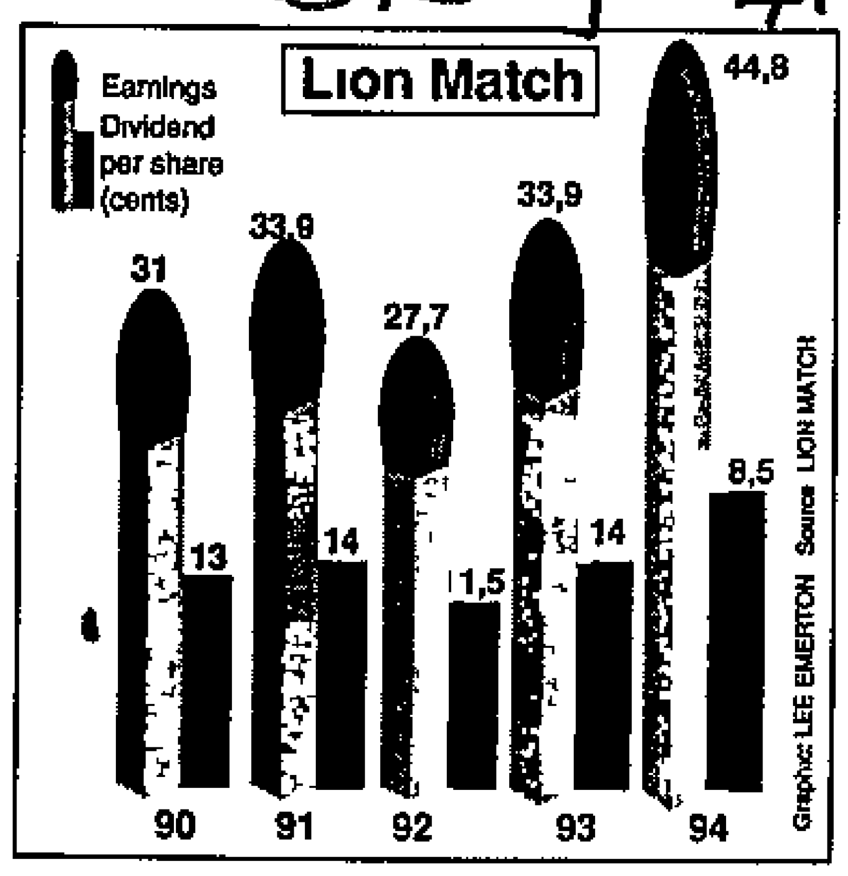
LION Match reaped the benefit of the R203,5m cash sale of its packaging division to lift earnings 32% to 44,77c (33,87c) a share in the year to March.

The SA Breweries subsidiary, with interests in matches and other consumer products, declared a final dividend of 12,35c to bring its full year dividend to 18,5c (14c)

Directors said that the year had been characterised by the first signs of an economic recovery, mainly because of improved contributions from the agricultural sector.

But social and political turmoil and high unemployment levels continued to restrict any significant increase in real private consumption expenditure, they said.

Lion sold its packaging division, Interpak, to Consol for R203,5m cash in November It also passed its share in Amalgamated Appliances to co-owner Tedelex



Turnover of continuing operations, taking into account the disposal of Interpak, rose just 3% to R140,3m (R136m), and trading profit showed a marginal improvement to R25,1m from R24,9m.

But Lion earned net interest of R3,1m (it paid R6,9m interest in the previous year) on cash realised from the Interpak disposal

This enabled it to increase pre-tax profit 11,2% to R38,8m from the R34,9m achieved previously.

Taxed profit increased 10% to R22,5m from R20,3m But a reduction in equity accounted losses — following the disposal of its interests in Amalgamated Appliances — enabled Lion to increase attributable earnings 32% to R20,3m (R15,4m).

An extraordinary profit of R85,5m reflects the excess of cash realised from the disposals over the net book values of Interpak and Amalgamated Appliances.

(199)

Directors said that despite increased working capital requirements, cash flow from operations rose. Net cash of R177,4m was realised following the disposals and after funding Lion's capex requirements.

The directors said Lion was expected to increase earnings in the coming year It had net cash resources of R167,2m, and had performed well in the face of tough market conditions.

Rainbow fuels HL&H earnings

BIDay 6/5/94

MARCIA KLEIN

FOOD and timber group Hunt Leuchars & Hepburn (HL&H) reported a leap in earnings of nearly 150% to 70,5c (28,3c) a share in the year to end-March on the back of a dramatic turnaround at Rainbow Chicken and a lower tax charge. (199)

The results, off a low base, were achieved on a 14% rise in turnover to R1,23bn (R1,11bn) and a 10% increase in operating income to R169,6m (R154,4m).

CE Neil Morris said the recovery was indicative of the long-term prospects for the group, whose interests outside Rainbow include Robertsons, sugar interests and HL&H Timber.

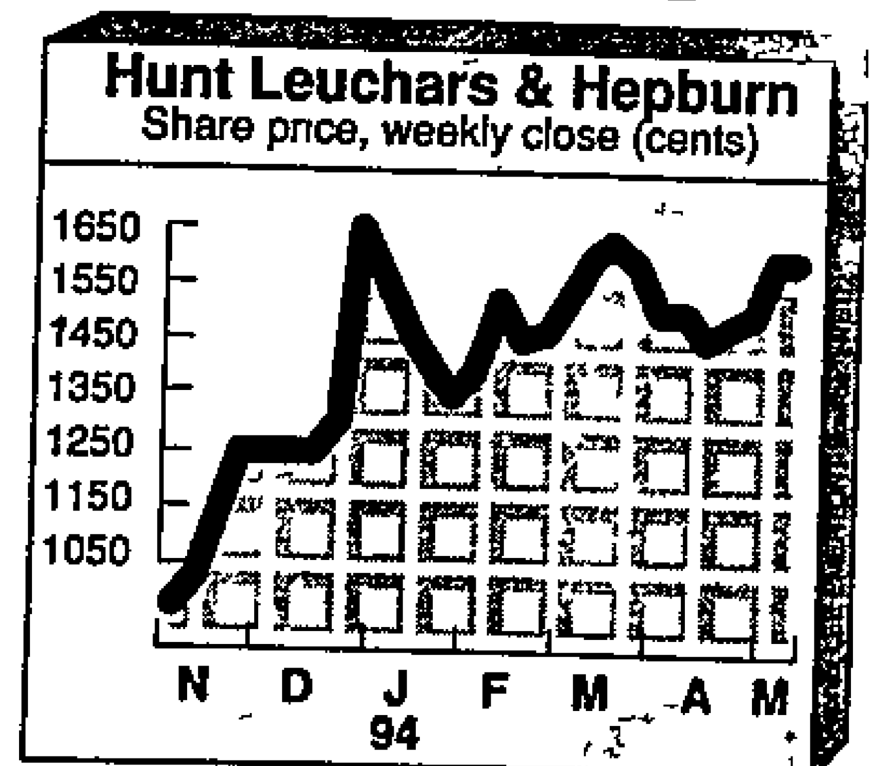
Financing costs of R51,6m (R50,7m) reflect higher borrowings on expansions offset by lower borrowing rates.

Income before tax increased by 15,6% to R120,5m (R104,2m). But capital allowances on the new Komati Sugar Mill saw the tax rate reduce to 17%, and taxed profit was 36% higher at R100,5m (R74m).

But a R4,8m share of Rainbow's earnings (last year HL&H's share of Rainbow's losses totalled R31m) enabled it to lift net income 149% to R105,3m from R42,3m.

A final dividend of 13,5c a share brought the full-year total up 26% to 27c (21,5c) a share.

Morris said Robertsons had reported strong growth off an already high base. The acquisition of the Carmel



brand, and a good insecticide season, had increased volume sales.

The new sugar mill was commissioned just before the year-end on schedule and below budget. Transvaal Sugar's results reflected an improvement over the previous year despite the drought.

Rainbow's turnaround had been achieved in a depressed market, Morris said, largely due to management "focusing on the fundamentals".

HL&H Timber's results had been "most disappointing". The mining timber division had performed poorly, SilvaCel had exceeded expectations, and HL&H Timber Processors had returned to profitability.

Morris said that in financial 1995, the sugar interests would not be at full capacity due to the drought.

But increased productivity in all operating companies, a modest recovery in the economy and an improvement in Rainbow's results should bring improved earnings.

Sappi sees growth in eastern Europe, China

BDay 19/5/94

AMANDA VERMEULEN

PAPER and pulp manufacturer Sappi is looking at foreign markets in the Far East and eastern Europe for long-term growth potential, says Sappi's Enstra Mill GM Howard Lovell.

Lovell said China and the former East Germany offered enormous growth opportunities for the company, which was formulating a long-term strategy for both the local and international market

Sappi's operations in the UK and Germany would structure their production to meet the expected increased demand for paper and pulp products from China and Eastern Europe.

Sappi financial director Bill Hewitt said these markets would reach their full potential in the medium to long term

"Eastern European countries and China face major adjustments to reach the economic levels of their western counterparts It could take a generation to match current consumption in the US and Europe"

Sappi would consider expanding its acquisitions in Europe if the opportunity arose, company sources said

Lovell said the new SA government's education policy would have a positive effect on the demand for paper products.

"It will take a while for the demand for school books to have a serious impact on paper demands, however, once the new policy is up and running, we foresee an exponential growth pattern developing"

Exports to the rest of Africa would increase as per capita consumption grew, but this would not offer the same potential as the emerging economies in the Far East and Europe.

(199)

Part of its long-term strategy was to put Sappi among the top 10 paper producers in the world Lovell said recent surveys showed Sappi's 1992 acquisition of German company Hannover Papier placed it among the top 20 paper and pulp producers in the world

Sappi's share buoyant as prospects improve

BDay 20/6/94

(199)

MARCIA KLEIN

AN IMPROVED outlook for international paper and pulp prices has led to increased interest in Sappi's share

The share closed on Friday at R47,50, just off its April high of R48 and sharply up on the R18 low of October last year.

More significantly, volumes have been particularly buoyant over the past few weeks on strong demand from local and offshore investors This comes despite Sappi's announcement in April of a 64% fall in earnings for the year to February.

According to the SA-German Chamber of Commerce & Industry annual report for 1993/1994, many major economies are on the road to recovery, and a modest growth rate is expected from the SA economy in the coming year

In the pulp and paper industry, prices had been rising sharply in recent months, and indications were that "the longest oversupply period in the industry's history is now nearing an end"

According to the report, the benchmark bleached softwood kraft pulp was on offer at $560 a ton in May compared with $360 in November 1993

Paper prices were also rising sharply, and this trend would continue "to compensate for rising pulp input costs"

Backlogs would diminish by the third quarter, the upward trend would stabilise and then grow in 1995

"In this scenario, integrated producers like Sappi benefit disproportionately to the other single-line producers," the report said.

Sappi had reviewed its policy of increasing prices only once a year

Because of price commitments and time delays, an improvement would be noticed only in the second half of this year, while a genuine recovery was expected to begin only from 1995

In 1993, SA's total sales of paper and paper products rose a marginal 2,4% to R10,5bn, with the prices of many products showing sharp declines While exports showed a small improvement, imports rose 19,1% to R1,7bn

The report said Sappi's R1bn expansion project at subsidiary Saiccor would be commissioned early in 1995, at a time when market prices would have improved substantially

Expansion plans in Europe, where Sappi owns German producer Hannover Papier, were also well under way.

These included the commissioning of an automated warehouse and investment to rationalise production between the German and UK operations

Sappi expects growth as new houses are built

BDay 5.7.94

BEATRIX PAYNE

SAPPI expected growth to take root next year as paper and pulp prices improved 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.

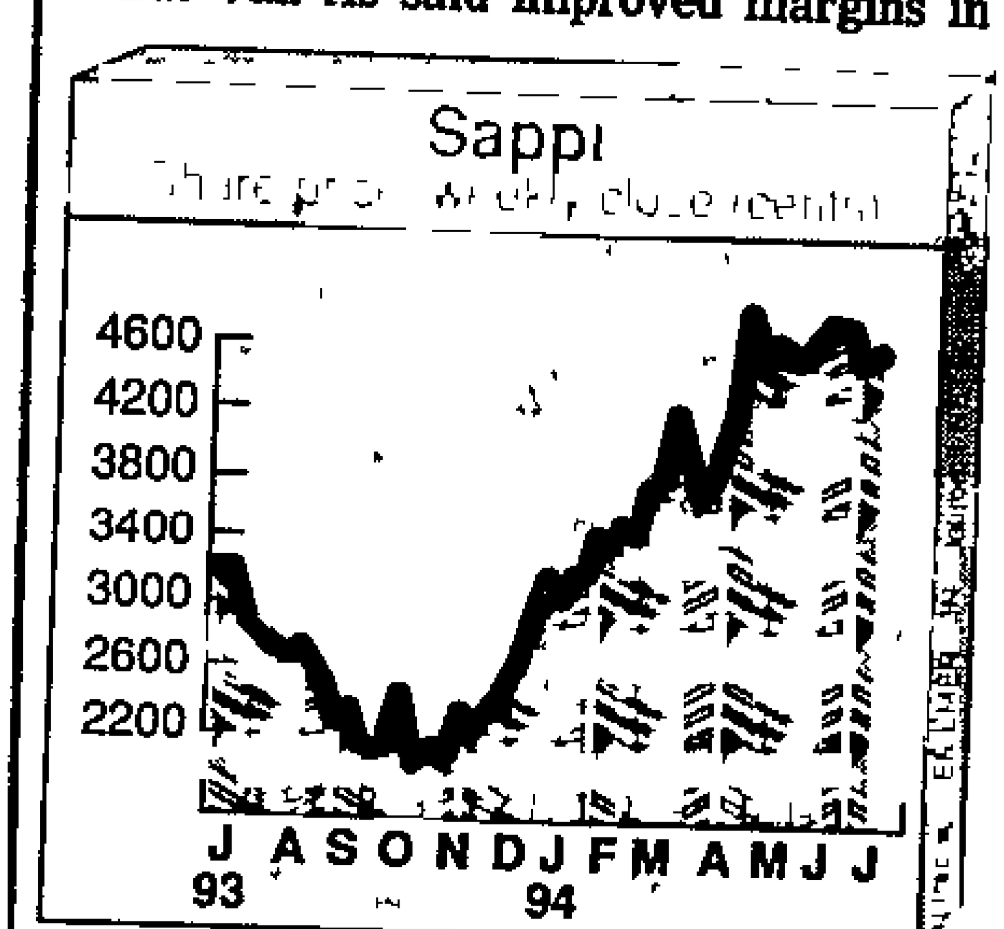
Van As said earnings during financial 1995 should improve "significantly".

But he said the group would pay a dividend only once there was clarity about it's 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 Van As said improved margins in the local market would appear only 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 were expected to expand output by 33%, the report said.

(199)

Van As said results of Sappi Europe would improve "markedly" with higher demand and prices in Europe.

(232)

Costs at Hannover 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 would invest R100m to upgrade paper machines and increase capacity at the Alfeld mill, the report 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.

Sappi chief says worst years seem to be thing of the past

BY BRUCE CAMERON

Cape Town — Paper company Sappi is ready for clear-cut profits after lean times in recent years

But Sappi executive chairman Eugene van As says the group will only return to paying a dividend once there is clarity on Sappi's future performance and earnings have been re-established at an acceptable level.

Van As says in the annual report: "It is the group's declared intention to increase its dividend cover during the better times so that dividend cover can exceed 2,5 times, on average, through the business cycle."

He says the international outlook for forest products is good.

"The mood among customers and their customers in turn has changed.

"Not only do we have economic growth, albeit sluggish in some markets, in all the countries in which we operate, but the commodity price cycle seems to have turned.

"Our customers' revised expectations have led to an element of restocking throughout the paper chain and demand has been sufficient to eliminate overcapacity for the time being"

Star

Sappi's South African group should improve its profits significantly in the current financial year and should show further rises in the coming year, if the product price trend continues.

Its offshore arms should also see better times

"In the United Kingdom, demand and prices, which have been under severe pressure for the last two years, have also improved, particularly for carbonless paper.

Subsidiary

"Sappi Europe should therefore also improve its results markedly," he says.

At Hannover Papier (the German subsidiary), which had the most difficult year of all Sappi's companies because of the collapse of the currencies in which it trades and the high cost structure in Germany, costs have been reduced sharply and demand is strong and prices are rising

"With the new cost structure and the Ehingen mill running at full capacity, the Hannover Papier business should reach break-even by the middle of the year and by the year-end it should have eliminated the first half's losses.

"We expect Hannover Papier to reach approximately break-even for the year as a whole."

Van As says the volatility of prices still makes it difficult to forecast earnings with any degree of certainty, but he predicts the first half of the 1995 financial year is likely to be better than the first half of 1994

"I expect the second half of the year to be much better and Sappi should improve its earnings significantly for the year as a whole." 12/7/94

Van As concludes that the group's costs are under control and the business is focused in key areas where Sappi has the chance of exploiting its competitive advantage (199)

"The pulp and paper markets are set to improve and this improvement may last for a number of years

"Our earnings should improve faster than most businesses in the immediate future and our shareholders and other stakeholders should be able to reap the rewards for which they have waited so long."

Offshore buyers boost Sappi, Iscor and Sasol

B Day 20/7/94

GEOFFREY WIDAN

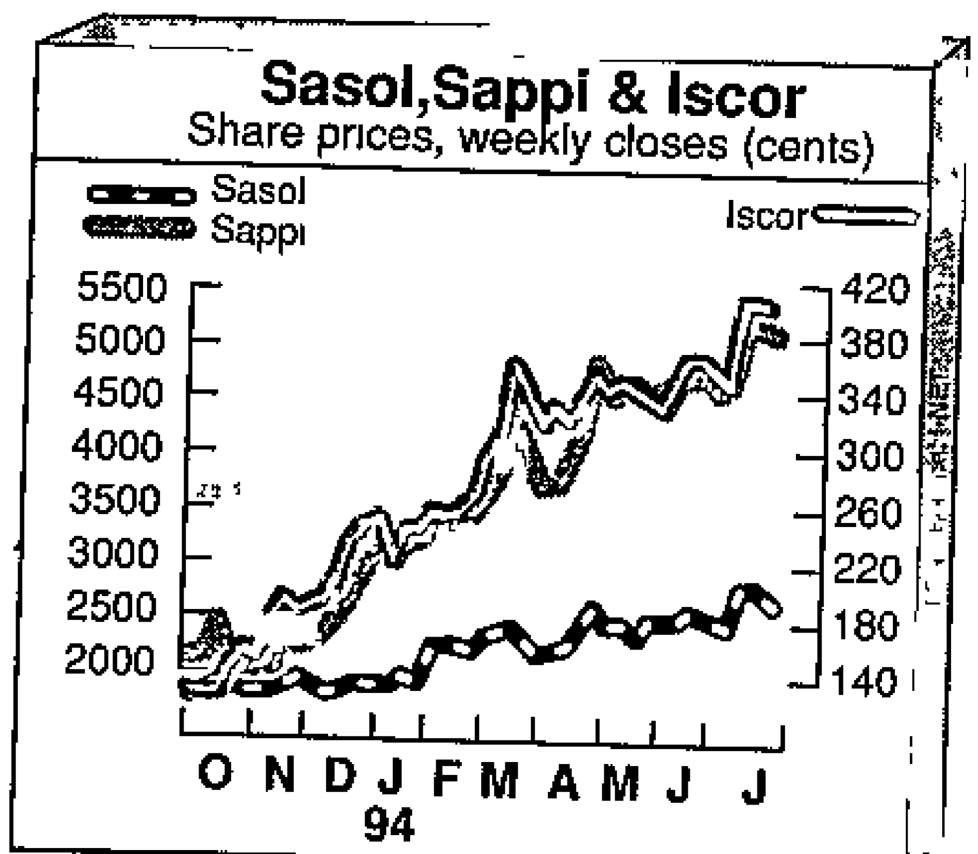
STRONG offshore buying was behind Sasol, Sappi and Iscor's recent gains to record highs, analysts said yesterday.

An analyst said the shares were previously undervalued and were moving upwards on fundamentals. (199)

Last week Sasol peaked at R28,25, Sappi R52 and Iscor 403c, before coming off slightly yesterday in line with the weaker trend on the JSE. The counters have been moving up strongly this month, registering further gains from the last quarter of 1993.

Sappi's share price had soared mostly due to better international pulp and paper prices and a weaker rand, said analysts.

Investors had accepted chairman Eugene van As's view that earnings for 1995 would improve greatly.



German subsidiary Hannover Papier was expected to break even or produce a profit this year, Sappi finance director Bill Hewitt said earlier this year.

Sasol ended its 1993 financial year with an 11,2% increase in operating income to R1 955bn. An analyst said a depreciating rand would encourage export sales.

Further good news this month was that it's fuel contract with Brazil was increased 40% to nearly R400m over 18 months, and Sasol hoped to export beyond this period.

The share's run was heightened when liquid fuels task force members of the National Economic Forum said last month government involvement in Sasol was unlikely to change. Government supported Sasol with R622,7m from it's Equalisation Fund in the year ended March 1993.

Iscor benefited from improved local and international economies, resulting in increased demand for steel.

Rand depreciation, added to expanded output, had strengthened the outlook for earnings. Restructuring and rationalisation have strengthened confidence in the share, with analysts expecting earnings a share of between 25c and 30c — up to double that of last year.

SAPPI/MONDI

FM 22/7/94

Earnings head for the heights

But the unprecedentedly severe recession has left its scars

(1997)

All things, it is said, come to those who wait For investors in the pulp and paper industry the wait must have seemed interminable

Now, however, it appears it may not have been in vain the industry is set for record earnings on the back of a global resurgence which will release pent-up demand, long delayed by international recession

The ruling price for the benchmark NBSK (northern bleached softwood kraft) pulp has risen from catastrophically low levels around US$325/t in November to $630 now The effect on the industry is dramatic, for Sappi, SA's premier listed pulp and paper producer, it is even more pronounced

The real question is whether this turn is sustainable NBSK is a benchmark spot price governed by the quantities of pulp surplus to producers' internal needs The greater world demand, the less is available, hence it is unpredictable and volatile Supplies are drying up Every international indication is that consumption is soaring, particularly in areas like newsprint Many producers have returned to profitability in the past six months on the back of improving product prices

And the recession had one vital consequence the number of international manufacturers of paper-making machines has dropped from seven to three Producers willing and able to increase capacity will have to queue for equipment, the resulting bottleneck will constrain producers' ability to meet growing demand, and prices will rise even higher, perhaps exceeding the $800 peak of the last cycle

Demand for industry products seems unaffected by claims that the paperless office will make paper obsolete, on the contrary, the global appetite continues to rise at a steady 2%-3% a year As illiteracy declines, demand for paper products will grow

The real jolt to world pulp and paper prices came in 1992 when the Scandinavian economies, struggling to cope with a surging D-mark and the constraints of the European Community's exchange rate mechanism, finally collapsed under unsustainable interest rates Huge devaluations followed

Overnight, Swedish and Finnish pulp producers moved from being the world's costliest to among the cheapest For others struggling with recession of unprecedented severity, the sudden emergence of the Scandinavians as real competitors was a body blow Sappi and Mondi suffered with the rest

For Sappi, the story was, if anything, bleaker It had already decided to position itself further along the value-added chain by buying control of German manufacturer Hannover Papier for DM422m This meant it had to raise cash abroad Chairman Eugene van As thought — as, to be fair, did everyone involved — that pulp prices had turned, so issuing paper was a good thing Backed by London merchant bank S G Warburg and the JSE's Martin & Co, Sappi sold paper in Europe at R44 a share

That's when the wheels came off The Boipatong incident catapulted on to the world scene two weeks later, the finrand cracked That was followed by indelible indications that the "recovery" in pulp prices was just a bubble which soon burst

Foreign investors suffered a double blow they lost on the exchange rate and a flight from Sappi's share price Only in the past few weeks — two years later — has Sappi's share price moved above the placing floor of 1992 Some institutions, notably British, still nurse the wounds

Comparisons may be odious, but they remain the best judge of performance With Sappi, this judgment is clouded by the fact that nearest rival, Amic-controlled Mondi, is unlisted and, therefore, somewhat opaque

Mondi got its start as a serious rival by concentrating on niche markets in the early Sixties Sappi, either by choice or accident, neglected to cover its back in the lucrative newsprint market to give Mondi a foothold in a major market

By any standards, Mondi is the smaller (see table) Its positioning is significantly different This is a generalisation but it is not unfair to suggest that where Sappi seeks actively to spread itself along the value-added curve, reducing reliance on the commodity end — primarily pulp — Mondi is more comfortable with niches

Though his initial response was to accept this, Mondi chairman Tony Trahar disagreed the next day "Sappi," he says, "is a major pulp producer, far bigger than Mondi On that basis, your conclusion is inappropriate"

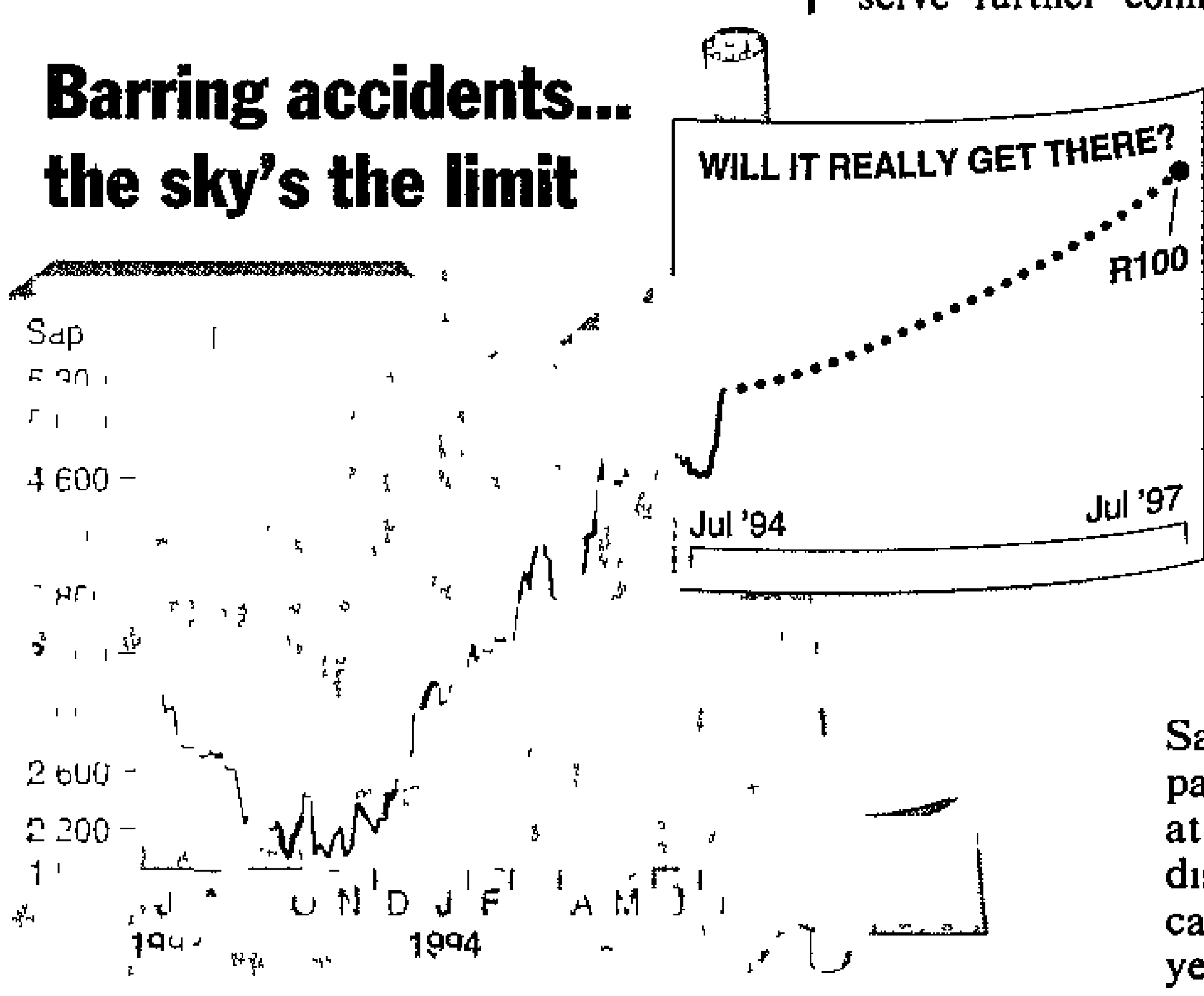
Sappi, of course, holds the greater interest for investors because it is listed It is a world player total annual pulp production now exceeds 1,7 Mt, and Sappi Saiccor is the world's largest single dissolving-pulp producer Much of Saiccor's product is sold under contract to British textile leader Courtaulds, it is used largely in viscose rayon fibres for woven and other textile fabrics Courtaulds recently launched a new textile product — Tencel — rapidly becoming a market leader, in which Saiccor product will be used extensively

But what really draws analysts' attention is the quality of Sappi's earnings Last year, EPS of 90c were 61% below 1993's 249c Much of that is accounted for by Hannover's negative contribution of about R100m, far surpassing earlier calculations By itself, Hannover accounts for a decline of around 66c per Sappi share

In bad times, managers of highly cyclical operations such as pulp and paper manufacturers struggle to produce earnings of real quality Sappi's 1994 results highlight this poverty through the trading margin 3% compared with 1993's 9,5% The nominal numbers reflect it even more starkly operating profit of R444m from turnover of R4,7bn in 1993 against 1994's R166m from R5,5bn

Two aspects of this year's accounts deserve further comment The first is that Sappi has a prior-year claim of R20m against an unidentified third party This claim is disputed but the amount has been brought to account If the dispute is resolved against Sappi, the R20m will have to be written back Presumably, that will affect a subsequent year's EPS

The second relates to Sappi's R1bn Saiccor expansion and modernisation at Umkomaas to increase dissolving-pulp production capacity to 600 000 t a year (now 450 000 t) Van



FM 22/7/94 (199)

Sappi's ... year track record

Activities: ... group ...

Control Sanlam ... (through Sankorp)

Chairman: E van As, MD ...

Capital structure ... R7,9bn ...

Share market. Price ... yields ... on earnings ... 12-month high ...

Year to February 28	'91	'92	'93	'94
			61	43
				1
				5
affected if the additional ...				5

As says the project is on schedule to be commissioned by calendar year-end, probably for about 10% (R100m) less than the estimated cost

Financing has been complex Sappi has undertaken to buy the IDC's R500m investment in Saiccor in exchange for Sappi paper Sappi calculates EPS as though the new shares have been issued Sappi also has the option to buy the IDC shareholding for cash

But Sappi has also capitalised interest on the project's borrowings Analysts say this is tantamount to having one's cake and eating it, a charge Van As dismisses "It is normal practice and has always been done"

Mondi is in a different position Borrowings are much smaller — R747m compared with Sappi's net R1,9bn And it is not engaged in any major capital projects, though Trahar says it has ongoing expenditure of about R200m this year

It has come through the bad times in comparatively good order With net profit over 1993 of R110m (1992 R39m) under its belt, the question for Amic chairman Leslie Boyd is when — not whether — to list on the JSE Analysts believe Anglo managers accept that failure to list Mondi during the last cycle lost an important opportunity and it's unlikely that omission will be repeated

Boyd says timing is under careful consideration, though he won't confirm analysts' belief that Mondi will be listed in 1995

Two problems face Boyd and Trahar here The first is that they — and Anglo — will want to be careful not to list Mondi at the top of the cycle, which it is generally accepted will run for four to five years

The intention is clearly to bring Mondi to the board while the profitable portion of the cycle still has some way to run, perhaps with another year of full profits left in it If so, 1996 may be the year for a listing

The second difficulty is what Anglo will do about its European pulp and paper operation, called Mondi Europe (Mondi E), which Mondi manages but of which it holds a paltry 5% The main shareholder is Minorco (95% following Anglo's and De Beers' international asset shuffle last year)

Mondi E jointly controls Frantschach and Neusiedler (a major producer of photocopy and business paper) It also jointly controls Aylesford Newsprint in the UK with Svenska Cellulosa

Given the recent turn in pulp and paper markets, Minorco has turned enthusiastic about its investment, now beginning to contribute to its bottom line If it sells, it will have to be at an attractive premium However, separation of interests in a single industry is illogical Clearly, the ideal is to marshal the greater Anglo group's interests in the industry under one umbrella

Boyd and Trahar confirm the underlying logic The problem is how to overcome SA exchange controls one avenue could be to raise borrowings abroad to buy out Minorco, secured against the underlying European assets That will leave Mondi with an international borrowing serviced and redeemed from international earnings

Mondi and Sappi are in markets which do not clash overtly, except in SA in fine papers and container board for the packaging industry, where the two face up toe to toe Van As is displeased with Mondi's approach over the past year which, he believes, may have capped the industry's ability to recover through higher prices from the drought

"Prices," he says obliquely in his chairman's statement, "declined as competitors scrambled for market share and by the end of the first quarter of 1994 many product prices were below their 1992 levels in nominal rands"

Essentially, the argument revolves around the struggle for market share Mondi bought Nampak's closed Klip mill and, the *FM* understands, guaranteed supplies over a period (some analysts say as long as two years) at favourable prices

Other packagers demanded similar consideration from Sappi, which retaliated by tying up market share with Holdains Trahar is tight-lipped when asked for comment The *FM*'s view is that such market arguments are to be encouraged, they encapsulate the essential competitive element of free enterprise and encourage efficiency and service

Another area of difficulty is Geis, the scheme to assist exporters Trahar and Van As dismiss suggestions that negotiations between the pulp and paper industry and government are sensitive But they confirm there are sharp differences centred on the never-ending problem of classification "How anyone can suggest," says Van As, "that felling a tree and reducing it through an intensive and complex chemical process to pulp for export doesn't add value is beyond me"

Geis's removal could hit both severely The *FM* calculates that Mondi, which earns about 30% of its turnover from exports, earned about R40m in Geis benefits in 1993 (applying Geis of 6%) Applying a 50% turnover factor to Sappi suggests the removal of Geis could cost it as much as R70m In both cases, taxation of Geis benefits will be offset by assessed tax losses

For investors, however, eyes fixed principally on Sappi, it seems an excellent opportunity is unfolding The share has already risen exponentially since the trough in November At R52, an historic p e of 58 defies economic gravity

What is likely to happen is that the surge in world pulp prices, though slow to affect Sappi's bottom line, will increase earnings to 250c-300c this year, aided by Hannover's return to profitability, which puts R100m back on to Sappi's income This implies a more respectable forward p e of 17-21

Mondi is more difficult to read because of the comparative paucity of information My best guess, however, abnormals and last year's tax break aside, is that it can expect to lift attributable profit by about 70% to around R190m

However, the real excitement will come in financials 1996 and 1997 While Sappi is a huge consumer of capital and holds loans of a size which frighten many investors, it can also generate cash of around R2bn at the peak of the cycle A leading analyst says Sappi's EPS in financial 1997 could easily be around 950c if the cycle is maintained Assuming a modest p e of 10, that implies a share price in 1997 of about R95

HOW THEY SHAPE UP

Year to	Sappi Feb 1994	Mondi Dec 1993
Turnover (Rm)	5 541	2 575
Operating profit (Rm)	166	122
Net interest	45	27
Tax (Rm)	5	(65)
Attributable profit (Rm)	145	110
Total assets (Rm)	9 791	3 784
Cash generation (Rm)	561	485
Return on capital (%)	1,97	3,0
Pre-interest profit (Rm)	192	125
Pre-interest margin (%)	3,47	4,9
Total borrowings (Rm)	2 449	*1 794

* of which R1 168m is shareholders' interest-free loans

But will that happen? A market observer says cynically that Sappi is always a case of "Jam for tomorrow Whenever things start looking better, Sappi charges off on another expansion There's never an opportunity for consolidation in good times For a change, it would be nice to see some jam today"

That direct criticism aside — and many dispute its premise — Sappi has come through bad conditions reasonably intact Van As can look forward with anticipation to some good years So can shareholders

David Gleason

studies were being undertak-

● See Page 10

Mondi alleges paper dumping by Finns

YURI THUMBRAN

PAPER and pulp manufacturer Mondi has lodged a complaint with the Board on Tariffs and Trade over the alleged dumping of super calendered (SC) magazine paper from Finland.

The Amic-owned company said yesterday Finnish paper was being sold on the SA market at very low cost, which had bitten deeply into its market share.

Mondi Paper is the only manufacturer of SC magazine paper in SA.

Sales and marketing director Mike Stewart said two SA companies had recently started to sell Finnish SC mechanical paper in SA at prices significantly below their domestic prices and their export prices into other markets. (149)

According to the Government Gazette in which the investigation was announced, Mondi alleged it was unable to compete with the low price of the imported product and was hence obliged to absorb increases in costs, as selling prices in SA were suppressed.

Mondi also alleged it was facing material injury as it was losing a major portion of its market share. B/Day

It announced a R70m upgrade in April to increase its finishing capacity for SC paper by 50% to 120 000 tons a year. 26/7/94

A considerable part of the SA market was at risk, Stewart said.

He said the board had asked Mondi for a report giving domestic and international market information to determine whether a prima facie case existed.

Stewart said Mondi's pricing was generally within a few percent of the international prices.

The gazette said Mondi submitted evidence which showed that the imports were surpressing its prices and causing its inventories to increase substantially.

Sappi hopes for better things

YURI THUMBRAN

PAPER and packaging group Sappi expects improved earnings in the first half of the current financial year, executive chairman Eugene van As said BDay

He told the group's general meeting held in Johannesburg yesterday that the effect of good prices would flow through only towards the middle of the 1994 calendar year.

The company cut earnings 64% to 90c (249c) a share and passed its dividend in the year to February. Taxed income was 61% lower at R142,2m (R360,1m).

Van As said earnings should increase and accelerate in the second half of Sappi's 1995 financial year.

The bullish outlook of Van As was underlined by the company's expansion programme plans for the current financial year.

Sappi is set to proceed with the modernisation of its Tugela, Enstra and Usutu mills at a cost of about R550m

The Tugela mill would be modernised at a cost of R200m, the Usutu mill at R150m and the Enstra mill at R200m.

The modernisation and expansion of the Usutu pulp mill in Swaziland had been put on hold for several years because of poor market conditions 26/7/94

These had improved and shareholders and stakeholders would see the benefits in the years to come, Van As predicted

The expansion was necessary as the year ahead offered good prospects for Sappi, more promising than for many years

Van As said pulp and paper prices had risen sharply since November and further increases were expected over the next six months (199)

"I am far more optimistic about Sappi's prospects than I have been for some time."

He added that most of the countries in which Sappi manufactured and marketed pulp and paper products were showing economic growth and the commodity price cycle seemed to be rising

Van As also predicted sustained growth in demand, saying that the supply chain for both paper and pulp had become tight and he believed it was likely to remain so for some time

COMPANIES

HL&H may fall foul of drought and chicken virus

BEATRIX PAYNE

FOOD and timber group Hunt Leuchars and Hepburn (HL&H) fell foul of the market yesterday and was expected to report a loss for the six months to September after a chicken virus seriously affected production at major associate Rainbow Chicken, industry sources said yesterday

Analysts said the slide had been triggered by a recent warning from management that the group's Eastern Transvaal sugar crop had been hit by drought

CE Neil Morris said earnings for the six months to September would fall more than expected, but he could not say how large losses would be The group had hoped to see interim earnings grow above inflation but this was unlikely now.

The group had substantial borrowings, and gearing was at 55% Losses at Rainbow were not expected to lead to greater borrowings, but would do little to reduce interest levels

The share sustained one of the JSE's biggest falls on the day as the price tumbled 10,4% or 175c to close at R15 as investors retreated and shares worth R5,93m changed hands

The share had touched an annual high of R19 in mid-May

B/Day

Analysts were unclear what effect the virus and the drought would have on the group's bottom line

26/7/94

Mortality rates among chickens and a limited ability to pay off the high fixed costs incurred by the R430m Komati mill would "hammer the bottom line," an analyst said

(199)

One analyst said earnings could double as they were off a low base

The group had reported "disappointing" results for the year to March, the directors said Significant losses at Rainbow — which represented about 40% of the group's total investment — and slow consumer spending had seen attributable income fall 65% to R42m (R119,2m)

"It is very difficult to give a picture until we are on top of the disease," Morris said

Paper industry 'on upward curve'

BI Day 3/8/94

YURI THUMBRAN

(199)

THE paper and pulp industry was at the start of a new upward trend which would bolster profitability in the industry, Sappi Fine Paper MD Bert Ibertsen said yesterday

Ibertsen said the industry had been battered by four years of recession, which had sharply cut earnings across the sector.

But growing worldwide demand would spur a recovery in fortunes.

"As the demand grows, prices will increase This will help paper and pulp companies such as Sappi return better profits "

Sappi shares have been in heavy demand The share hit a year high of R56 on Friday, but shed 25c yesterday in 24 deals worth R25,2m — the second largest share transactions by value.

Sappi SA MD Ian Heron said the French government's attempts to reduce the package of European trade incentives to SA would not affect the company badly

France had blocked the inclusion of kraft paper in the generalised system of preference package Sappi's Kraft division contributed R1,7bn in sales to total group turnover of R5,5bn for the 1994 financial year

But Heron said France was a small market

He warned that recent veld fires were likely to cut into the company's timber supplies, particularly from the Eastern Transvaal

He said the fires had damaged many hectares of plantation which had to be planted again

"It has caused a shortfall of timber and our supply will definitely be affected," he said

Pulp price to rise — Sappi

B/Day

PAPER and pulp producer Sappi expected pulp prices to reach $700 a ton by February, and that the upward trend would continue for at least three years, the Malbak-owned company said yesterday. 19/8/94

Sappi's Southern Africa MD Ian Heron said the price of benchmark northern bleached softwood pulp had increased from $430/t in January to the current $620/t

"We expect pulp prices to reach $700/t by the end of the year or at least by February There is no sign of the pulp price easing as lumber is not in plentiful supply in the rest of the world."

He said environmental constraints would pose problems for producers using chlorine bleaching processes, and there was no significant foreseeable increase in capacity around the world

Sappi was expecting improved orders from China and India Productivity at Sappi's SA plants had increased an average 40% since 1991, he said. (199)

He said perceived threats posed by a sharp increase in Indonesian pulp were not a major concern, and Indonesian market share gains were probably not sustainable — Reuter

Mondi rules out early listing on JSE

YURI THUMBRAN

PAPER and pulp company Mondi has ruled out a JSE listing in the near future, despite the recent recovery in its main markets. B/Day 30/8/94

Chairman Tony Trahar said yesterday that shareholders Anglo American Industrial Corporation (Amic), Anglo American and De Beers had not discussed such a move. He said a listing was unlikely for at least another two years. (1997)

Analysts had expected the continued revival in the paper and pulp market — which has recently boosted the JSE performance of rival producer Sappi — would prompt Mondi to list within the next 18 months.

They said Mondi would attract significant interest from international and local investors, and a listing would lead to a higher value being placed on the company.

Mondi posted attributable earnings of R88m (R33m) before abnormal items for the six months to June — contributing 16,8% to 53% stakeholder Amic's R278m attributable income.

The company — which manufactures kraftliner, bleached hardwood pulp, supercalendered magazine paper and newsprint — exports to 38 countries, which contributed 30% of its interim sales of R1,4bn (R1,2bn).

Amic chairman Leslie Boyd has said Mondi would see a 60% surge in earnings this year, given the market's recovery.

Rival producer Sappi said recently that bleached pulp prices had risen 63% to the current $620 a ton since August last year and could reach $700 a ton later this year. It expected the upturn would last until 1998.

Multi-billion rand buyout of major US paper maker

Sappi now a world player

Star 11/10/94

■ BY DEREK TOMMEY

One of South Africa's top industrial companies has taken over the largest coated wood-free (CWF) paper producer in the United States in a multi-billion rand deal

Pulp and paper company Sappi announced last night that it is acquiring control of SD Warren Company for $1,6 billion or just over R5,7 billion

This is the largest investment by a South African company in the United States and elevates Sappi into the top ranks of the world's paper makers It makes Sappi South Africa's first genuinely multi-national industrial company.

But Sappi's executive chairman, Eugene van As, emphasises that this acquisition will not reduce Sappi's commitment to developing its South African operations on which it is spending R1,4 billion. It is considering also spending a further R200 million at Enstra amd Usutu

Cash provisions

Sappi was not using any South African currency to acquire Warren, he said All but $250 million of the money required is being provided by American bankers and insurers and a Swiss banker

"After having been the pariahs of the world for so long, it was pleasing to see some of the best banks in the world competing to do business with us," said Van As.

Warren, which is owned by Scott Paper Company, the world's largest tissue producer, is market leader in the United States in CWF papers - which is the fastest growing segment of the paper and pulp market

Top table . . . The Sappi team at yesterday's press briefing.

Its four mills have a capacity of 1,25 million tons of paper a year and it owns nearly 1 million acres of timberlands in the north-eastern United States

Warren came on the market earlier this year when Scott put it up for auction after announcing that it intended to concentrate on marketing tissue

None of Warren's direct American competitors could bid for it owing to that country's anti-trust laws, while most other American paper manufacturers who might have been interested were heavily in debt and lacked the financial muscle

This left the field open to foreigners Initially 10 foreign firms expressed an interest but ultimately the number of bidders, including Sappi, dropped to three

Van As said he believed one of the bidders had made a higher offer than Sappi, but Sappi was awarded Warren because its offer was in cash and was fully-underwritten

Motivation

Discussing the motivation for the acqusition Van As said the world paper market is consolidating If Sappi were to remain a major operator it had to become a global player in certain markets by the year 2000

The Warren acquisition will make Sappi the world's leader in the CWF market while the R1 billion modernisation programme at Saaicor will reinforce Sappi's lead in the dissolving pulp market.

Sappi is financing the purchase with some American techniques. "It is a different setup from here in many ways," he said He and Sappi's financial staff had been on a 90 degree learning curve in the past four months

Sappi is putting up $250 million of the $400 million being paid for the equity portion of Warren Sappi's R250 million is being raised against the security of its European assets Van As said Reserve Bank approval will be needed This will give Sappi 70 percent of the equity

Partners

Sappi's banking partners — DLJ Merchant Banking Partners and UBS Capital — will subscribe for the remaining $150 million of equity They will invest an amount of $37,5 million in ordinary shares, $37,5 million in perpetual Pik (payment in kind) shares and would underwrite an issue of $75 million redeemable Pik shares.

Van As said Pik shares were something like preference shares but with the dividend being paid in new shares and not in cash.

199

Debt financing will be provided through a fully underwritten bank facility of $1,1 billion provided by Chemical Bank — the third largest bank in the US

This will comprise $630 million in senior debt and $375 million in a senior-subordinated debt from the DLJ Bridge Fund which will be refinanced in the high yield (or junk bond) debt market by Donaldson Lukin and Jenrette Securities Corporation

None of the debt instruments carries any recourse to the shareholders

The balance of the cost is an assumed debt of $120 million which carries a low rate of interest.

Van As said that Warren has passed through a number of bad years which saw its pre-taxed profit drop from $200 million in 1988 to $100 million in the past year

This was partly the result of the downturn in the business cycle which led to large scale dumping from Europe and Warren shooting itself in the foot

It embarked upon a cost-cutting retrenchment campaign a little while ago which destroyed staff morale and led to many experienced workers leaving.

As as result, it has not yet received any benefit from the $1,6 billion investment which it made in new equipment in the past three years

He said Sappi should be able to significantly increase production at Warren, and this and the sharp increase in paper prices recently should result in it becoming far more profitable and generating considerable cash

Had the acquisition occured this year the effect on Sappi's earnings would be neutral. It will have a positive effect on Sappi's earnings in 1995-96 and if the current trend in the paper price cycle continues into 1997-98 as expected, the positive impact will be substantial.

He pointed out that production of CWF paper is static in a growing market There were no new CWF paper mills under construction and even if a start were made now to build them, it would be three years before they could reach production.

Company now world market leader

Sappi expands into US with $1,6bn deal

BDay 11/10/94

AMANDA VERMEULEN

SA paper and pulp group Sappi yesterday announced the acquisition of US-based paper company S D Warren for $1,6bn, making it the world's largest producer of coated woodfree papers The transaction represents the biggest investment yet in a US company by an SA concern

Executive chairman Eugene van As said the deal, which gives Sappi 70% of the equity, had been entered into with US-based Donaldson Lufkin & Jenrette (DLJ) Merchant Banking Partners and UBS Capital, and would be financed entirely from overseas sources (199)

DLJ Partners is a wholly owned subsidiary of Donaldson, Lufkin & Jenrette, a Wall Street securities firm and a wholly owned subsidiary of one of the largest US insurance and asset management firms, The Equitable Companies

UBS Capital is a wholly owned subsidiary of Union Bank of Switzerland

Sappi's share was suspended in Johannesburg on Friday and in London yesterday morning at the request of directors

The purchase price was $1,48bn in cash plus existing Warren debt, amounting to $120m, which will remain in the business

The purchase will be financed by a stand-alone leverage transaction Sappi will invest $250m in Warren equity

The remaining equity capital will come from DLJ Partners ($125m) and UBS Capital ($25m)

Debt financing will be provided through a fully underwritten bank facility provided by the Chemical Bank ($1,1bn) and the senior subordinated debt from the DLJ Bridge Fund ($375m) to be financed in the high yield debt market by Donaldson Lufkin & Jenrette Securities Corporation

Sappi, which is borrowing $200m from UBS against the security of its European assets, plans to raise a long-dated Eurobond to repay this loan

Although Warren is being financed on a stand-alone basis and there is no recourse to Sappi for the Warren debt, Sappi intends to consolidate Warren in its financial statements This will result in Sappi's debt ratio increasing to about 1,25 1 at February 25 next year It is expected this ratio will decrease to below 1 1 within 18 months

Its UK, German and SA fine paper operations, combined with the Warren acquisition, give Sappi 15% of the world's coated woodfree paper production capacity

Warren, based in Pennsylvania, was owned by the Scott Paper Company, the world's largest tissue producer, and contributed 25% of Scott's turnover Last year Warren reported $1,1bn turnover with earnings before interest and tax at $108m

The acquisition, which almost doubles Sappi's forestry ownership to 700 000ha, is still awaiting Reserve Bank approval and anti-trust clearance in the US

Sappi had been able to make the successful bid for the company on the back of a more fully financed and underwritten offer than the other 10 interested parties Anti-trust legislation in the US also prevented any of the major US companies from making a bid for Warren

The Warren acquisition represents another expansion move in Sappi's publicised

☐ To Page 2

Sappi

BDay 11/10/94

☐ From Page 1

bid to become a world player by 2000.

In 1990, the company bought a European-based company, Hannover Papier, elevating it to the third largest European producer of coated woodfree paper.

A R1bn modernisation of the group's Saiccor plant in Natal was expected to be commissioned in January 1995, and would enhance the company's position as the world's largest dissolving pulp producer.

Warren, which had invested $1bn in the past six years in upgrading machinery, gives Sappi the opportunity to expand into a market of growing demand but static capacity for coated woodfree papers, said Van As The company would concentrate on consolidating its investments, but in the long term would consider acquisitions in Southeast Asia. (199)(232)

US acquisition propels Sappi into global top 20

BDay 12/10/94

AMANDA VERMEULEN

PAPER and pulp group Sappi's $1,6bn acquisition of US paper company Warren would propel it into the ranks of the top 20 paper and pulp earners in the world with a projected turnover of R10bn, analysts said yesterday

The Warren deal, the latest in the company's series of acquisitions since the beginning of the decade, was part of its aim to become a global player by 2000

Sappi's dissolving pulp operation in KwaZulu/-Natal is the world's largest, with a R1bn investment in the plant expected to come on line early next year The group also planned a further R3bn investment in its other SA interests

Warren has placed Sappi as the world's largest producer of coated wood-free papers, with 15% of the world market The group has also made several European acquisitions five mills in the UK in 1990, and German company Hannover Papier in 1992

Analysts said yesterday the Warren deal was well timed Not only was the world paper and pulp market experiencing an upturn in prices, but coated wood-free papers represented the fastest growing of all the paper industries, increasing by at least 5% annually

In addition, Warren had invested $1bn in new plant equipment in the past six years, creating the capacity to meet the growing demand Warren was also fully integrated with pulp production, while most other major producers had to buy pulp One analyst said this would give the company higher margins, and make it more competitive.

Another point in Sappi's favour was that the world paper and pulp market, typified by an approximately eight-year cycle, was looking at good growth in demand and prices over the next three to four years

Sappi suffered a setback in 1992 when the Scandinavian currencies collapsed Overnight, Finnish and Swedish pulp producers went from being the world's most expensive to among the cheapest Sappi's UK ventures had also been plagued by the British recession.

Sappi cut costs at Hannover Papier, and said in its 1994 report that it had expanded market share in Europe while gaining an export foothold in the US and Far East

Improved prospects for the European and UK interests, combined with the Warren acquisition, which Sappi executive chairman Eugene van As said would have a neutral or positive affect on earnings, were expected to push turnover to about R10bn 199/252

Analysts said share price predictions were difficult to make because of the industry's cyclical nature

But one said the deal was unlikely to boost the share price, which closed yesterday 4,2% or 250c off at R57 — but in a generally weak market Rather, the deal would justify the share price which reached a R63 high on September 5

Another analyst said, however, the share was "likely to outperform the market in the medium to long term"

Sappi's US acquisition 'not a threat' to Mondi

BDay 13/10/94

AMANDA VERMEULEN

SAPPI's acquisition of US paper company SD Warren did not pose a threat to Mondi, SA's other major paper group's chairman Tony Trahar said yesterday (1993)

Sappi and unlisted Mondi, owned by Anglo American Industrial Corp (Amic), operated in different markets

Trahar said while Sappi was making a major push into the US, Mondi was focusing on the European market Mondi would concentrate on uncoated wood-free products, newsprint and packaging, while Sappi was now the world's largest producer of coated wood-free paper

Trahar said the company was always looking at possible European acquisitions or investment in new plants

He said Sappi would not wish to list at the peak of the approximately eight-year cycle that characterised the world industry World paper and pulp prices began increasing last year, and analysts said yesterday the upswing was likely to be maintained for three to five years

One analyst said a Mondi listing would probably occur in the next 18 months to two years to take advantage of the growth trend in the cycle

A listing in 1996, providing prices continued to grow until about 1997 or 1998, would give the company an opportunity to give shareholders earnings growth, and to finance any future projects It would also assist Mondi in financing offshore projects if exchange controls had been abolished

Mondi held a 5% stake in Mondi Europe and analysts said one plan could be the expansion of its holding in the company But until exchange controls were abolished, Mondi would have to consider following Sappi's lead by financing offshore ventures through the junk bond market

However, one analyst said Mondi's relatively conservative accounting policies made this an unlikely course

While SA's paper and pulp companies would benefit from a general improvement in the world economy, markets in Southeast Asia, where countries were becoming increasingly sophisticated and demanding more paper products, had particularly good growth potential

But this opportunity could be hampered if Russia, which had the potential to be a major producer, improved its infrastructure and moved heavily into the market, an analyst said

SAPPI

FM 14/10/94

Vote of confidence

The deal shows again that top SA managers can compete with the best

Sappi's purchase of SD Warren, the biggest US producer of coated woodfree paper for US$1,6bn, represents the biggest ever foreign investment by an SA company

The acquisition is notable both for its size — it overshadows the $1,2bn Gencor paid earlier this year for Billiton, the international base metal and minerals company — and for the secrecy with which it was accomplished As business wound down before the holiday weekend, Sappi asked the JSE to suspend the share's listing ahead of an announcement, interestingly, the stock's move on its last trading day was comparatively modest

There was no indication that the company was on the acquisition trail — though, to be fair, executive chairman Eugene van As gave ample warning earlier in the year of his long-range strategy to position Sappi as a global leader in selected markets "It would have been unfair," he says, "to have maintained the listing with London open while the JSE was closed In any event, Scott Paper insisted the announcement be made immediately"

Warren, an unlisted Pennsylvanian company, was wholly owned by Scott Paper, described as the world's largest tissue manufacturer It dominates the American market for coated woodfree papers (used principally for high quality magazines, company annual reports and similar products), with a 27% market share and production capacity of 1,2 Mt/ year Since the US market is so large, Warren's command in North America also makes it the world's biggest coated woodfree producer — a role it now automatically confers on new owner Sappi

Warren's assets comprise four mills, two in Maine, one each in Michigan and Alabama, a research facility of unusual ability and which Van As describes as crucial to Warren's long-range successes, and about 400 000 ha of forests in north east US The company's payroll is 4 400 and Scott has warranted net tangible assets of $1 565m at transaction date (of which $75m will be in cash)

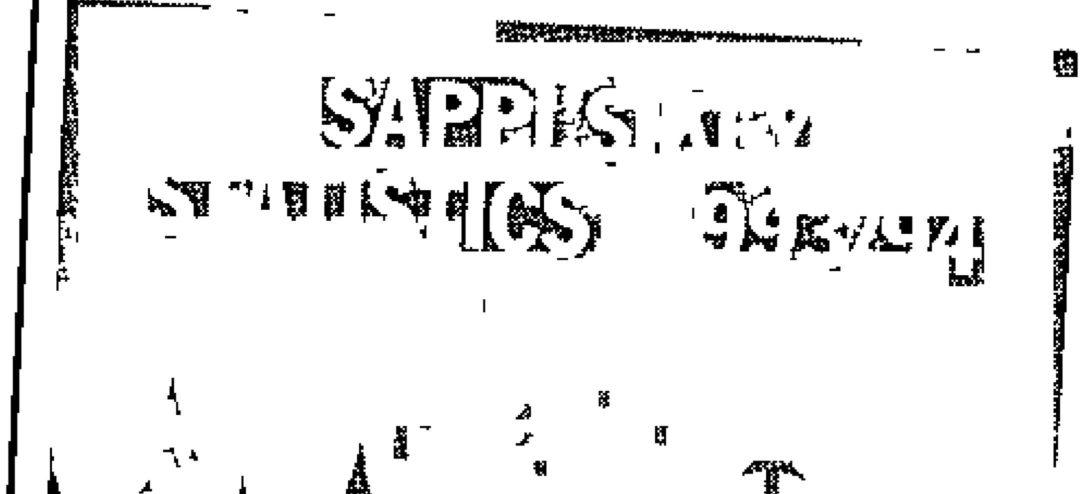
Last year, Warren's pre-tax and pre-interest profit was $108m on sales of $1,1bn, which is an uninspiring trading margin of under 10% If tax is included — and Sappi finance director Bill Hewitt says it's of the order of 30% — this gives Warren net earnings of about $75m What that also suggests is that the purchase price is on a p e multiple of about 21, a number that seems rather high (199

In his defence, however, Van As says Sappi's approach was based on Warren's cash-generating ability, which is high last year, Warren produced cash of $200m from pre-tax and interest earnings of $108m (which suggests very high depreciation allowances)

Another feature of the Warren deal is why its parent has been so anxious to sell it Scott Paper originally bought Warren in 1967 and there's nothing in the record to indicate it was an inept purchase On the contrary, Scott itself has gone through some difficult years, in a bloodbath, its new CEO Al Dunlap reduced its head office by 1 200 people and he has made it clear he intends that Scott should return exclusively to its original core business

Questioned by the *FM* about his positioning of Sappi, Van As says the size and nature of global paper and pulp markets are such that it is unlikely any one company will ever dominate these completely Sappi's managers have selected two specific areas — dissolving pulp, used primarily as the base for chemical textile manufacture, and woodfree coated papers — in which the company can become a global leader And it is clear Sappi deliberately chose to buy an existing business rather than go the greenfields route "We have no desire to add to international capacity in this area," says Van As

The Warren deal catapults Sappi into the first league of world pulp and paper manufacturers It also changes Sappi's profile and turns it into one of SA's biggest industrial companies on the latest standings, Warren will increase Sappi's annual turnover to around R10bn, putting it up there with leaders such as Malbak and Tiger and making it, probably, the sixth largest in the country, with pre-tax profits of about R500m, Sappi will rank with Amic



	BEFORE THE DEAL	PRO FORMA AFTER
TOTAL SALES (Rbn)	5,5	9,5
EMPLOYEES	19 000	23 400
PLANTATIONS	400 000	765 000
CAPACITY (million metric tons)		
PULP	1,6	2,2
PAPER	1,7	3,0

Source SAPPI

The financial elements of the deal are complex and intricate, and make use of financial instruments never applied in this country Of the total purchase price, $1,48bn is payable in cash, the balance of $120m is debt in Warren, which will be taken over by the new owners

To finance this huge sum (R5,27bn converted on the commercial rand rate), Sappi is supported firstly by Union Bank of Switzerland (UBS) which has provided $250m secured against Sappi's European assets (Hannover Papier in Germany) Of the balance of $150m which is being injected as equity, UBS Capital and New York securities firm Donaldson, Lufkin & Jenrette (DLJ) will together contribute $37,5m as well as a further $37,5m in what is called perpetual preferred stock The remaining $75m will be redeemable preferred stock

These preferred stocks — quaintly called perpetual and redeemable "Piks" by Sappi (meaning payment in kind) — are unusual in the sense that, while they carry a fixed interest coupon, they do not receive cash payment Instead, the value of the paper increases by the notional interest coupon and the total amount is eventually redeemed when an Initial Public Offering (a listing, in SA language) is made

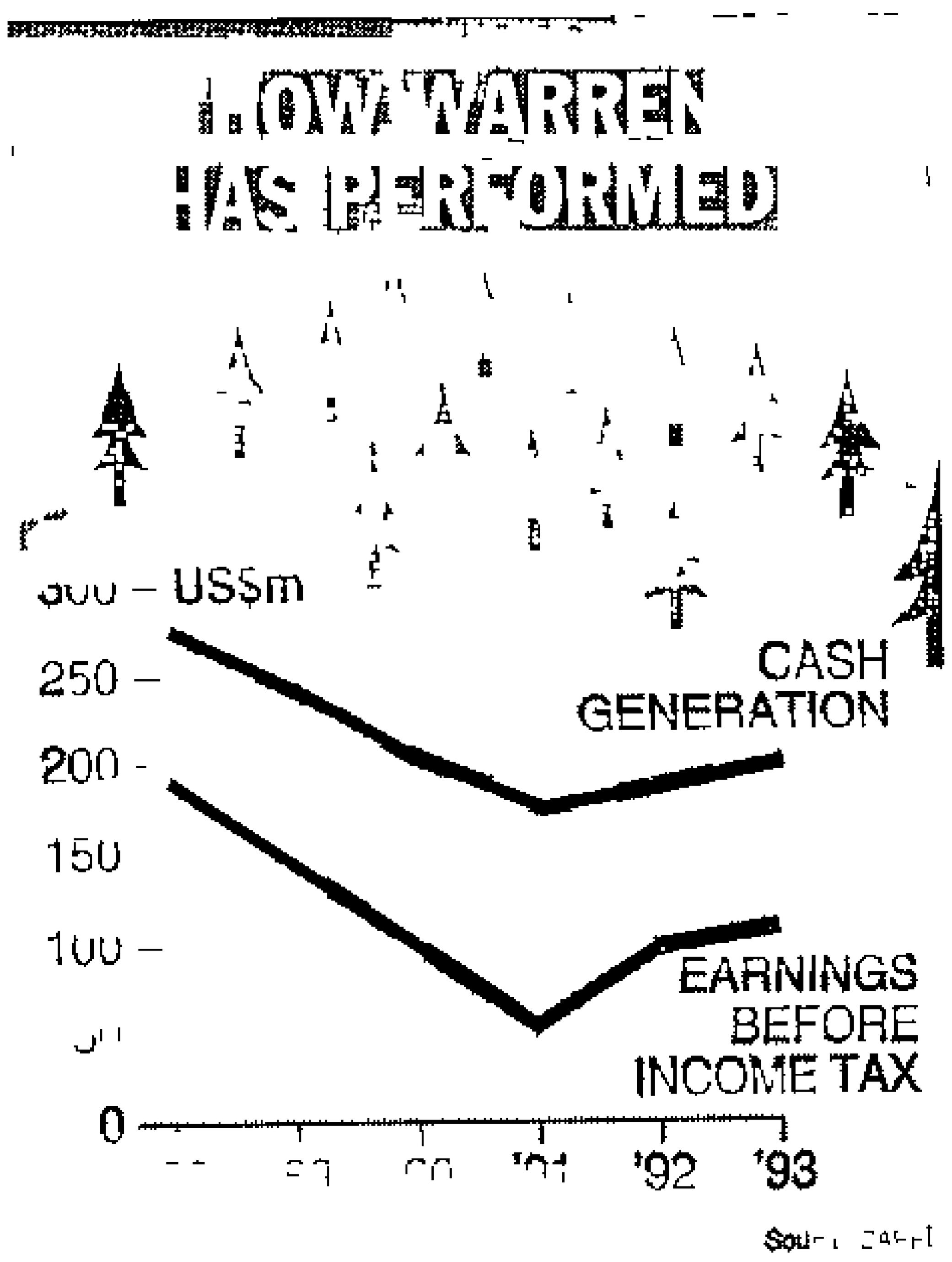
However, Piks also confer on holders the right to take up, without charge, prespecified percentages of the company's common stock on listing It is this device which American institutions find so attractive and which contributes to the large returns recorded by them on their investment portfolios This arrangement leaves Sappi with about 70% of the equity, in a holding company still to be formed

A further $375m is being raised by DLJ through the medium of what is called high yield paper Van As says this will carry interest at a fixed rate of about 11,5% and is redeemable in 2004, provided all bank loans have been repaid Formerly, these stocks were perjoratively called "junk bonds," a term now distinctly out of favour in Wall Street

Finally, a syndicated loan of $630m has been underwritten by Chemical Bank, the third largest in the US, this will carry a coupon 1,5% above American bank rate The deal is the largest single transaction Chemical has ever taken on as the sole underwriter

Continued on Page 25

FM 14/10/94



Continued from Page 20

The sheer size of the deal has taken analysts by surprise "I thought the figure of 1,6bn was rand when I first heard it," says one pulp and paper specialist And it raises a number of issues that need deeper consideration First among these is that the deal demonstrates — if this is necessary — the extent to which SA has been readmitted to the world financial community Van As says Sappi was able this time to choose its partners, from being a supplicant, top SA companies are now wooed abroad

Securities firm DLJ, for example, is a wholly owned subsidiary of The Equitable Companies, a New York-based insurance company with assets, it is said, of $130bn It is on the line in this deal for more than $400m, which it is either underwriting, placing or subscribing directly CE John Chalsty — he is from the SA town of Senekal and he left the country in 1954 — tells the *FM* his firm believes the Warren deal is a "good transaction It is also a remarkable expression of confidence in an SA company by American financial institutions"

The deal will have a profound effect on Sappi itself Clearly, its executives are determined the company should span the globe, though Van As is careful to downplay any suggestion that his ambition is to be dominant But Sappi now has a strong presence in North America, which complements its position in Europe achieved through the Hannover acquisition And as an SA company, Sappi is already a major player in the southern hemisphere, where the only real opposition in its niche areas comes from Fletcher Challenge in Australia In effect, this leaves only South East Asia, asked about this, Van As says he believes an investment in that region will follow "in due course"

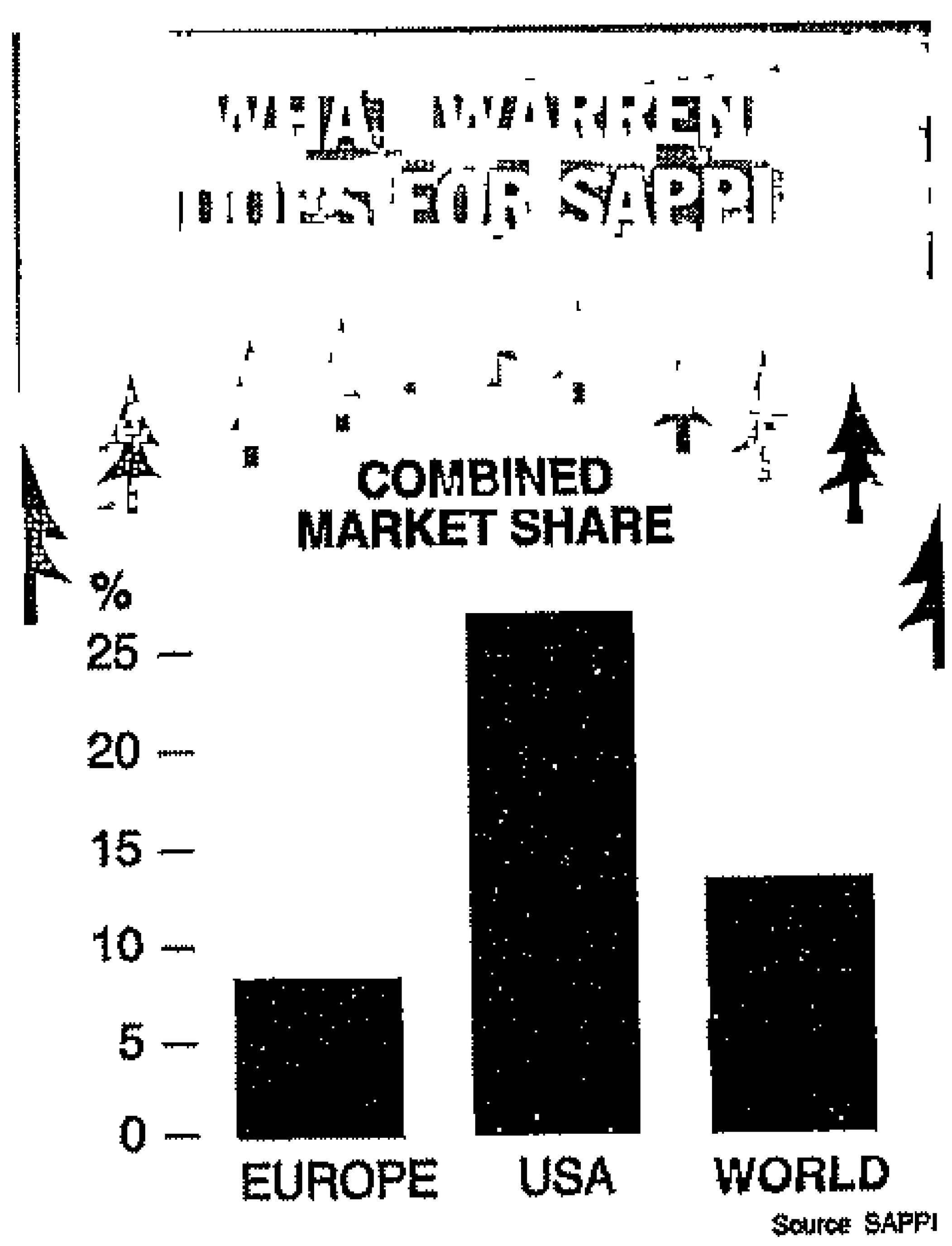
Then there's the matter of the impact on Sappi's finances and balance sheet The transaction has been carefully structured to ensure that no SA funds are involved (though, since Hannover is being pledged to UBS as collateral, the Reserve Bank must give approval) Since Sappi will hold around 70% of Warren's issued equity, it has been decided that Warren's accounts will be consolidated with Sappi's

Nevertheless, a key feature of the deal is that lenders have no recourse of any kind in any circumstances to the equity holders Warren's own assets stand as the sole collateral for the borrowings This raises the nice point that, since Sappi is unencumbered by the deal, reflecting the debt burden in its accounts may give an inaccurate picture Van As's problem is that he's always been at pains to insist that Sappi does not have off-balance-sheet financing, changing this policy now will invite accusations that he's doing so only because it suits him (199)

Still, the impact on Sappi's gearing ratio is considerable The current borrowing ratio is 0,41 (that is, for every rand in shareholders' funds, there are 41c of borrowings) Taking on the debt burden associated with buying Warren pushes that ratio to 1,25 — a figure many will consider dangerous, since it implies huge vulnerability to economic cycles

Pulp and paper companies are notorious for their poor gearing ratios In Sappi's case, it was at the low end of the scale before the Warren deal, with the fourth best ratio in a list headed by Kymmene with a debt equity ratio of a colossal 3,0 After Warren, Sappi's gearing rises to more than 1,0 but still on a par with the majority of producers

And it is more than a little interesting to see what the deal does to Sappi's world rankings before Warren, Sappi held 35th position in the table of pulp and paper revenue earners The list is dominated by American giant International Paper, with annual revenue of nearly $14bn After Warren, Sappi rises to 24th place



The transaction underscores the ability of SA's best managers to compete internationally On this occasion, Sappi entered an auction in competition with some powerful players and was able to put together a deal which succeeded largely because the big cash element was secured up front That says something of the high regard in which the company is held

A big question in the market will be whether Sappi has got the timing right The last overseas acquisition it made — Hannover Papier — was secured when Sappi figured the paper and pulp markets had bottomed On that basis, it put a lot of paper into European institutions (with the help, it should be added, of its merchant banker, SG Warburg) Unfortunately, it was wrong the pulp market scraped along on the bottom for another year before it turned and it left some European fund managers with a sour taste

This time, however, the evidence of a turn in the market is clearer already, pulp prices have soared from their low of $350/t to the present $700, a doubling in less than a year And it suggests that Sappi's timing — moving into a company which almost cannot help do well and with products which aren't so tied to the commodity cycle — may be impeccable on this occasion

Paper cycle

Finally, another problem of timing When will Warren be listed? There's not much doubt this route will be followed — some of the financing has been structured with just this in mind — but Van As needs to judge finely the extent of duration of the present upturn in the paper cycle The chances must be for a listing on the New York exchange either in late 1996 or early the following year, in order to leave investors with profit potential

An alternative, of course, might be to merge Hannover with Sappi Europe and Warren, and then to list the combined group simultaneously in London, Frankfurt, Paris and New York

Whatever route is followed, Sappi has become a truly multinational pulp and paper giant Much of this has to do with Van As's personal vision of the group's future Van As joined Sappi as MD of Sappi Kraft in 1976, he became CE 18 months later, so he's been in the hot seat for 16 years — certainly long enough to have impressed his own value system on the company

Van As (55) has taken Sappi from production of 850 000 t of pulp a year in 1978 (and taxed profits of R16,9m) to last year's 1,6 Mt of pulp and, in a poor year, a profit of R145m Van As is married and has two children He was educated at King Edward VII School before going to university — which he didn't complete

It obviously hasn't been a handicap from being a management trainee at Olivetti, Van As has forged a group which is now a major world player *David Gleason*

SUNDAY TIMES

Disillusioned staff hope to get jobs back

HUNDREDS of disillusioned workers gather daily at the offices of the Paper Print Wood and Allied Workers' Union (PPWAWU), waiting to hear if they will ever get their jobs back. S Times

Each day desperate, former Gerald Yosh employees catch taxis into town to be with their colleagues at the Eloff Street offices.

It is here, in the musty, sweaty passageways, that they discuss the crisis. All live in the hope they will get their jobs back.

Some shake their heads in disbelief: who is going to pay the monthly bills?

Mrs Agnes Mbhele, 53, has worked for 16 years for Gerald Yosh as the company's tea lady.

She said: "I have no problem with Mr Yosh — I only want to get back to work. I want to know what is going to happen to us".

PPWAWU branch secretary Mr Bengeza Mthombeni says the lawyers and liquidators are negotiating.

Shop stewards say the trouble began when workers decided to join the new Cosatu-linked PPWAWU union.

For years they have belonged to the National Union for Furniture and Wood (NUFAWU). They say this union never protected them when it came to dismissals and retrenchments.

Shop steward Fexzer Sindane said Mr Yosh threatened the workforce with dismissal if they joined a Cosatu-affiliated union. Mr Yosh denies this.

By September, over 400 workers had joined the new union. 16/10/94

Shop steward Meryda Buys said the workers had made no other demands.

"He told us he'd rather close the factory than have Cosatu rule the place. He said he was closing the factory because productivity had dropped. But management never told us about this. We worked hard each day to produce the goods but we were never told that production was down."

She added: "The workers held meetings during our half-hour lunch, never during working hours. We never staged protests or go-slows."

She strongly denied that workers had threatened Mr Yosh. (199)

An official of the 45 000-strong PPWAWU, Mr Norman Dube said: "For many years furniture employers have had a closed shop agreement with NUFAWU. Every worker who was registered with a furniture company was automaticaly registered with NUFAWU. Our union has tried for a long time to encourage workers to join us but employers resist this."

Another PPWAWU shop steward, Mr Kenneth Mthembu, said: "I feel very sad for the workers. I told the liquidators that the factory should re-open and that the workers should be re-employed."

Better prices help Sappi more than double profit

Star 19/10/94

BY CHARLOTTE MATHEWS

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 SA 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

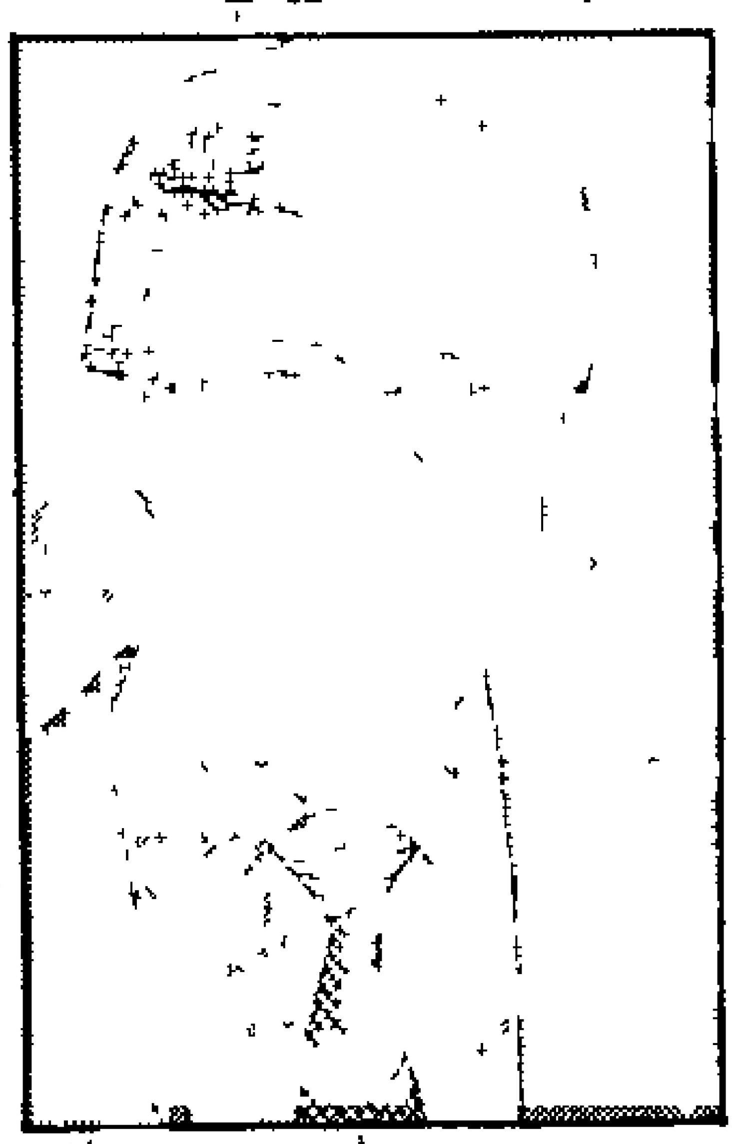
Results for 1995 would show the benefit of the transaction and if the paper price cycle continued its current trend into 1997, the positive impact of the deal would be substantial.

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, showing operating margins at 6,6 percent from 3,7 percent in 1993.

Net finance costs lifted by R20 million to R51,8 million because of a slowdown in benefits received from the Ngodwana lessor trusts, now maturing

The tax bill was a negligible R7 million, or 4,4 percent, because of assessed losses brought forward from previous years and allowances on the group's continuing level of capital expenditure

Earnings a share were 90c, from 43c in 1993 on a higher number of shares in issue, allowing for the IDC's conversion into Sappi shares of its equity



Ian Heron ... first time in several years.

stake in Saiccor

An interim dividend of 30c, against no dividend in 1993, has been declared

Sappi's debt/equity ratio at the end of August was 44.

Although most of the financing for the Warren acquisition is on a fully leveraged, standalone basis, using a conservative accounting policy Sappi's debt/equity ratio is expected to rise to 125 by February 1995, but will fall below 100 within 18 months

The start of a period of significantly improved profitability for paper and pulp producers was evident in Sappi's results, financial director Bill Hewitt said.

Southern Africa MD Ian Heron said for the first time in several years Sappi had been able to increase domestic prices on certain products, but in real terms prices were still well below the peak prevailing at the peak of the last upturn

Competition in the linerboard market had limited Sappi's ability to increase prices in line with world trends and the upturn in this market would only be felt late in 1995.

The German operation, Hannovier, was running at full capacity and had a strong order book. The losses this business incurred in the early months of the year should be recovered by the end of the year. (199)

In the UK operations, sharp pulp price increases had outweighed paper price increases, but an improvement in margins was now expected

If the Warren acquisition had been in place for the six months to August, the main source of Sappi's turnover would have switched from SA to the US

SA's contribution to turnover, now 39,3 percent, would have slipped to 24,5 percent, while the contribution from the US, now 4,3 percent, would soar to 40,2 percent

Van As said Sappi's profits for the second half of the current financial year were likely to exceed significantly profits for the comparable period in 1993/94 and for the first half of the current year Improvements in most group markets boded well for steadily improving results over the next few years.

Sappi shares closed at a new high for the year of R66 yesterday, indicating a resurgence of confidence in the future of the group after a brief hesitation on the heels of the acquisition announcement The shares opened 1994 at R30

Since the group has only just emerged as a major international player, there's probably still room for the shares to appreciate.

Higher prices boost Sappi

B Day 19/10/94

AMANDA VERMEULEN

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. (1991)

The group's offshore operation in Germany, Hannover Papier, was running at capacity, and should eliminate earlier losses to make a profit at the year-end

☐ To Page 2

Sappi

B/Day 19/10/94

☐ From Page 1

Sappi's UK operation would show an improvement in margins as a result of an increase in paper selling prices following better pulp prices (199

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 and should benefit further from generally improving price trends.

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

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.

199

23/10/94

Safcol's timber outgrows cheap domestic prices

SI Times (Buss)

By CIARAN RYAN

SAFCOL, the state-owned forests and timber group, says it cannot subsidise domestic timber users by keeping prices of pruned logs at one-third of international prices

SA furniture makers have enjoyed some of the cheapest timber in the world because Safcol kept prices down

(199)

Saw log prices went up by 20% this year and pruned logs by 35% High quality pruned log prices are likely to continue rising until the gap closes between local and world timber prices No further increases are likely before the second half of 1995

Safcol has drawn fire from some furniture manufacturers for "monopoly pricing", but Safcol chief executive, Tienie van Vuuren, says the group controls only 7% of the saw milling market and 20% of the country's forests

"Despite these increases, the price of our top quality pine logs is still only one-third that of the world market We cannot continue to subsidise the local market Inefficient manufacturers need to look at their productivity, rather than rely on subsidised inputs.

"We have to increase prices of top grade pine logs in order to improve our financial returns, but this will not affect the price of timber for low-cost housing Timber is an important component in low-cost housing and we will continue to supply this market at very competitive prices"

Safcol has started an export drive to improve its returns to the state, but says it will never export more than 15% of its output It plans to export only 3% this year

"SA pine has a strong comparative advantage over the Scandanavian equivalent It takes just 28-35 years to grow a tree in South Africa compared to 100-300 years in Scandanavia for a tree of comparable quality, says Mr van Vuuren

"After years of international isolation, we are now finding that our timber is in demand abroad We found that our top quality pine logs are worth three to four times more than what we charged on the local market"

27/11/94

There is a surplus of timber in SA at a time of worldwide shortage — thanks largely to the endangered spotted owl, which caused a freeze in the felling of forests on the US west coast after environmental lobbying The timber shortage has driven world log prices to around R400 a cubic metre ex-plantation, opening an export market for SA

Safcol manages 265 000ha of forest or 20% of the country's total, the balance is owned by Sappi, Mondi and other smaller owners

It produced its first, albeit small, profit this year from turnover of R300-million Its balance sheet has been not been completed because of delays in valuing its assets Overseas consultants have valued these assets at more than R1-billion

There has been concern that the country's forests will be depleted because of Safcol's export drive, but Mr van Vuuren says trees are being replenished at the same rate as they are being harvested

Safcol embarked on a major refurbishment at two of its five mills Because of outdated technology, the standard wetmill recovery rate of SA saw mills is 50% compared with more than 60% overseas

Sentrachem shareholders promised 'solid growth'

B/Day 3/11/94

MUNGO SOGGOT

CHEMICALS producer Sentrachem's drive to move away from commodity chemicals into higher value products was gathering pace and shareholders could look forward to another year of solid growth, MD John Job said in the annual report

Job said Sentrachem was continuing to reduce its exposure to commodity chemicals, illustrated by its increased stake in Sanachem, which was now wholly owned, and its acquisition of fine chemicals producer Delta G Scientific

Research and development spending had risen to R26m from R14m last year

He said alcohol production at the group's NCP division in Germison would stop in a few months, resulting in the loss of 500 jobs The division was on track to report better profits.

Sanachem, which produces generic herbicides and pesticides, now exported 65% to 70% of its output. It supplied its products to a world market worth $11,5bn a year, and it clocked up sales of $120m a year

The group's export drive was steaming ahead. Exports had topped R3bn for the first time in the past financial year and accounted for 15% of turnover Sentrachem was now a net earner of foreign exchange. It posted a 38% jump in earnings to R120m for the year to August on a 7% rise in turnover to R2,79bn

Substantial improvements in the results of Agrihold, Karbochem, NCP and Sanachem had been highlights of the year, Job said.

After years of decline, the prices of several chemical commodities started improving last year, but the pick-up in the world chemical cycle would rub off on earnings only next year A number of players in the SA chemical industry were now collaborating to make final value-added products more internationally competitive.

Sentrachem had settled supply arrangements with Polifin, the joint venture between Sasol and Amic-owned AECI

"The political and economic outlook is brighter than it has been for years," Job said "I am confident, therefore, that 1995 will be another year of solid progress."

During the past financial year, gearing had been knocked down to 12% from 42%.

Sappi looks eastwards for more foreign ventures

AMANDA VERMEULEN

PAPER and pulp giant Sappi, which last month announced the $1,6bn Warren deal, one of the largest transactions by an SA company outside its own borders, is looking again across the seas.

MD Ian Heron said recently that, although the former Soviet Union had enormous timber reserves, its economic woes and lack of infrastructure made it a difficult place in which to operate. B/Day

China, on the other hand, was being considered by Sappi as an opportunity. The group was already trading there and considering joint ventures. 3/11/94

The rest of Asia, which had its own pulp and paper industries, posed stiff competition for the SA industry, partly because of low labour costs. But Heron said potential for mergers and acquisitions also existed in Indonesia in the long term

Sappi had made preliminary moves into Asia by establishing a trading arm in Hong Kong.

Africa also offered expansion opportunities, but unstable political and economic environments in countries such as Angola and Zaire made it difficult to realise the potential offered by those countries. (199)

For the moment, the group was concentrating on Mozambique, where it was involved in a joint venture with the government on a 30 000ha forest project

The group was also investing heavily locally, with a planned capex of R2bn over the next two to three years vate placing, the directors' holding in Kill... mainly in the PWV area.

Safcol privatisation may be 'influenced by RDP'

B/Day 6/12/94

AMANDA VERMEULEN

SAFCOL's contribution to the reconstruction and development programme's housing projects could be a factor in government's decision to privatise the state-owned forestry and timber company, sources said yesterday.

But government sources said the main factor would be commercial.

Safcol became a company under the Companies Act as part of the previous government's commercialisation of state assets exercise in April last year. Sources said it would be a natural progression to sell it to the private sector.

CE Tienie van Vuuren said yesterday the company was well placed to assist in the housing programme. It produced more than 1,4-million cubic metres of timber a year, of which 175 000 could be taken up for housing.

Safcol, which had 20% of the forestry reserves in the country but only 7% market share, was also well placed to take advantage of the worldwide upturn.

Van Vuuren said its exports, which at most would be 15% of production, were essential to subsidise a competitive local market. Not only would the company supply materials for building, but also for the expected increase in demand for furniture.

Sources said government might not want to relinquish this asset in view of its potential contribution to the RDP, and this could be a factor taken into consideration in the Public Affairs Department's plan to investigate privatisation.

They added government may decide to retain Safcol as a state enterprise to ensure a stable and low price for timber materials.

But Van Vuuren said it was premature to say what government planned to do. It would examine models in other countries that had privatised their forestry companies.

A Public Affairs spokesman yesterday confirmed the department was reviewing the situation in other countries, but he denied government would not privatise Safcol just to maintain a source of low-cost building materials.

"Any decision made would be based on commercial considerations. Safcol is not a strategic asset, and it would be pointless to keep prices artificially low as it would still be a type of subsidy."

199

He said government would have to choose whether it wished to keep its forestry reserves, or sell the assets to raise funds for housing, water and electrification projects.

EXECUTIVE SUITE

Cigarettes more costly

UNANNOUNCED cigarette price increases of up to 10% have pushed most major brands over R3 for a pack of 20s

The increases implemented last Wednesday have raised the ire of retailers and consumer bodies who have accused major cigarette companies of trying to "sneak" in higher prices

The price of all brands produced by the Rembrandt Group and United Tobacco Company have increased by between seven and 10%

Outraged cafe and supermarket owners telephoned the Cape Times saying they had not been informed of the sudden price increases and were left to explain them to angry customers

(198) CT 12/12/94

A United Company spokeswoman blamed the increases on inflationary pressures but denied attempts had been made to keep the price hike quiet.

Innovative R3,5-m project will create hundreds of income opportunities

Big boost to waste recycling

Star 13/12/94

■ SCIENCE WRITER

In a major boost to waste recycling, Sappi Waste Paper has launched a R3,5 million project which will create hundreds of income opportunities in the informal sector

At least 100 War on Waste recycling centres are to be estalished in townships in the course of the project, the first being at Soweto, Alexandra, Mamelodi and Khayelitsha. Further sites in Daveyton, Dobsonville, Lenasia and Tembisa will be indentified in consultation with NGOs, civics communities and town councils and put in place countrywide during next year

The project has been made possible by what Sappi Waste Paper described as "innovative financial agreement with Future Bank, who will underwrite the financial loan to each recycler".

The recyclers will be trained in waste collection and each centre will collect waste paper, tin and glass. Depending on locality and size, the capital investment required to set up one centre could be as high as R35 000. This includes basic infrastructure such as scales, containers and enclosing the area

Income

"We anticipate five to 10 jobs to be created at each centre," Denis Skeate, director of Sappi Waste Paper, said "However, the most important benefit will be that hundreds of income opportunities will be created as the infrastructure will be in place to buy waste products collected by the community." 199

He stressed that waste paper, tin and glass are valuable resources which were not being utilised and were being sent to landfill sites becuase of a lack of infrastructure and practical means of collecting

The chief objective of the War on Waste campaign is to prevent recyclable material from ending up in landfills, but it would also alleviate problems in areas where there is no formal waste removal system at present

Skeate said the project paved the way for the recycling centre concept using schools to spearhead it.

"More than a million children at more than 1 000 schools countrywide already take part in the campaign Our estimate is that War on Waste has improved the recovery of paper comsumed annually," he said.

Sappi ties up $1,5-bn purchase

■ BY DEREK TOMMEY

At midnight tonight the biggest foreign purchase by a South African company will be completed.

By then all the loose ends will have been tied up and Sappi — by paying $1,48 billion — will have become the owner of the American SD Warren Company.

Sappi shareholders approved the transaction at a special meeting in Johannesburg yesterday.

Sappi stands to benefit handsomely from the acquisition. Star 20/12/94

When the deal was announced on October 10, it was said the effect of Warren's 1994 earnings, when consolidated with Sappi's results for the year to February 1995, would be neutral. (~~[illegible]~~ 199)

But because of price increases in the coated paper market, the transaction will now add 35c a share to Sappi's earnings.

Sappi chairman Eugene van As said yesterday the company had successfully marketed the $450 million Warren debt and equity instruments after a two-week road show, which went to many major US cities. The issues had been over-subscribed.

He said this was highly gratifying as the securities were being marketed at a time when the bond market was extremely weak.

The acquisition will make Sappi the largest producer of coated woodfree paper in the world with an approximate 15 percent market share.

Taking together Warren's output (equal to 26 percent of the US market) and that of Sappi from its Hannover Papier mill, its United Kingdom facilities and its Stanger mill, Sappi will control about 20 percent of the Western world's mar[illegible]

MANUFACTURING — WOOD & CORK

1995

FM 27/1/95 (199)

TIMBER INDUSTRY

Logging problems

The timber industry is under severe strain as a result of the prolonged drought, disease, pests and fire, which last year

wiped out 33 000 ha of plantation

Mike Edwards, executive director of the Forest Owners' Association (FOA), says the 1991-1992 drought destroyed 30 000 ha of SA's 1,2m ha of timber and affected another 132 000 ha so badly that none of the trees grew at all that season, costing growers an entire season The FOA's latest statistics show growers sold roundwood (logs) worth R1 071bn in 1991-1992 and R1 019bn in 1992-1993 The recurring natural catastrophes have reduced the 16M m³ growers normally sell each year by 6,5M m³ and has cost the industry R500m

Logging operations *the drought results in less timber for local needs*

thus far

According to Edwards, the drought continued into the 1993-1994 rainfall season destroying a further 15 000 ha and arresting the growth of trees in another 40 000 ha. It will cost growers an estimated R1 500 ha to clear the devastated areas, and another R1 500/ha to re-establish their plantations.

In the Northern Transvaal, 40% of the trees have been affected by drought. Edwards says the area will take years to recover.

In retrospect, he concedes that some parts should never have been planted to timber. In other areas, growers planted the wrong species for the micro climate. In most instances all the trees have been lost.

In northern Natal, 20% of the timber has been affected by drought. In the Natal Midlands, one of the least affected areas, the figure is only 6%.

Pine trees are softwood and take 25-27 years to reach maturity Because the drought killed mostly young pines, the immediate availability of pine is not affected.

However, a shortage could be in the offing. The availability of hardwood (mainly gum trees), which take eight to 10 years to reach maturity, will be almost immediately affected because 56% of the gum trees lost were six to 10 years old.

Edwards says the disasters have struck at a bad time The domestic market is buoyant and SA is exporting around R3bn worth of forest products a year Demand is expected to soar further this year because the growth in the economy is spurring renewed activity in the building sector, government's housing programme and the RDP

SA Lumber Millers' Association (Salma) technical director Apies du Toit says millers have contracts with growers and are still

getting the timber they need However, they are concerned about the effect of the drought and fires on their future supplies

It could also affect their lucrative export market. In the US, they are getting R3 000/m³ for "clear wood without any inherent or manufacturing defects" ■

Timber group Yorkcor back in the black

(199) ST (BT) 12/2/95

By ZILLA EFRAT

TIMBER products group Yorkcor is again in the black, turning in profit of 21c a share in the year to December after two previous years of losses.

"The trend lines show how decisively we countered the challenges of a period which will be remembered as among the toughest in the history of the timber and building industry in South Africa," says chairman Solly Tucker.

He attributes most of the improvement to strong productivity gains, as well as better business confidence in the second half

The second half contributed almost all of 1994's earnings of R2,1-million, compared with a loss of R1,1-million in 1993

The group, however, suffered a loss of R3,2-million for the year from its furniture manufacturing operations and its furniture production plant near White River has been mothballed

Without these losses, earnings for the year would have been 53c a share, Mr Tucker says in Yorkcor's annual report, released on Friday.

But one of the group's sawmills near White River, which had been mothballed for over two years, "rose like a Phoenix" in the second half to meet increasing demand for timber.

A solid performer, too, was sawmilling operation Nicholson & Mullin, the group's flagship.

In the year under review, Yorkcor's operating profit grew more than threefold — from R800 000 to R2,9-million — on less than a 30% rise in turnover

A dividend of 10c a share was declared for the year which can either be taken in the form of cash or bonus shares

Yorkcor's past difficulty has been cash flow, dented by climbing borrowings in the previous five financial years

This position has also turned The group began the year with gearing at 27%, but closed with nearly R10-million cash in the bank

YORK TIMBER ORGANISATION

Black forest cake

FM 24/2/95

There was cake, and plenty of it, to celebrate Yorkcor's return to profitability after two years of declining turnover and attributable losses

The key to this recovery, says chairman Solly Tucker, is increased productivity and battle has been joined on several fronts.

Firstly, Yorkcor "got tough on expenses," as debt was repaid, interest charges dropped two-thirds from R1,9m in 1993 to R647 000 in 1994. Secondly, efficiency went up, turnover jumped 29% whereas pre-interest profit rose nearly fourfold, from R801 000 in 1993 to R2,9m And, thirdly, the timber yield, a critical factor in sawmilling, improved

The core business, sawmilling, faced tough competition in 1994 and prices came under severe pressure Nonetheless, the profit contribution increased 60% from R5,8m in 1993 to R9,2m

If construction of affordable housing through the RDP grows as hoped over the next few years, the higher sales volumes would presumably be beneficial — though political pressures could help curb local prices (and margins) Yorkcor may also gain from developments in rural areas

Since the furniture-making venture fizzled, Yorkcor aims to add value to its timber by milling its products to higher finishing standards

Wood of this quality commands high prices, particularly from Pacific Rim countries. Restrictions on logging in the US and the Russian upheavals have also opened those markets to prime-grade SA timber

Housing developments in SA will probably use up medium-grade timber and liberate the premium grades, which earn bigger margins, for export

Yorkcor also adds value to its roofing products by advising builders on how to construct roof trusses using improved engineering techniques and less timber Margins will be higher on such products

Tucker says raw wood resources are the growth restraint The drought has been crippling, with many trees killed over large areas and disturbed rotations The available resources are diminished and will affect working capital by pushing up raw material prices soon

Even so, growth is expected Net cash flow (R6,2m in 1994) is projected to drop by almost 50% in 1995 due to capital expenditure and management forecasts EPS will double from 21c to 45c in 1995

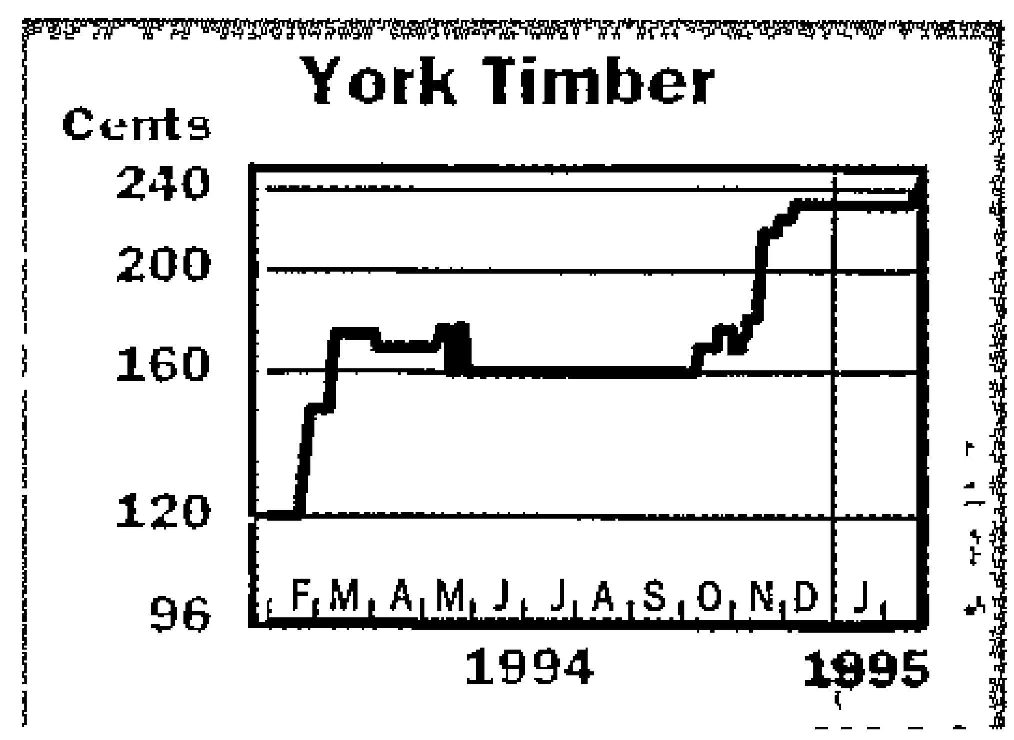
One negative aspect is the possibility that the State-owned SA Forestry Company, formed in 1993 to take over commercial forestry undertakings of the government, will raise the price of sawlogs to mills Yorkcor predicts the increase will stay below 12,5%, but an unexpected jump could impair profits

Tucker is keen to make the shares more interesting to small investors and plans to recruit them actively The share price has risen 5c since release of the 1994 results, trading at just above its NAV, and it seems set to rise further Those who can still see the wood for the trees may want to invest soon

Margaret Anne Hals

Activities: *Production and marketing of forest products, property investments*
Control: *Max Tucker & Sons (Pty) 45,7%*
Chairman: *S Tucker MD I S D Tucker*
Capital structure: *9,98m ords Market capitalisation R24,0m*
Share market: *Price 240c Yields 4,2% on dividend, 8,9% on earnings, p e ratio, 11,2, cover, 2,1 12-month high, 240c, low, 120c Trading volume last quarter, 47 550 shares*

Year to December 31	'91	'92	'93	'94
ST debt (Rm)	2,0	2,0	0,9	0,9
LT debt (Rm)	6,9	9,5	8,4	7,0
Debt equity ratio	0,36	0,59	0,31	0,06
Shareholders' interest	0,58	0,49	0,48	0,48
Int & leasing cover	1,12	—	0,42	4,54
Return on cap (%)	6,2	(37,6)	2,1	6,1
Turnover (Rm)	39,8	36,2	35,0	45,2
Pre-int profit (Rm)	2,5	(1,5)	0,8	2,9
Pre-int margin (%)	6,4	(4,1)	2,3	6,5
Earnings (c)	2,4	(38,3)	(10,8)	21,0
Dividends (c)	14,0	—	—	10,0
Tangible NAV (c)	240	194	184	228



PGSI lifts attributable earnings 32% to R210m

CT(BR) 8/5/95 (199)

Chairman puts improvement down to strong growth from Belron International and record performance from PG Bison

By Charlotte Mathews
Investment Editor

Plate Glass & Shatterprufe Industries (PGSI), the SAB-controlled glass and timber products manufacturer and distributor, grew attributable earnings by 32 percent to R209,7 million in the year to March 1995 compared with the same period in 1994

Ronnie Lubner, PGSI chairman and chief executive, said the improvement, which is off a high base, was mainly due to continued strong growth from Belron International and a record performance from PG Bison

According to figures released today, turnover was 17 percent better at R3,8 billion, in line with the increase shown at half-year Operating profit grew by 9 percent to R389,3 million, showing operating margins overall down to 10,3 percent from 11,1 percent

Lubner said operating margins had, in practice, improved but development costs had been incurred. Net financing costs rose to R31,1 million from R28,5 million although gearing was down to 24 percent from 27 percent The tax rate dropped to 27 percent from 37 percent as assessed losses were used

Lubner said development costs in one country could not be offset against another country As each country's operations returned to profit they were able to use assessed losses Whether a 27 percent tax rate was sustainable depended on how long it took for each country's operations to return to use those losses At present Germany is the only country which has not yet returned to profit and it will turn the corner, as planned, in the current year

Attributable earnings are 845,9c (641,9c) a share, and assuming conversion of the convertible shares, are 644,7c (512,3c) Capitalisation shares, or a final dividend of 160c (145c) are being offered, bringing the cash dividend for the year to 290c (230c)

Lubner said PGSI would continue to develop although it did not intend to move out of the areas it had already established itself in — the United States, United Kingdom, Continental Europe and Australia — because it felt there was still market share to be achieved

PGSI has four operating divisions Belron, the international arm, contributed 38 percent to fully diluted earnings a share Glass SA contributed 35 percent and PG Bison 15 percent, while PG Industries, the central African operations, contributed about 9 percent Corporate activities accounted for 3 percent

Glass SA maintained its contribution at the same level as 1993/94 despite the lengthy strike in the motor industry. Sales at PG Bison surged on post-election confidence and there was record production at factories around the country

PGSI is targeting continued growth in earnings in the current year

The directors are positive about prospects for Belron International but overall financial performance will depend on productivity improvements in South Africa and a meaningful start to the housing drive

The MINISTER OF HOME AFFAIRS

(1) 454 498

(2) Yes Applicants who have not yet provided the Department with a complete set of fingerprints are required by regulation 3 of the Regulations published under the South African Passports and Travel Documents Act, 1994 (Act No 4 of 1994), to supply such fingerprints together with their applications Should an applicant's fingerprints already be on record, only his or her thumbprint is required

(3) (a) Yes, 323 cases

(b) The aforementioned figure represents 304 cases where the fingerprints of the applicants differ from the fingerprints on record, and 19 cases where the applicants were identified as aliens and therefore not entitled to South African passports The local offices where these applications were lodged were informed accordingly Efforts to trace the applicants at the addresses furnished on the application forms were however unsuccessful ostensibly because either false addresses were furnished or the applicants are no longer residing there The fingerprints/thumbprint control measure initially introduced during May 1994, proves to be successful not only for the tracing of fraudulent applications but also for discouraging the submission of such applications

Hansard 30/5/95

Rise in price of pine lumber

217 Mr M F CASSIM asked the Minister of Water Affairs and Forestry

(1) Whether the price of pine lumber in the Republic has risen in the last three years, if so, (a) by what percentage and (b) what was the reason for this increase,

(2) whether he will make a statement on the matter?

N454E

(199)

The MINISTER OF WATER AFFAIRS AND FORESTRY

(1) Yes

(a) Depending on the timber size and grades, between 16% to 49%

(b) The reason for this increase will be addressed in my statement on the matter

(2) Yes The reason for the increase in the price of lumber was to cover higher log prices, higher cost of production, to reflect a shortage in certain size classes and to reflect world prices in those cases where clear timber was exported World demand for sawtimber rose moderately during 1994

The South African lumber industry has come to realise that in the world market, South African-produced lumber is actually of the highest quality due to the pruning process in the lifetime of the tree stand to produce long pruned logs containing clear timber In the past this high quality timber was used to make low value products like roof trusses and only during the past four years the industry is adapting itself by further processing and therefore value adding to deliver high value products which in turn can command high prices Such a development provides extra processing and work opportunities in South Africa and will thus be of much benefit to our country

State funds available for sport in 1995

231 Mr M J ELLIS asked the Minister of Sport and Recreation

Whether State funds have been or are to be made available for any sport in 1995, if not, why not, if so, what amount in respect of each specified sport?

N483E

The MINISTER OF SPORT AND RECREATION

Yes, the State will be making funds available to sport in 1995

A funding formula for the distribution of the available funds was developed by the Department of Sport and Recreation in conjunction with the National Sport Forum In this way R14,664 million will be made available to one hundred and fifty one national sports federations and two macro sports bodies in the 1995/96 financial year

Transcriptions of court proceedings in Eastern Cape: companies holding contracts

235 Mr A J LEON asked the Minister of Justice

(1) What are the names of the persons or companies currently holding the contracts to undertake transcriptions of court proceedings in the Province of the Eastern Cape,

(2) whether he is in a position to furnish the names of the directors of the said companies, if not, why not, if so, what are their names,

(3) whether these contracts were put out to tender, if not, why not, if so, when did each contract commence,

(4) whether each successful contract was awarded to the lowest tenderer in each case, if not, (a) why was the lowest tender not accepted and (b) what was the price difference involved in each case,

(5) whether any contracts were extended or renegotiated without being put out to tender, if so, (a) which contracts, (b) when and (c) why, in each case?

N487E

The MINISTER OF JUSTICE

(1) The firms presently holding the contracts for the transcription of court proceedings in the Province of the Eastern Cape are as follows

(i) *Former RSA* Sneller Recordings (Cape) (Pty) Ltd,

(ii) *Transkei* Sneller Recordings (Pty) Ltd, Durban, and

(iii) *Ciskei* Ciskei Transcription and Management Services (previously known as Ciskei Transcripting Services)

(2) (i) *Former RSA* Sneller Recordings (Cape) (Pty) Ltd Messrs H W Hurter, I Hurter, C J van Tonder and L G van Tonder

(ii) *Transkei* Sneller Recordings (Pty) Ltd, Durban Messrs L G van Tonder and C J van Tonder

(iii) *Ciskei* Ciskei Transcription and Management Services Mrs Z Gernetzky

(3) (i) *Former RSA* Yes—in respect of the Eastern Cape Division of the Supreme Court of South Africa and South Eastern Cape Local Division of the Supreme Court of South Africa and the magistrate's offices under its jurisdiction (excluding the Supreme and Lower Courts in the Transkei and Ciskei), tenders were called for in State Tender Bulletin No 1300 dated 20 January 1989 and the successful tenders were awarded by the State Tender Board The contracts commenced on 1 September 1989

(ii) *Transkei* Not clear from the documentation whether tenders were called for The Transkeian Tender Board, however, approved a contract with Sneller Recordings (Pty) Ltd, Durban, which commenced on 1 April 1993 and expires on 31 March 1996

(iii) *Ciskei* No tenders were invited A contract was concluded between Ciskei and Lubbe Recordings to render transcription services On 23 March 1988 Lubbe Recordings gave notice to terminate the said contract with immediate effect A contract was entered into on 2 August 1988 with the firm Independent Transcribers in Bisho In due course complaints about the service arose which gave rise to the cancellation of the contract The termination of the contract threatened to disrupt judicial services to the public An offer by Ciskei Transcripting Services (now known as Ciskei Transcription and Management Services), was apparently verbally accepted The existence of a written agreement with the latter firm cannot be verified at this stage

(4) (a) (i) *Former RSA* Contracts in respect of the area the Eastern

Talks at troubled mill in deadlock

BD 15/6/95 (199)

FORESTRY

TALKS to end conflict between workers and management at an Eastern Transvaal timber mill deadlocked yesterday, a Building, Construction and Allied Workers' Union spokesman said.

The Tritimco mill at Brondal near Nelspruit was the scene of shootings on Tuesday in which 84 people were injured when private security guards opened fire with birdshot.

Strikers yesterday gathered outside the mill to continue their protest and to await an agreement, the union's regional organiser, Emelon Khumalo, said

The wages strike began on Friday last week.

"The mill is running at a quarter of capacity, but we should be back to full production by Monday," Tritimco spokesman Melg Welman said.

Production losses and damage to property as a result of 43 fires set in company plantations on Friday could run to hundreds of thousands of rands, he said.

The union, however, said management had set the fires in order to implicate the strikers.

Workers and the security guards have given conflicting reports of stonings said to have occurred in Tuesday's incident. — Sapa.

'Timber shortage could hinder the RDP'

BD 27/4/95 (199)

Robyn Chalmers

THE implementation of the reconstruction and development programme could be hindered further by a looming shortage of timber, says SA Lumber Millers' Association executive director John Mortimer.

Mortimer said SA would have to import timber in three to five years to meet demand generated by the construction of 200 000 low-cost houses a year. The industry would require between 30 000ha and 35 000ha of new forest each year to meet this higher demand, he said.

"At present, we are lagging behind by about 300 000ha of forests which means that we will have to look towards South America and Zimbabwe in the next few years for our timber supplies."

Reasons for the shortages included the prolonged drought, which had devastated certain forests over the past five years, and fires which had wiped out almost 22 000ha over this period.

Figures from the Forest Owners' Association showed the 1991/92 drought had destroyed 30 000ha of timber and badly affected a further 132 000ha out of SA's total 1,2-million hectare timber industry.

The statistics indicated that the sale of logs by growers decreased slightly to R1,01bn in 1992/93 against R1,07bn in 1991/92.

In addition, Mortimer said the industry had been struggling to deal with the worst five-year recession in its history by selling below cost and exporting. As a result of this, it had lost a lot of capacity.

The controls over the amount of timber that could be cultivated and where it could be grown were also restricting the industry, he said.

Water Affairs and Forestry Minister Kader Asmal has talked frequently of the need to boost the greening of SA, but apart from indicating that a complete review of the forestry permit system was in the pipeline, ways of achieving this are unclear.

PIC's assets grow 27 percent

The assets under management of the Public Investment Commissioners grew almost 27 percent in the year ended in March last year to R83,2 billion

This makes the commissioners the fourth biggest fund manager in the country after Old Mutual, Sanlam and Liberty Life

Funds under its management can be expected to grow substantially over the next few years as the government moves to make up significant actuarial shortfalls in the state pension funds

In a report tabled in parliament, the commissioners announced that almost R80 billion of the total amount under management was made up of various government pension funds Part of the assets will soon be loosened up and invested in equity and other markets — Bruce Cameron

CT(BR) 17/8/95

Sale of state-owned land on the cards

BY BRUCE CAMERON
POLITICAL EDITOR

The sale of as much as 780 000ha of state-owned land, worth millions of rands, is on the cards — and most of the land will go to deprived communities

The land was bought in the apartheid years for the consolidation of the homelands, but was never transferred It had been held by the now-defunct South African Development Trust.

Frans van der Merwe, the director general of the department of agriculture, which now controls the land, has told the parliamentary committee on public accounts that the land will be available as soon as possible for deprived communities.

At the moment, most of the land is being leased on short-term, one-year agreements

In an interview with Business Report, Van der Merwe said a three-pronged approach was being taken to dispense with the land

☐ The land could be leased out with an option given to the lessee to purchase the land,

☐ It could be sold outright to buyers selected in co-operation with local communities The price would be set on the agricultural value of the land and not the market value, and

☐ Transfer of the land to communities who would use it for fairly high density rural settlement and small scale farming

The land could be valued at anywhere between R20 and R5 000 a hectare, depending on its agricultural potential

Van der Merwe said a small proportion of the land may still be subject to claims in the Land Claims Court

Earlier, Van der Merwe told the parliamentary committee that his department had taken over the assets of the trust without knowing what it was getting

With moveable assets on the land, his department had been forced to adopt a redline approach starting from a zero base in drawing up a list of the assets.

He said there was no point in attempting to reconcile the new list with any previous record as the trust either did not have or had lost its records

Three Safcol sawmills to be upgraded

199

BY ROY COKAYNE
PRETORIA BUSINESS EDITOR

CT(BR) 17/8/95

The South African Forestry Company (Safcol), the parastatal to which the state's commercial forestry undertakings have been transferred, has embarked on a R50 million first-phase capital expenditure programme to upgrade its sawmills

The programme forms part of Safcol's strategy to boost the export of value-added timber products

Tienie van Vuuren, the chief executive of Safcol, said its exports were worth between R20 million and R30 million

Safcol's refurbishment programme was being financed from extra funds it was obtaining from the export of top grade logs — many to Pacific Rim markets.

"But only a very limited volume of logs — not more than 6 percent — is being exported because Safcol is tied to long-term log supply contracts"

Van Vuuren said Safcol was refurbishing three of its sawmills — Weza in southern KwaZulu Natal, George in the Western Cape and Blyde at Graskop — at a cost of R50 million this year as the first phase of a refurbishment programme

Refurbishment of all its sawmills would probably cost double this.

Van Vuuren said the export of top-grade logs was only one leg of Safcol's export programme the other was the export of finished value-added products.

Apart from refurbishing its own sawmills, Safcol was also promoting the refurbishment of sawmills among its clients

Safcol establishes alliance with world timber leader

CT(BE) 22/8/95 (199) ~~FORESTRY~~

By Roy Cokayne
PRETORIA BUSINESS EDITOR

Forestry company Safcol, the parastatal to which the state's commercial forestry undertakings have been transferred, has established a strategic co-operative alliance with the United States-based Weyerhaeuser Group, a world leader in the timber industry

The Weyerhaeuser Group is one of the biggest sawmilling companies in the world and one of the biggest timber growers and pulp wood producers in the US

The alliance has already helped boost Safcol's exports, which are currently worth between R20 million to R30 million a year.

Alliance

Andries Swart, Safcol's general manager marketing, said the alliance involved aspects such as technology, market research, market development, silviculture (cultivation of forest trees), marketing programmes and personnel exchange programmes

"After the sanctions era, Safcol needed credible exposure in international markets and the Weyerhaeuser Group has given us the opportunity to slot quickly into international markets and the latest technology

"The alliance has enhanced our credibility and enabled us to develop markets in a year, which would otherwise have taken between five to 10 years to develop

"The Weyerhaeuser Group believes our plantation management and silviculture practices are among the best in the world South Africa also has largest pruned log resources in the world," he said

Access

Swart said the Weyerhaeuser Group had given Safcol access to vast amounts of technology and had guided it in its sawmill upgrading programme

Safcol recently launched the first phase of a R50 million capital expenditure programme to upgrade its sawmills

Swart said the alliance also created a marketing opportunity for Safcol's own customers

"The Weyerhaeuser Group has distribution centres, which we just slot into," he said

Swart said the personnel exchange programme focused on many different aspects of the timber industry, including the optimisation of log transport, fire fighting techniques and financial systems

Competition Board drawn into fight for HLH's timber

ST (BR) 22/10/95 (199)

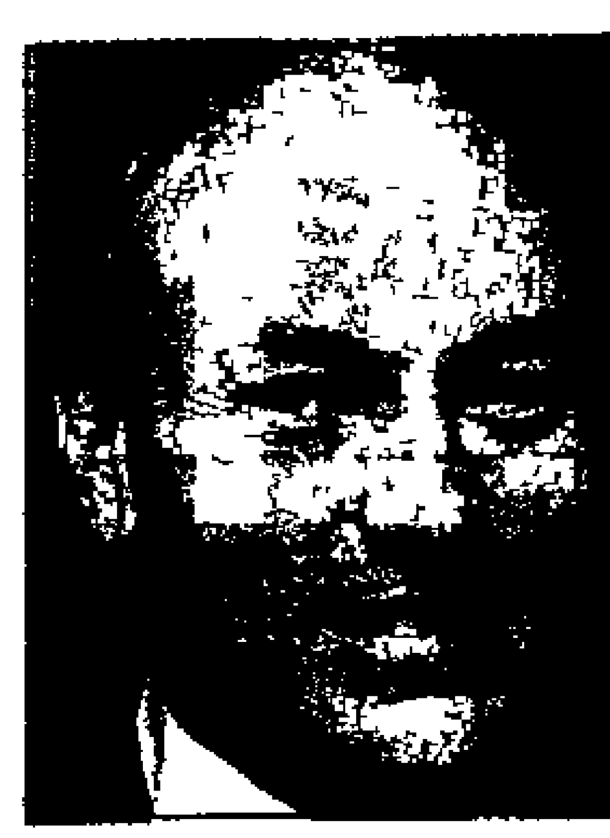
By SVEN LUNSCHE

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"



TONY TRAHAR

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, 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"

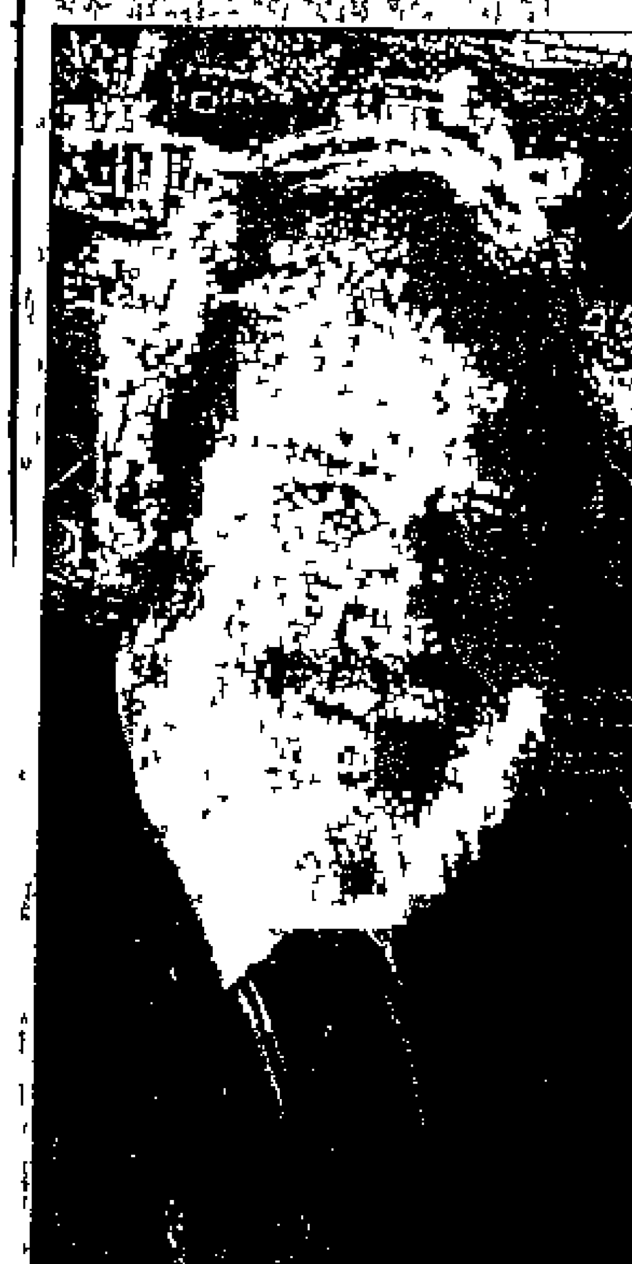
In terms of the submission a Competition Tribunal would ensure any bid for a listed or a large unlisted company was transferred to an independent directors' committee The committee would ensure "that a sufficient range of competitors were afforded the opportunity to compete" It would evaluate offers and make a recommendation to shareholders.

Timber industry up in arms over HLH-Sappi deal

199

By SVEN LUNSCHE

ST(BT) 29/10/95



SOLLY TUCKER

THE independent timber industry, including JSE-listed Yorkcor, has asked the Competition Board to halt the sale of Hunt Leuchars & Hepburn's R200-million softwood division to Sappi.

Yorkcor, a bidder for the HLH interests, says Sappi's acquisition would tighten the grip of over-concentration on limited timberlands by the three "Goliaths" in the arena — Sappi, Mondi and (parastatal) Safcol.

The independents appear to have an ally in Water and Forestry Affairs Minister Kader Asmal, who said on Friday he had made representations to the Competition Board "in support of more competitiveness and greater forestry involvement in the timber industry".

Competition Board chairman Pierre Brooks says there has been widespread objection to the planned acquisition, and that his department is still investigating.

Yorkcor chairman Solly Tucker says independent sawmillers view the action of the three companies as "oligopolistic gobbling — by which the large forestry groups outbid the independent players for almost all timber resources that become available".

John Rance, director of the biggest non-corporate sawmiller, Rance Timber in the Eastern Cape, says "the sale of HLH cannot be viewed in isolation from the overall picture of excessive concentration of economic interests in the forestry industry".

The board is investigating the sale and HLH's disposal of its similarly-sized hardwood interests to Anglo American subsidiary Mondi.

Ian Heron, managing director of Sappi, says the group this week concluded a due diligence study and is waiting for the Competition Board ruling before going ahead with the acquisition.

Mr Heron is confident the deal will be approved "as we are not a big player in the sawmilling or the plantation business even after the acquisition.

"We are already getting one third of the timber from the HLH plantation, a contract that will run until 2001," he says.

Mr Tucker says the three Goliaths, who together own more than 60% of all softwood plantation area (to become nearly 70% if they gain control of HLH's timber interests) restrict vital supplies to independent millers.

Mr Rance says HLH is a relatively independent player to Sappi and Mondi in the hardwoods market.

"Their sawmills also form an important independent entity and a negotiating bloc against the monopolistic hold which Safcol has on sawmill supplies," Mr Rance says.

Yorkcor is proposing that the HLH interests be split up and sold, at market-related prices, to nearby sawmills. If this is not accepted Mr Tucker proposes that Sappi's acquisition be approved on condition that it guarantees supplies to other bidders for five years.

Probe of sale under way

BD 3/11/95

Yuri Thumbran

(199)

COMPETITION Board officials will meet today to discuss the planned sale of the R300m timber operations owned by Hunt Leuchars & Hepburn (HLH).

Competition Board chairman Pierre Brooks said yesterday the investigation into the sale was far from complete and that it would go back to the various concerned parties with the findings from the meeting

The investigation was sparked after independent operators found themselves bidding for the HLH operations against pulp and paper industry leaders Sappi and Mondi

Brooks has previously indicated that a final decision on the sale was likely to be influenced by the findings of the long-running probe into the paper and pulp industry.

Minister wants HLH sale stopped

(199) ST (BT) 5/11/95

By SVEN LUNSCHE

THE government has asked the Competition Board to reject the sale of Hunt Leuchars & Hepburn's timber interests to local forest giants Mondi and Sappi.

Water Affairs and Forestry Minister Kader Asmal says the sale offers "the opportunity to bring in an international player into the SA timber industry, and specifically the pulp and paper industry".

The Competition Board has received submissions "on an unprecedented scale" from independent sawmillers and other parties fearful of a concentration of power in the timber industry in the hands of three major players — Sappi, Mondi and parastatal Safcol.

HLH is proposing to sell its softwood interests to Sappi and its hardwood (mining) timber division to Mondi for an undisclosed amount. Their combined value is estimated at R400-million.

Mondi parent Anglo American, which already has 50% of HLH Timber Holdings, has a pre-emptive right on the other 50% but has expressed an interest only in the mining timber division.

In his submission to the board Mr Asmal says "the pivotal role of the small-grower sector would be lost if either Sappi or Mondi acquired Timber Holdings as over time all its 3,1-million tons of fibre resources would be directed to their own manufacturing facilities".

He says there is already a significant clamour among the world's leading pulp and paper companies for SA timber, particularly from New Zealand, the US and Japan, and HLH Timber could prove an attractive asset for foreign investors.

He proposes that the board reject Mondi's offer and remove Anglo's pre-emptive rights on HLH Timber.

Instead, other potential local and foreign investors should be allowed to bid openly for HLH Timber, assuming they are financially suitable to HLH.

"New investors could also offer Mondi a strategic asset swap for its shareholding in the form of an equivalent investment overseas to expand its international aspirations," Mr Asmal says.

Other bidders for HLH's softwood interests have proposed that if Sappi receives the go-ahead it should be compelled to guarantee supplies to them for at least five years.

Spice the bright spot for HLH

(199)

BD 10/11/95

Beatrix Payne

FOOD and timber holding group Hunt Leuchars & Hepburn Holdings (HLH) posted an attributable loss of R40m (R3,4m profit) for the six months to end-September after losses at most of its operating subsidiaries and a higher interest bill

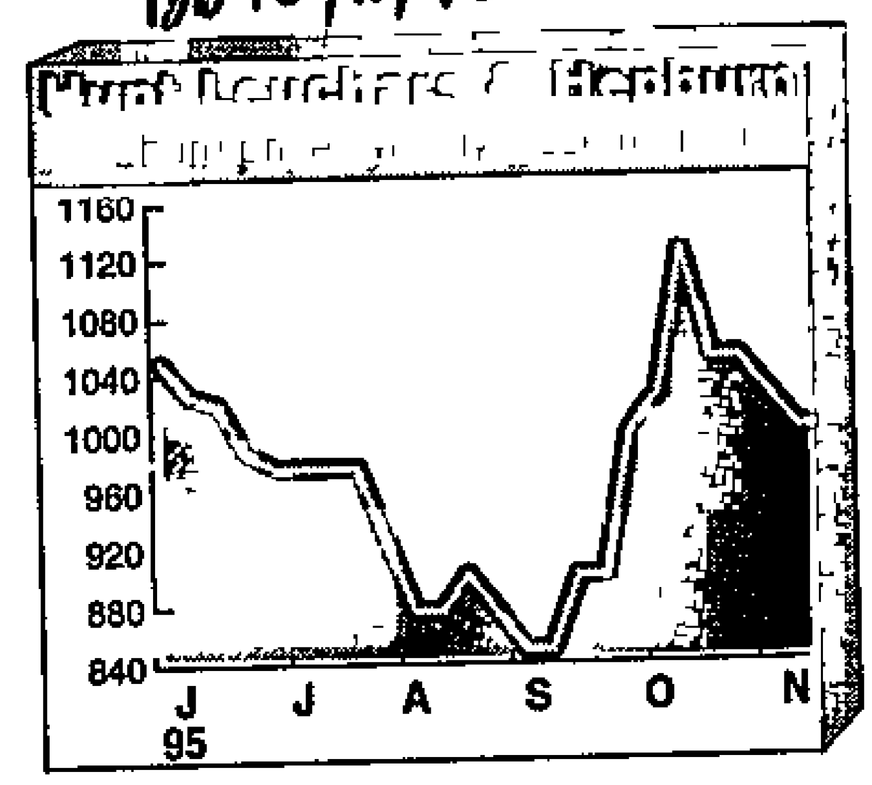
Losses a share — including losses incurred by non-subsidiary companies — amounted to 26,7c compared with earnings of 2,3c in the comparable period last year

HLH CE Neil Morris said yesterday that the group lifted sales 7,7% to R767,4m on the back of a strong performance from spice merchant Robertsons

Margins were under pressure from the poor performance of the sugar operations, with operating income slipping to R45,5m (R55,9m). The division incurred heavy losses as the drought depressed sugar cane volumes and quality. Malelane and Komati mills operated at 45% capacity.

As a result, financing costs increased sharply to R58m (R47,9m) as the sugar mills' poor performance hampered the group's ability to pay off costs "There is little we can do except hope for rain," Morris said.

Pre-tax losses came to R12,6m



(R8m profit), but Robertsons' strong performance saw the tax bill up at R4,5m. The group's share of associated companies' losses rose to R22,9m (R7,5m loss) No dividend was declared.

Morris expected to see profit in the second half on an improved performance from Rainbow Chicken, but year-end results would reflect an overall loss. Share losses for the year should be below 10c

Morris said the sale of the group's timber operations would help ease its interest-bearing debt, which rose to R872,2m (R864,7m) during the six months.

Parent company Huntcor, which had as its sole investment its holding in HLH, posted a loss of R30,5m (R2,6m profit) and waived dividends for the period.

Black-run sawmill due to be set up

(199)

Adrienne Giliomee

BD 13/11/95

TIMBER group Yorkcor is planning to set up SA's first black-controlled sawmill.

The firm said at the weekend that the new venture — Madiba Mills — would launch early next year, with shareholders drawn from previously disadvantaged communities and the venture's black management and labour.

Yorkcor would provide bridging finance and technical and marketing support. Chairman Solly Tucker said negotiations were under way to secure institutional finance, though he declined to be drawn on a figure or on the venture's projected sales.

The director of Yorkcor, Nthato Motlana, son of the chairman of New Africa Investments, was heading the initiative. He would be a non-executive director of Madiba, though Yorkcor was still looking for someone to head the operation, Tucker said.

Madiba's first operations would be located between Sabie and White River. Motlana said the company aimed to take 10% of the Mpumalanga timber market in its first year.

Tucker said that the largest sawlog suppliers to independent sawmillers were Safcol and the department of water affairs and forestry.

Motlana said that sawmilling had previously been regarded as a "closed shop available only to a privileged few".

ST (BT) 19/11/95

HL&H's timber sale axed

(199)

FORESTRY

THE Competition Board has blocked the sale of Hunt Leuchars & Hepburn's timber interests to forestry and paper giants Sappi and Mondi, writes SVEN LUNSCHE.

The board sent a letter to HLH chief executive Neil Morris this week informing him of the decision to halt the sale of HL&H Timber Holdings, according to sources close to the proposed sale.

Under the HL&H proposal its softwood interest would have been sold to Sappi for R230-million while the hardwood (mining) timber and SilvaCel chip divisions would have gone to Anglo American subsidiary Mondi. Mondi holds 50% of HL&H Timber and has a pre-emptive right to the other half.

The board received numerous objections to the deal from independent foresters and sawmillers, as well as Forestry Minister Kader Asmal.

Under Competition Board rules HL&H will now have to put forward new proposals for the sale.

COMPANIES

HLH told to cut in small buyers

Yuri Thumbran (199) BD 21/11/95

THE Competition Board has told Hunt Leuchars & Hepburn to include smaller independent timber groups in its plan to sell its R300m timber interests.

HLH CE Neil Morris said yesterday it had received notification from the board last week that the talks should not sideline the smaller groups who had bid for the interests

He said the plan was still on track, but that it was now following board guidelines

HLH has been talking to Sappi and Mondi, but the board launched an investigation amid objections by smaller players

Morris said 83 parties, including Sappi, had tendered for its softwood operations, and that some of the smaller players could team up to bid for parts of the softwood business The sale was likely to be finalised shortly.

But talks regarding the sale of the hardwood business, for which Mondi was vying, had not yet been clarified. Mondi's ultimate parent Anglo American holds pre-emptive rights over HLH's hardwood interests.

A board spokesman said the sale had not been blocked, and that talks were still under way

Meanwhile, shoe manufacturer Conshu yesterday criticised the board's decision to reject its proposed merger with Bolton Footwear. Conshu CE Robert Feinblum said the merged companies would have accounted for 12% of total shoe sales in SA

FOCUS

Competition Board holds up HL&H's timber plans

FORESTRY (199) BD 22/11/95

Hilary Joffe

THERE can be few diversified groups on the JSE as exposed as Hunt Leuchars & Hepburn is to factors beyond their control. Investors who buy into the limited pool of shares traded on the open market (the Rembrandt Group holds 83%) gamble on the weather, poultry viruses, import duties, and even the gold price, which affects the group's mining and timber business Added to those now is the Competition Board investigation into the planned sale of HL&H's timber interests.

HL&H's record over the past five years has positioned its share as one for serious gamblers only. Forecasts of imminent recovery have frequently been followed by new disasters.

The group, whose interests include sugar, timber, poultry (41% of Rainbow Chickens), and branded foods (Robertsons), is expected to record a loss for its year to end-March after going R40m into the red at interim stage. The share has been trading at a fairly healthy premium of around 25% to net asset value, but probably only because it is so tightly held.

Earnings a share declined in 1992 and 1993, recovered spectacularly last year and plummeted again in the year to March 1995, by which time eps was down to a quarter of the 1991 level. Gearing rose from 12% in 1992 to 59% at the 1995 year-end and hit 80% at end-September, with financing charges substantially exceeding operating profit in the group's first half

All of which must make the controversy over the group's attempt to sell its timber interests painful for management. The move was first pointed to in a cautionary notice in July whatever the outcome of the Competition Board investigation into the sale, the process will have been delayed by months. The group could be earning much higher returns on cash in the bank than it has been on most of its existing businesses lately And the sale would reduce gearing to manageable levels.

CE Neil Morris would prefer a debt:equity ratio of not more than 25% The sale of the timber interests would reduce gearing substantially to that level, he says. The R300m-to-R400m price tag cited in media reports is "very much on the low side" if it refers to the whole of the timber interests. Morris is hoping for clarity and a speedy resolution of the issue, since the uncertainty means management cannot tackle future development of the timber interests

HL&H Timber Holdings, a joint venture with Anglo American, is made up of three companies: mining, SilvaCel (hardwood chips) and softwood (sawn timber and furniture) The softwood interests are definitely up for sale the hardwood interests not necessarily so

Highest bidder

Softwood was put out to international tender, eliciting much interest, before being offered to Sappi as the highest bidder Anglo subsidiary Mondi is interested in the hardwood interests — Anglo has pre-emptive rights over the mining timber operations However, Morris says the group had already decided, with its partners, to divest from softwood but the rest may be rearranged or divested. The decision will depend on the outcome of the Competition Board investigation

Ironically timber is the one division which was part of the original pre-Rembrandt HL&H of a decade ago it acquired sugar and Robertsons when it bought Bonuskor in the late 1980s, when it also purchased the stake in Rainbow

Running the timber interests as a joint venture has been difficult Morris notes there have been only limited avenues to develop timber so as not to conflict with Mondi's interests "There were few long-term opportunities to add value "

The main reason to sell the timber interests is that HL&H is now predominantly a food company, and this is where it sees growth potential, says Morris. "We would like to see ourselves growing in branded consumer goods and are seeking opportunities to expand " These are likely to be outside SA, as there is not a lot available in the way of acquisitions locally or in Africa, Morris says

At the same time, the multinational food groups are increasingly entering the SA market (analysts note the entry of groups such as McCormick, the US spice company, may in time make life difficult for Robertsons, which has been HL&H's star performer).

About three quarters of the group's assets are in food In the six months to September Robertsons, with about 15% of group assets, contributed R23m to the bottom line. The company, which makes spices, condiments and household cleaning agents, "performed extraordinarily well again", says Morris, showing real growth and increasing market share in sectors in which it launched new products

It has bought 30% of Baker Street snacks and the agency for Indomie, the world's largest noodle manufacturer. Robertsons' exports are below 10% of turnover but growing rapidly into Africa and beyond.

The sugar interests, which account for a third of the group's assets, took R41m off its bottom line in the first half and drove up HL&H's debt level. HL&H commissioned its new Komatipoort mill 18 months ago, in the middle of what has turned out to be a major three-year drought (and, one analyst notes, before government had given the go-ahead for the building of the Maguga dam in the area). With its mills running at only 45% of capacity, HL&H is having to fund the new mill, its losses and interest on those losses, Morris says

The interim losses from sugar are half the full-year picture results for the current season are already known as the mills close in a few weeks for a three-month maintenance period. Good rains now will affect only the 1996/97 season. Rainbow's losses totalled R56m in the six months (R23m was brought to account by HL&H), against a loss of R12m in the same period in 1994, when its chickens were hit by Newcastle disease.

This year it had a new set of problems: rivalry between two unions which stopped work at its largest plant for six weeks, and the flood of imports which hit the whole industry Morris says Newcastle disease created the gap for importers· the customs and excise department was so badly staffed and policing so poor, there was plenty of scope for cheating (for example declaring chicken as turkey, on which there is no duty).

"We got special investigators in to assist and imports have declined dramatically since May," Morris says. The SA industry is back to full production and meeting SA's needs Rainbow is back in profit, although it will not recover strongly in this financial year.

Risk factors

With assets of R292m, timber contributed R1,8m in profit for the six months The mining and timber operations are recovering from the period in which mines were unable to compensate for price increases Last year was the first time it started to recover costs and is doing so again this year

The interim results announcement said. "The group anticipates it will earn a profit in the second half of the financial year although at a level which will not result in a profit for the full year " There is such a variety of risk factors it is difficult to discern the outlook for 1997. Morris talks of "enormous recovery potential". By now he knows better than to say more.

R250m export of woodchips under fire

(199) ~~[illegible]~~

BY STUART RUTHERFORD

CT (BR) 11/12/95

Durban — About R250 million in raw woodchips will be exported through Richards Bay by the end of the year, despite criticism from Reconstruction and Development Programme (RDP) officials.

Carl Seele, the chairman of the South African Timber Growers' Association, said the 1 million tons of woodchips exported this year represented about 8 percent of the total wood cut in the country. He said the export of chips would continue until local prices matched the international market. Local prices are about 10 percent less.

The forestry industry has been criticised for the export of unprocessed wood. An RDP discussion document states: "The current usage of timber resources is wasteful, and we are opposed to the massive and growing export of raw woodchips."

Seele attacked this view. He said the limited number of local buyers had artificially deflated the domestic price. Only three local buyers of pulpwood existed and for other categories of wood, buyers were also limited and dominated by a few players.

As a result of this oligopolistic situation, he said, the industry had started exporting wood 25 years ago.

He stressed the validity of the conclusions reached by a recent document put out by the Wood Marketers' Forum of Southern Africa, which argues: "Any interference in the marketing function of this industry by way of export restrictions would be completely counter-productive and damaging to this industry and therefore to the health of the South African economy."

MANUFACTURING — WOOD & CORK

1996 ~~1997~~

Workers on the march

FORESTRY

ESTELLE RANDALL Labour Reporter

(199)

STRIKING Cedar Meule saw mill workers in Clanwilliam will today march to the town's municipal offices to demand the resignation of Willie Strassberger, the saw mill owner and deputy mayor, and to protest against police action against workers last week.

ARG 16/2/96

About 80 workers, who are members of the unaffiliated Farm, Food and Rural Workers' Support Association (FFRWSA), went on strike earlier this month after they deadlocked with Mr Strassberger over wage increases

Last week police fired rubber bullets at the striking workers after the workers allegedly threw stones at them The workers were at a meeting to hear a report on the wage negotiations.

FORESTRY

Timber sale gets the nod

(199)

THE Competition Board has approved the second application by Hunt, Leuchars & Hepburn to sell its timber interest to Sappi and Mondi, writes SVEN LUNSCHE

However, the board has attached a number of conditions to the sales of HL&H Timber's softwood business to Sappi and the hardwood interests to Mondi.

The sale of HLH Timber to the two forestry giants was previously blocked by the Board after a number of independent lumber millers expressed concern about the concentration of log supplies in the hands of Sappi, Mondi and state-controlled Safcol.

The Board's conditions require Sappi to enter into contracts with independent lumber millers to purchase its softwood waste and Mondi to sell 20 000 hectares of hardwood timber plantations to timber co-operatives.

Board chairman Pierre Brooks says the major concerns of independent lumber millers centred on their supply contracts with Safcol, a matter that would be the subject of a separate inquiry. He also suggests that Sappi seek a buyer other than Safcol for its Boskor sawmill in the southern Cape.

ST(BT) 3/3/96

COMPANIES

Board clears HL&H's timber deal

Nicola Jenvey (199) BD 4/3/96

DURBAN — The Competition Board has cleared the sale of Hunt Leuchars & Hepburn's timber interests to Sappi and Mondi.

The board, which has been probing the deals since November, said at the weekend that the sales could go ahead, subject to certain conditions relating to the softwood and hardwood divisions

Sappi could buy HL&H's softwood sawmilling business, plantations and related business, provided it entered into contracts with lumber millers to purchase their softwood waste, and continued operating the Lomati mill

The board said Mondi could buy the hardwood operations, provided it sold 17 000 hectares of plantations to timber co-operatives, one mining timber pack mill to the Transvaal Wattle Co-operative, and transferred 3 000 hectares of leased hardwood plantations to timber co-operatives.

Board chairman Pierre Brooks said under such conditions there was "no cogent legal reason for the board to stop the transactions".

The global pulp market was characterised by its volatility and Sappi and Mondi were only two SA companies competing against many larger international corporations.

However, the board would launch a formal investigation into parastatal Safcol this week over the supply of sawlogs to independent millers

HL&H said the deals would cut its debts, which stood at R850m

The group declined to price the deals, though the assets were worth R292m in the six months to last September, contributing R1,8m profit

Competition board allows sale of HL&H Timber

CT (BR) 4/3/96 (199)

By Charlotte Mathews

Johannesburg — On Friday the competition board made its long-awaited decision to approve the sale of Hunt Leuchars & Hepburn's (HL&H) timber interests to Sappi and Mondi But the decision is likely to engender mixed feelings among all the parties

HL&H first announced its intention to sell these interests in a cautionary notice to shareholders eight months ago

The sale should help cut its debt burden Market estimates put the value of HL&H's 50 percent interest in HL&H Timber Holdings at about R500 million

That values the whole HL&H Timber Holdings operation at about R1 billion Anglo American holds the other 50 percent of the timber company

HL&H Timber has three main operations mining, hardwood chips and softwood

Mondi, an Anglo American subsidiary, was interested in the hardwood business and Sappi made the highest bid for the softwood operations

The competition board was involved because of objections to the sale from independent sawmillers and timber groups They feared that the industry would be dominated by Mondi, Sappi and the state timber group Safcol

Kader Asmal, the minister of water affairs and forestry, also made a submission against the deal

The competition board said last week that its approval was subject to conditions that had been recommended in preliminary discussions with all the parties

The softwood sawmilling businesses, softwood plantations and related businesses could be sold to Sappi if it entered into contracts with lumber millers to buy the softwood waste and continued to operate the Lomati sawmill

Mondi could buy HL&H Timber's hardwood operations, including mining timber, if Mondi sold 17 000ha of hardwood timber plantations to the timber co-operatives and a mining timber pack mill to the Transvaal wattle co-operative Mondi would also have to transfer 3 000ha of leased hardwood plantations to the timber co-operative

The competition board's approval does not mean that the deals between HL&H, Sappi and Mondi are final, because they are still subject to other conditions

Neither Sappi nor Anglo American could comment on Friday Sappi said it had not received official confirmation of the sale and Anglo American said that Tony Trahar, the Mondi chairman, was unavailable

Pierre Brooks, the chairman of the competition board, said the deal would not necessarily make the timber industry more competitive, but that was not the board's primary concern

"The primary concern is that the industry is not going to be markedly less competitive," he said

"It is not an ideal situation and never has been, but it is not our job to restructure the market We look at a set of facts and ensure there is no marked deterioration in the situation," he said

The announcement was delayed because the Mondi and Anglo American aspects of the deal had to be approved together

Brooks said the sawmillers would probably not be entirely happy with the deal's approval, even under these conditions

The sawmillers were particularly concerned about softwood supply, but this was an issue that the competition board could consider after the transaction, he said

NEWS 199 BD 12/3/96

Timber growers could be given access to land

TIMBER growers who established factories to "add value" to wood products in SA could be granted access to land in return, Water Affairs and Forestry Minister Kader Asmal said yesterday.

Asmal, launching SA's first forestry white paper, also said that the incorporation of the forests of the former homelands, which were in an appalling state, had been completed.

"The department does not intend to manage these forests in the long term and as soon as they have been brought up to speed the department will initiate discussions, in line with agreed policy on disposal of state assets, to determine the best way to dispose of them," Asmal said. Page 3

Timber growers get land incentive

(US 7, 230)

BD 12/3/96

FORESTRY (199)

Wyndham Hartley

CAPE TOWN — Timber growers who establish factories to "add value" to wood products in SA could be granted access to land in return, Water Affairs and Forestry Minister Kader Asmal said yesterday.

Asmal, launching SA's first forestry white paper, also said that the incorporation of the forests of the former homelands, which were in an appalling state, had been completed. This had raised his staff complement in the national department from 7 000 to 28 000. These homeland forests were being audited to establish their status after bad management in the past.

"The department does not intend to manage these forests in the long term and as soon as they have been brought up to speed, the department will initiate talks, in line with agreed policy on disposal of state assets, to determine the best way to dispose of them."

He foresaw an expansion in areas under forest in the country but these might not necessarily be in the traditional timber growing regions. The white paper would lead to a new Forestry Act which he hoped would be on the table before the end of the year.

In response to a question, he said he knew of no plans to privatise the state forests company Safcol, but indicated that he and Public Enterprises Minister Stella Sigcau would be reporting to the cabinet committee on dealing with the future of state assets.

Quoting Asmal, Sapa said the white paper recommended that Safcol's future ownership be reviewed "in such a way as to ensure future viability and maximum national benefit".

"The decision will be made with the full knowledge of all parties."

Asmal also announced a new branch in forestry policy, the community forest strategy, which recognised the vital role played by forests and woodlands in household economies. Community forestry would have as a principal element the community-driven conservation and management of these resources on land owned by the communities.

Adding value to forest products before export was one of the most important issues dealt with. "Value-adding could substantially increase the amount of foreign exchange coming into the country and could result in considerable job creation, especially in economically depressed rural areas."

Commercial forestry earned more than R2bn for SA through exports in 1994/95.

share as part of a capital reduction. — June. — turnover of R100 million —

Crown Match strikes out at Lion's share

C.T.(BR) 12/3/96 (199)

By Stuart Rutherford

Durban — Crown Match plans to launch another brand and boost production in an attempt to crack Lion Match's virtual monopoly in the market. Crown Match is Lion's only domestic competitor.

The Pietermaritzburg-based Crown Match recently bought a third production line costing R2 million, which will enable it to double its market share this year.

Abdul Essa, the owner of Crown, said that when the line becomes operational next month the company would start producing and marketing a new brand, Boxer matches, in an arrangement with the manufacturers of Boxer tobacco.

Essa hoped the launch of this identifiable brand of matches would encourage consumers to change their choice. The new brand of matches would be 30 percent cheaper than Lion matches.

"In the initial stage 10 to 20 percent of our production will be Boxer matches, but we would like to grow this to about 50 percent of production," he said.

"I do not fear a price war with Lion Match because they have larger overheads than I have and have more to lose," he said.

Terry Turner, Lion Match's managing director, would not disclose his company's market share.

Crown Match was started by Essa in early 1994, because there was "plenty of space in the market", but it has taken some time to perfect the product.

"When we started we knew nothing. We had a guy from Sweden who showed us what formula to use, but we found the heads fell off the matches," he said.

Today Crown Match distributes to Gauteng, the Free State and KwaZulu Natal. Now it is eyeing the Eastern and Western Cape, and the overseas market.

Essa said the company had never advertised and had relied on low prices and good quality to penetrate the market.

"We would like more support from consumers considering we are only the second suppliers in the country and people would save quite a bit by buying our brand."

CROWN PRINCE *Abdul Essa, owner of Crown Match, prepares to take on the Lion Match empire* PHOTO: PETER DUFFY

Building suppliers' shares plunge after slow growth

BD 22/5/96 (199)

Robyn Chalmers

BUILDING material suppliers' shares, including Pepkor's Cashbuild and Imperial's Boumat, have plunged since April in anticipation of lower growth prospects for the building industry

The fall is in line with the general drop in the building and construction index, which has fallen 31% to 6 853 since a year high of 9 964 at the end of January

Other counters, including Pretoria Portland Cement and Anglo Alpha, have also moved sharply downwards over the past few months as expectations of an improvement in sales have failed to materialise

The latest casualty in the building materials sector was Boumat, which last week reported earnings of R11,9m for the year to March against R26,8m for the previous year

The counter closed yesterday 20c down at R14,70 from a high of R19 last month

Chairman Bill Lynch said a view was taken last year that building material manufacturers would be unable to meet the demand from building projects initiated under the RDP

"However, delivery under the RDP has been extremely slow and demand for building materials slumped and was well below expectations," he said

Other suppliers have also been caught short, with brick sales lower than expected last year with industry volumes rising about 6%

Cement sales of 8,5-million tons last year reflected an 8% increase in sales against the expected 10% rise

The share price of Everite, the building materials supplier owned by Group Five, has levelled off recently to close unchanged at R8,50 yesterday from a year high of R10 in February

It announced reduced share earnings of 8,8c (12,5c) in the six months to December

Group Five executive chairman Theunis Kotzee said Everite's expected sales volumes from the middle of last year had failed to materialise.

Building materials retailers had started destocking towards the end of last year, he said

Cashbuild, whose share price has dropped from a 12-month high of R11,25 last May to close yesterday at R3,75, posted a 95% slump in attributable earnings at R552 000 for the year to February, mainly as a result of slow progress on the low-cost housing front

Expectations for the current year are no better

The Building Industries Federation of SA (Bifsa) has halved its growth estimates this year to 5% from 10% in the wake of the rand's collapse and the culture of rising interest rates

Bifsa executive director Ian Robinson does not, however, expect the low-cost housing sector to be significantly affected by the expected lower growth as the housing framework was now in place and housing delivery was starting to happen.

Building material suppliers expect that their main source of income this year is likely to come from low-cost housing projects, as well as government's focus on social infrastructure such as schools and clinics.

SA could face severe wood fibre shortage

(199)

By Stuart Rutherford

CT (BR) 27/6/96

Durban — South Africa should expect a wood fibre shortage by the end of the century, Michael Edwards, the executive director of the Forest Owners' Association of South Africa, said this week

Speaking at the International Woodchip Conference in Durban, he said the industry's growth was being restricted by the slow afforestation permit system, severe droughts, fires and diseases, and the fact that the most suitable land was already planted

He said 300 000ha of new forest would have to be planted over the next 25 years if the industry was to keep pace with domestic demand for wood

He said this was unlikely

South Africa has 1 446 438ha of forested land, the third-biggest plantation area in the southern hemisphere

It has an annual afforestation rate of 10 000ha

Edwards said South Africa had to look at using the resources of other southern African countries more closely, improving forest recovery, using other resources, and importing raw materials and finished products

He praised the country for its recycling efforts "South Africa already recycles 40 percent of its production of paper and paper board"

He said the allocation of afforestation permits needed to be speeded up to facilitate growth in the industry, which employs about 200 000 people

Mondi to supply Eskom electricity poles

CT(BE)16/7/96 (199)

By James Lamont

Johannesburg — Eskom and Mondi Forests have entered a partnership to alleviate a shortage of electricity poles that had threatened to hold up the national electricity utility's mass electrification programme in South Africa's remote rural areas

The shortage arose because of the heavy summer rainfall.

Mondi Forests is a commercial forestry enterprise and a wholly owned subsidiary of Anglo American Industrial's Mondi

The company agreed at the end of May to supply 4 000 poles a month to Eskom as part of a two-year contract. The contract guarantees a reliable supply and has the option of being extended for two years.

Eskom was unable to attach a value to the contract The poles are used in a third of Eskom's electrification business, which is critical to the Reconstruction and Development Programme

New customers

Eskom's electrification drive aims to connect 300 000 new customers a year It ran into problems earlier this year when the supply of 9m to 11m electricity poles used in remote rural areas dried up because of increased demand for power infrastructure. Eskom electrified 313 179 homes last year.

The poles take between nine and 12 months to dry out before they can be used and the summer's wet weather had delayed the drying process

Mondi has built a kiln in the Pietermaritzburg area to reduce the drying time to 15 days Zella Rickett, an Eskom spokesman, said many local forestry companies were unable to supply poles of the required length.

"Import of the poles has been considered, but it is better to keep it within the South African economy," she said

Mondi acquires 100% of HL&H Timber Holdings in R1bn deal

(199) CT(PR) 23/7/96

By John Spira
DEPUTY EDITOR

Johannesburg — Mondi has acquired 100 percent of the equity of HL&H Timber Holdings from Anglo American Corporation and beleaguered Hunt Leuchars & Hepburn Holdings (HL&H) in a R1 billion deal

Mondi is a 51,7 percent held subsidiary of Anglo American Industrial Corporation (Amic) HL&H will use its share of the money to reduce its gearing, which will strengthen its balance sheet

The transaction, details of which were released yesterday, marks HL&H's exit from the timber industry on which its fortunes were originally built 140 years ago Earlier this year, HL&H Timber Holdings sold its softwood timber interests to Sappi for R220 million

Over the past eight years, HL&H's focus has changed from timber to food and branded consumer goods following the acquisitions of TSB, Robertsons and Rainbow Chicken.

The R1 billion price tag attached to the deal comprises R684,5 million payable to the former equal shareholders (Amic and HL&H) in HL&H Timber Holdings and the assumption by Mondi of R325,7 million of external borrowing.

The consideration of R684,5 million will be settled by R362,8 million in cash (including a premium for outright control and the management contract) to HL&H and R321,7 million in shares and cash to Anglo American Corporation.

On March 31, the book value of HL&H's 50 percent interest in the net assets of HL&H Timber Holdings was R240,4 million.

HL&H Timber Holdings has an annual turnover of R900 million. In the year to December 31, Mondi's turnover was R4 billion.

"We believed the future of HL&H was best served by consolidating and focusing our resources on our remaining food and consumer goods businesses that offer attractive opportunities for growth," said Neil Morris, the chief executive of HL&H

"The reduction in gearing and strengthening of our balance sheet would help position the group to achieve its longer term objectives," he said

HL&H calculated that, had the deal been effective for its 1996 financial year, its headline loss would have been reduced from 45,2c to 31,5c a share, and its net asset value at March 31 would have improved from 706,4c to 787,2c a share.

Mondi has financed the transaction from its own cash resources and through an equity injection by its shareholders.

In addition, interest bearing convertible loans were contributed by the shareholders to fund capital expenditure and refinance debt. The total contributed by the shareholders was R800 million.

Tony Traher, the chairman of Mondi, said the acquisition of HL&H Timber Holdings should be positive for Mondi's earnings

☐ See Business Watch, Page 18

Hardwood interests cost Mondi R1bn

(199)

Nicola Jenvey BD 23/7/96

DURBAN — Paper and pulp producer Mondi has bought hardwood interests jointly owned by Hunt Leuchars & Hepburn and Anglo American Corporation for R1bn.

Mondi, owned by Anglo American Industrial Corporation, said yesterday it would pay R684,5m for the Timber Holdings interests and was also taking responsibility for the business's debt. HLH would receive R362,8m in cash (including a premium for outright control and the management contract), with Anglo gaining R321,7m in cash and Mondi shares.

Mondi shareholders would inject R800m in equity and loans into the unlisted Mondi to keep their shareholdings at the level prior to the Mondi share issue to Anglo, to fund capital expenditure and to refinance debt.

Mondi said the deal would allow it to rationalise and strengthen its forest resources and allow it to consider a major expansion of its pulp mill facilities around the turn of the century.

Timber Holdings, with annual sales of about R900m, is the major supplier of mining timber packs to Anglo American gold mines. Its Silvacel woodchip business produces eucalyptus woodchips mainly exported to Japan.

Mondi — which had R501m net earnings last year — said the deal would be positive for its earnings.

HLH CEO Neil Morris said the cash — with the R220m raised by selling its softwood division to Sappi in April — would cut group debt, which was a gross R683m for the year to March.

Mondi said it had also complied with Competition Board stipulations as part of the deal, including offering land and a mill to the Central Timber Co-Operative and/or the Transvaal Wattle Growers' Co-Operative.

Hefty hikes in sawlog price loom

E(497) BD 26/7/96

Ronny Tshabalala

THE timber industry could face large sawlog price increases of more than 50% in the next five years, SA Forestry Company (Safcol) executive director Tienie van Vuuren said yesterday.

Current prices were almost half of world prices and prices would need to increase to make the industry competitive, Van Vuuren said.

"Technology in our sawmilling industry is on average 15 years behind that of Europe. Sawlog prices will be increased gradually so as not to cause structural damage to the sawmilling industry," he said.

Average world prices for round logs were currently R220/m³ against the R110/m³ charged by Safcol. Historically, government "subsidised" the industry by up to 70% via the former state forests by not charging comparable international prices, said Van Vuuren.

Safcol owns 20% of SA commercial forests, and supplies about one-third of national sawlog requirements — its major involvement — although it has a 10% share of the sawmill industry.

The rest of the local sawmilling industry are supplied by their own commercial forests.

Safcol turnover was R449,9m in the 15 months to June last year and pre-tax profit increased to R45,1m (pro-rated for 12 months) from R17,7m.

Privatisation would create greater profitability and more employment in the industry, said a Safcol spokesman

Solly Tucker, chairman of listed sawmilling group Yorkor, said that the price increase move was no surprise.

He said long-term benefits of privatising Safcol were open to challenge. Increased log prices would "hurt or kill" industries, and result in losses of jobs.

HL&H MONDI

BARKING UP THE RIGHT TREE

FM 26/7/96

(199)

The R1bn deal between Hunt Leuchars & Hepburn (HL&H) and Anglo American Corp's Mondi Paper finally brings much needed respite to the embattled Rembrandt company. Along the way, it also spells the end of HL&H's 90-year involvement in SA's timber business.

Neil Morris

HL&H CE Neil Morris puts a brave face on it, but ruefully concedes that he's sad the group is now confined to the food business, though recognising that a more concentrated focus is essential to its long-term survival.

At the same time, he's clearly relieved that HL&H's poor gearing ratio — about 60% before the deal — will now be restored to a distinctly healthier 30% (though that's not quite as good as the 25% Morris hoped for when the *FM* reported on the company in January).

The company's timber interests, held through HL&H Timber Products, are essentially divided between supplying timber props to mines (Mining Timbers) and a lucrative export business (Silvacel), which sells wood chips to Japanese pulp producers. The expected decline in earnings from the sale of Timber Products will be offset — almost exactly, says Morris — by the decline in interest payments this year. Over financial 1997, however, he will have to secure benefits from HL&H's other operations.

Anglo American held a 50% stake in HL&H's timber division anyway, so the R1bn deal isn't quite what it seems at first glance. Mondi takes on R325,7m in external debt and pays Anglo R321,7m in cash and shares and HL&H another R362,8m (the difference between the two payments of R41,1m is an outright control premium).

Mondi chairman Tony Trahar says he accepts the purchase is "probably relatively expensive in the short-term, but Mondi can achieve significant rationalisations." Among the more important of these is that, as demand for timber props declines, so Mondi can make more use of the available timber planting (it has taken on an additional 128 000 ha) for its pulp and associated products.

Tony Trahar

More important probably is that the purchase brings closer a major expansion in its pulp production at Richards Bay. Indeed, this may well be the weightiest of Mondi's considerations in arriving at its decision to press on with the deal, long in execution and already frustrated by an earlier aborted attempt.

In the short term, Trahar estimates that Timber Products will add about R85m-R90m to Mondi's operating profit before interest for the nine months of the current financial year, and R40m-R50m in net earnings. Over 1997, however, he expects the contribution to improve materially as rationalisations take effect.

Over at HL&H, the concentration of effort continues to be, as Morris puts it, to get Rainbow Chicken through its hospitalisation period and back into reasonable equilibrium. He concedes it won't be achieved quickly though — more losses this year before a gradual improvement as the efforts of the past few years begin to kick in.

Even that's dependent on a number of factors, many outside Rainbow's control. Morris says Rainbow is no longer the lowest-cost producer that it was and that weakens its position as the biggest supplier. This also presumes that Rainbow is able to avoid any recurrence of the disastrous Newcastle disease which so decimated its flocks two years ago. And the supply/demand equation is still out of balance: prices now are lower than two years ago despite hefty cost increases and the problems of imports remain a material one.

Next on his list is to conclude the Rainbow rights issue, which will probably see HL&H ending up with 70%-80% of the equity. At least Morris has the satisfaction of knowing that the company's sugar leg, concentrated in Mpumalanga, has turned a long corner and spice manufacturer Robertsons continues to be a spectacular contributor.

Taken by and large, the deal is probably marginally expensive from Mondi's viewpoint, but has the capability of turning into a winner down the line. And it gets HL&H out of its debt difficulties and enables it to concentrate on counting its chickens in a market that is increasingly problematic. *David Gleason*

MORKELS

STABLEMATES

Forget that Claas Daun controls both Morkels and Bergers Stores. And that he held both groups apart, but in the same stable. In the eyes of Morkels' MD Dods Brand and financial director Terry Simon buying the assets of Bergers out of holding company Bertrad (Daun is to retain the shell) makes better sense.

It gives Morkels, at a fair price, 180 well-established retail outlets and attractive diversification opportunities.

The deal has been on the cards for months while Bergers' management battled against insolvency. Bergers name, solid among consumers if not in the trade, will be given added value through the skills and resources available in the new management.

Simon emphasises that Morkels has long waited for the right opportunity to

ST(BT) 28/9/96

Mondi waits for the right package

(199) (284)

MONDI's successful R1-billion bid for the hardwood interests owned jointly by Hunt Leuchars & Hepburn Timber Holdings and Anglo American has moved it a step closer to a major expansion of its pulp and paper mill at Richards Bay, writes DON ROBERTSON.

Mondi chief executive Tony Trahar says, however, that it will be two to three years before a final decision is taken regarding the expansion

Late last year, Mondi attempted to sweeten its bid for the HL&H timber interests, then under Competition Board scrutiny, by saying the acquisition would "secure resources for a R5-billion mill that could create thousands of jobs"

"It is another step in our acquisition of fibre resources required for the expansion, but we will need more than this for our eventual requirements We will also need the right package of economic conditions," says Trahar

Mondi, a subsidiary of Anglo American Industrial Corporation, will pay R684,5-million to HL&H and Anglo and will assume R325,7-million of the timber company's debt Of the capital amount, R362,8-million will be in cash to HL&H and R321,7-million in shares and cash to Anglo

Earlier this year, HL&H sold its softwood interests to Sappi for R220-million

ST(BT)18/8/96 (199)

Timber row goes to court

FORESTRY

By SVEN LUNSCHE

THE battle between independent sawmillers and state-controlled forestry company Safcol is set to shift to the courtroom

JSE-listed Yorkcor discloses in its interim financial report that it is suing Safcol and the Department of Water Affairs and Forestry "for under-delivery on the suppliers' sawlog obligations and other breaches of contract"

Yorkcor chairman Solly Tucker says in the report, released on Friday, that a successful damages claim could boost earnings by up to 44c a share and reverse a 36,5c loss in the six months to end-June

Tucker also reveals that three companies made offers to buy Yorkcor during the interim period at prices of up to 50% above Yorkcor's JSE price The bids were rejected

The court action brings to a head a long-running dispute between Safcol, the sole supplier to the independent sawmilling industry, and several smaller timber companies over Safcol's alleged abuse of its dominant supply position Charges of excessive concentration and anti-competitive behaviour against Safcol are also currently the subject of a Competition Board investigation.

Safcol is sole supplier of sawlogs to smaller sawmillers, and runs sawmills in competition with them

"This, and the way it (Safcol) has gone about exploiting its dominant position is, we say, unfair competition," says Tucker, who claims that the quality and volume of its log supplies from Safcol "appallingly deteriorated over the half-year"

Tucker says "From its dominant position, our log supplier was pressurising us to relinquish our favourable terms of tenure and security of log supply There was no option but to institute action"

Tucker says Safcol's behaviour was a major contributor to the group's poor interim results, but worse-than-expected economic conditions played the major role.

Turnover in the six months declined to R19,7-million (R23,2-million) with a 36,5c loss in earnings a share (1995: 22,9c interim profit). Tucker hopes a more favourable market will return earnings to the black, at 3c a share, for financial 1996 (that is, without any additional boost from successful court actions)

Poor timber demand, low price brings Yorkcor loss

(199)

Robyn Chalmers

BD 19/8/96

THE York Timber Organisation was hard hit by poor demand for timber locally and a drop in prices to post an attributable loss of R3,7m (R2,5m profit) for the six months to June

Share earnings fell to a 36,5c loss (22,9c profit for the previous comparable six months) and an interim dividend was passed

Chairman Solly Tucker said three bids for the entire share capital of the Yorkcor Group had been made, the last a cash offer 50% above the prevailing market price. Yorkcor was capitalised at R28m on the JSE on Friday. The offers had all been rejected.

Turnover fell 15% to R19,7m while a net operating loss of R2,7m (R3m profit) was declared.

Tucker said factors contributing to the results were the continuing slump in the housing and lumber markets, anti-competitive behaviour by monopolies and labour turbulence.

"Most sawmillers felt the tightening grip of excessive concentration and anti-competitive behaviour," he said

Yorkcor said the group was suing Safcol for specific performance and a declaratory order of its rights It was also suing the water affairs and forestry department — successor-in-title to the extinct Lebowa government — for damages for alleged under delivery on the supplier's sawlog obligations and other breaches of contract.

Tucker said this followed an attempt by the department to have Yorkcor's long-term log supply contract set aside A successful damages claim could boost share earnings by 44c, he said.

Looking ahead, Tucker said Yorkcor aimed to turn around from its loss position in the first half to post share earnings of 40c for the second six months of the year. It was aiming to reduce its gearing to 40% from 60% and resume the distribution of dividends for the following year.

Yorkor hit by slump in lumber

(199)

By John Spira

CT (BR) 19/8/96

Johannesburg — Yorkor, the forest products group, suffered a loss of 36,5c a share in the six months to June 30 against a positive 22,9c a share in the comparative 1995 period.

Solly Tucker, the chairman, said that the slump in the housing and lumber markets, anti-competitive behaviour by monopolies in the timber industry, labour turbulence and the disruptive effects of introducing new high-tech production facilities had affected the results negatively

He said that most of these factors had been overcome

"The newly installed plant and its enhanced production capability will soon begin its payoff and the benefits of our productivity bargain with our labour will shortly kick in to boost profits along with wages"

The improvement in log supplies and the more positive outlook for the industry would also have a positive effect, Tucker said, referring to the minister of housing's announcement that four times as many subsidised houses had been built in May than in the whole year to April 30

He said Yorkor was suing Safcol and the department of water affairs and forestry for damages "for under-delivery on the suppliers' sawlog obligations and other breaches of contract". He said a successful damages claim could boost earnings by 44c a share

Yorkor's aim was to achieve earnings of 40c a share in the second half of the year, said Tucker, thereby generating earnings of 3c a share for the full year. The company hoped to reduce its gearing from 60 percent to 40 percent and to resume paying dividends next year of 15c or better

In the past three years Yorkor had received three bids for its entire share capital The last was a cash offer 50 percent above the prevailing market price The offers had all been turned down.

"We like the forest products business and see growing value in its future," he said

FF legislator in union's bad books

CT(BR) 29/8/96 (199)

By Jonathan Rosenthal

Johannesburg — Dirk Smit, a Freedom Front (FF) member of the Gauteng provincial legislature, is embroiled in a dispute with the Paper, Printing, Wood and Allied Workers' Union over the dismissal of 137 workers last year by Sustain Timbers of Alrode, where he was a director.

Alfred Tshabalala, a union spokesman, alleged yesterday that after the dismissals Sustain had failed to comply with an Industrial Court ruling that called for the company to reinstate the workers with six months of back pay.

Smit denied yesterday that he had been involved in the dismissal. He said Sustain had employed professional consultants who advised the company to fire the workers when they went on strike.

"For the last two years since the election I was not involved in Sustain (other than as a minority shareholder)," he said But he later confirmed that he was a non-executive director and attended board meetings

Smit said he was not involved in the day-to-day management of the company

He confirmed that the Industrial Court had ruled in favour of the dismissed workers, but said that Sustain had gone into liquidation long before the ruling. However, when pressed further, he said he was unsure of the exact dates of the liquidation and judgment.

The Alrode factory, which was previously occupied by Sustain, was bought from Sustain's liquidators by Blue Chip Industrial Holdings

Blue Chip's managing director is Gerrie Human, the Freedom Front's parliamentary whip in the Gauteng legislature

Human said yesterday that there was no connection between Sustain Timbers and Blue Chip "We are completely separate companies and none of the previous Sustain shareholders are shareholders in Blue Chip

"The only individual from Sustain in Blue Chip is Dirk Smit," he said Smit is employed as a consultant.

Human said his relationship with Smit was almost exclusively political because they had both served on the Alberton town council for about eight years before they were elected to the Gauteng legislature

Smit said the union's allegations were an attempt to embarrass him politically. "I don't think the union is acting in the interests of its people", he said.

He said he had advised Blue Chip's board to employ former Sustain employees and said that more than half had already been employed.

The union plans to embark on a one-day strike in Johannesburg on Monday. About 8 000 workers are expected to march on the Gauteng legislature to deliver a memorandum to Smit.

"In our view, Mr Dirk Smit does not deserve to service the public, his motives should not be left unchallenged," Tshabalala said

Union threatens national strike after workers fired

LT (PR) 29/8/96 (199)

By Stuart Rutherford

Durban — The 63 000-strong Paper, Printing, Wood and Allied Workers' Union is threatening to strike over the dismissal of 380 workers at Lion Match's factory in Durban last week.

Lucky Mhlongo, the secretary of the union's southern Natal branch, said the union's leaders had resolved to embark on a national strike if the workers were not reinstated unconditionally He said the union was approaching Cosatu to find out if it could involve all of the federation's members

The workers were dismissed last Thursday after employees picketed the company's offices to protest against disciplinary hearings against three staff members The trio had allegedly intimidated and harassed management officials during a three-week strike that started on July 30 They were demanding that workers be allowed to transfer funds from the company's pension fund into the union's national provident fund

Terry Turner, Lion Match's managing director, said the company fired the workers because of their unlawful and aggressive behaviour during the strike, and their defiance of management warnings and a court interdict barring them from coming within 50m of the factory

Turner said the company was employing new workers It was not reinstating the dismissed workers, but they could apply for re-employment.

He would not quantify the losses Lion Match incurred because of the two strikes that jointly prevented more than three weeks of production, but said its other factories had not made up the losses Production was resumed at the Durban plant yesterday

Mhlongo said the company dismissed the workers because it did not want to transfer the R22 million from its pension fund into the union's provident fund He said the dismissals could not be justified, because 196 workers had been arrested last Wednesday and were in jail when they were fired

Boycott ignored, retailers claim

(1-9-9)

By Stuart Rutherford

CT (BR) 19/9/96

Durban — The call by the Paper, Printing, Wood and Allied Workers' Union for a national consumer boycott of Lion Match products this week had been ignored by consumers, retailers said yesterday

Michael Lafferty, the KwaZulu Natal director of Pick 'n Pay, said there had been no talk of a boycott from customers or management, nor had there been a drop in sales

Lawrence John, the KwaZulu Natal grocery buyer for Spar, said he had not heard of the boycott and sales had remained constant

The boycott was called to protest the dismissal last month of 196 workers by Lion Match in Durban following picketing and stoppages

Lucky Mhlongo, the secretary of the union's southern Natal branch, said he believed the boycott was going well and was being supported by the Congress of South African Trade Unions

COMPANIES *Investment income rises to boost lacklustre results*

Lion's pretax profit edges higher

CT (BR) 5/11/96 (199)

STUART RUTHERFORD

Durban — Lion Match lifted its pretax profit by 10 percent to R25,8 million in the six months to September 30, despite a 2 percent drop in trading profit and industrial relations problems

Attributable earnings rose 13 percent to 41,4c a share, and an interim dividend of 12,5c, 14 percent higher than last year, was declared

Net investment income rose 32 percent to R11,1 million and net dividends received rose 21 percent to R8,7 million

Terry Turner, the managing director, said he was "very satisfied" with the performance of the lights division and the shaving, home and garden divisions That was despite slower trade purchases in the first quarter and industrial relations problems in Durban during August and part of September

He said the company continued to seek alternatives and investment opportunities for its R215 million cash pile

Turner expected growth in consumer spending and the depreciation of the rand to help fuel the demand for products

The release of Lion Match's interims coincided with national action yesterday by the Paper, Printing, Wood and Allied Workers' Union (Ppwawu) to protest against mass dismissals by Lion Match and other companies, which have cost the union 2 000 jobs

Pasco Dyani, the national president of Ppwawu, estimated that most of the union's 55 000 members had participated in the stayaway

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Eleventh-hour accord averts mass dismissal

Reneé Grawitzky

BD 5/11/96 (199)

A LAST-minute agreement between the National Union of Metalworkers of SA (Numsa) and Highveld Steel prevented the dismissal of thousands of workers today while the Paper, Printing, Wood and Allied Workers' Union (Ppwawu) held countrywide demonstrations against Lion Match and other companies

An estimated 2 000 Numsa members got a final ultimatum to return to work today or face dismissal, after having embarked on repeated industrial action

The strike was in response to a dispute over the disciplining of a Numsa member who was given the same disciplinary sanction as his white supervisor who allegedly assaulted him

A disciplinary inquiry found the supervisor had been provoked by the black artisan helper and dismissed both In response to an appeal hearing reinstating both with a final warning for six months, workers embarked on strike action two weeks ago demanding the supervisor's dismissal

An agreement reached yesterday provides for a return to work today, and referral of the dispute to arbitration Highveld management confirmed this, indicating that this proposal was tabled on Friday. The union indicated alleged racial incidents at Highveld had sparked off numerous strikes in the past.

Meanwhile, thousands of Ppwawu members participated in countrywide marches in protest against alleged unfair labour practices at a number of firms.

Union spokesman Alfred Tshabalala said yesterday that workers were stopped from presenting a memorandum to Solid Door management in Hammanskraal, after a SAPS member intervened and confiscated the memorandum. Solid Door could not be contacted for comment last night

Lion Match lifts income to R18,8m

Nicola Jenvey BD 5/11/96 (199)

DURBAN — Industrial holdings group Lion Match lifted attributable income to R18,8m from R16,7m for the six months to September, after a 32% growth in investment income offset disruptions to its Durban factory and a slackening of trade purchases during the first quarter

Earnings a share for the SA Breweries subsidiary grew to 41,4c (36,7c), and a 12,5c (11c) interim dividend was declared

Turnover rose to R88m (R84,5m) as trade purchases characteristically slackened in the first quarter following increased activity ahead of price increases at the end of the previous year

Chairman Lawrence van der Walt said the second quarter reflected a recovery in demand and comparable product sales grew 3% to R79,3m for the period under review Trading profit remained virtually unchanged at R14,7m (R15m) despite the production disruptions caused by illegal strikes in Durban.

Investment income stood at R11,1m (R8,4m) by September and the group's liquid resources increased to R215m (R205,7m).

Profit before tax rose 10% to R25,8m and the group paid R7m (R6,8m) in tax

Following a decrease in working capital needs, cash flow from operations increased 64% to R17,7m and coupled with the R215m liquid resources on hand Van der Walt said the group remained in a sound financial position Despite the recent inflationary pressure, further modest growth in private consumption expenditure should continue to support consumer demand for Lion Match's products

"This, together with the actions taken to normalise production at the Durban match factory, should enable a satisfactory increase in earnings for the full year," Van der Walt said

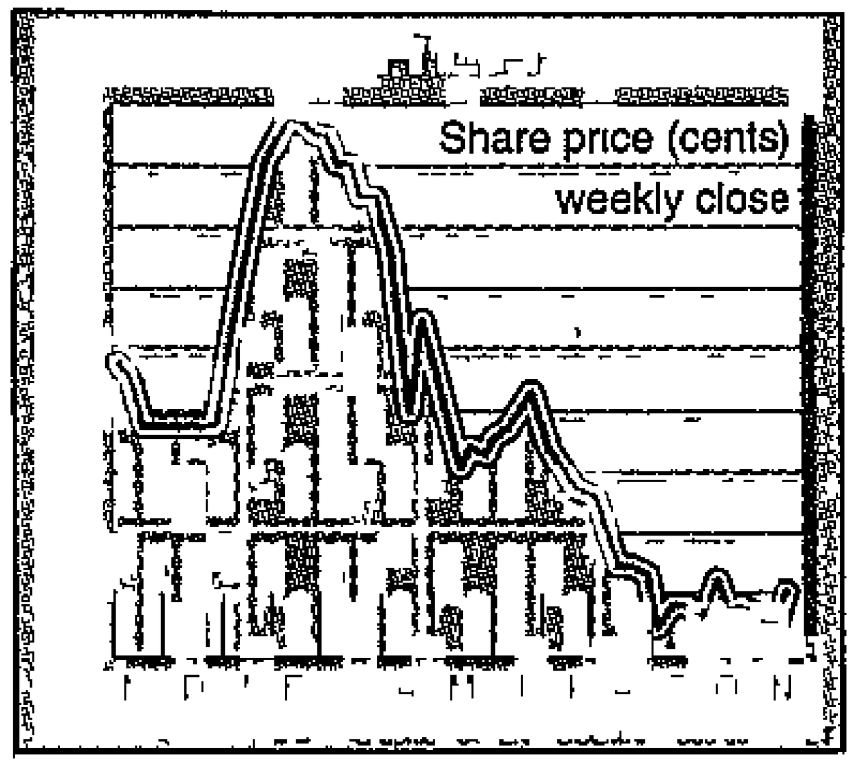
HL&H posts attributable loss of nearly R12m

(199) BD 15/11/96

Jacqueline Zaina

FOOD and timber group Hunt Leuchars & Hepburn (HL&H) reported an attributable loss of R11,7m in the six months to September, after profit on the sale of its hardwood timber interests helped offset its R67,4m share of losses in associate company Rainbow Chicken.

Headline share losses amounted to 33,3c (26,7c) and the interim dividend was waived. However, results were not comparable with the previous year owing to the disposal of the group's timber operations. Turnover fell 14% to R660m after retail sales were generally below expectations owing to a decline in economic growth.



Higher interest rates and inflation depressed consumer demand, directors said.

Operating income increased by 26% to R57,2m after an improved performance from the group's sugar interests. HL&H's share of losses in its sugar operations amounted to R3m against R41m in the same period the year before. This helped lift the group's margins to 8,7% from 5,9% the previous year.

The group made an exceptional R38,3m profit on the R363m sale of its hardwood timber interests to Mondi effective from April. The proceeds helped reduce finance costs, which fell 36% to R37,3m by cutting interest bearing debt to R299m from R872,2m in the first six months the year before.

Pre-tax income was R58,2m against a R13m loss the year before and a tax bill of R306 000 (R5m) left taxed income at R58m against a R17m loss the previous year. However, the group's share of losses from associated companies jumped to R70m from R23m in the same period the year before.

HL&H's share of the R164,4m loss (R57,2m) incurred by associate Rainbow Chicken amounted to R67,4m. The loss was larger than that incurred for the entire financial year to March. Rainbow's revenue rose 12% to R988m, but it sustained an R81m operating loss before depreciation following depressed selling prices in the broiler industry as a result of over supply and spiralling feed costs.

Directors said feed costs had escalated owing to significant increases in imported raw material costs following the weakening of the rand and worldwide shortages. Maize prices were also high with large quantities of the local crop being committed to export.

Robertsons' contribution to group earnings declined to R21m from R23,1m the previous year after its investment in a new spice factory in Durban knocked profits.

The group had a cash surplus of R194m resulting from the HL&H rights issue which raised R755m before costs. This had been used in October to acquire the remaining Rainbow preference shares in terms of its agreement to underwrite Rainbow's corresponding rights offer. Due to the significant impact of Rainbow's losses on its results, the group expected to report a loss for the full year.

Huntcor whose only investment is its holding in HL&H reported a R9m (R31m) attributable loss for the review period and no dividend was declared.

Timber combine plans listing

199

BD 10/12/96

Josey Ballenger

EIGHT unlisted timber products companies would merge to form Megacor Holdings, with plans to list on the Johannesburg Stock Exchange (JSE) in February, it was announced yesterday

The merger of Sembel-It, House of York, Moxwood, Space Frame, New Era Products, Megacor, Prime Pine and Pine Wood, was expected to be completed by mid-February and the listing would take place later that month, pending JSE approval

Neither the value of the deal nor the anticipated market capitalisation of the new group was revealed However, a spokesman said Megacor would be the second-largest entry in the furniture, household and allied sector

The biggest company in the sector is currently JD Group, with a market capitalisation of R2,3bn, followed by Ellerine Holdings at R1,7bn

The companies that will make up Megacor Holdings are currently in the business of fitted kitchen units, kitchenware, doors, construction systems, furniture and shelving The spokesman said most had "experienced unprecedented internal growth as a result of the weakening rand"

"Exploitation of the considerable synergies flowing from the merger are being explored and implemented to maximise profits and efficiencies The strong SA brands — House of York and Sembel-It — can capitalise on the export opportunities Similarly, the export-orientated businesses can benefit from the established local client base "

Parties also have exposure to diverse export markets, he said.

Megacor Holdings would be based in Durban and employ about 1 600, with further job creation anticipated

MANUF. - WOOD, CORK.

1997

Mining industry hit by second timber price hike

(199) RD 27/11/97

Reinie Booysen

THE SA mining industry has been hit with the second large timber price rise in two years, a result of the weakening of the rand coupled with increased pulp demand and reduced timber availability.

Mining and timber industry sources said SA's plantations had been hit severely by the drought of the early 1990s, and timber availability was further dented after Sappi expanded Saiccor, its dissolving pulp mill, in 1995.

The plant's capacity grew from 450 000 to 600 000 tons a year, leading to substantial new demand for timber.

An industry source said at the weekend the weakening of the rand had resulted in significant increases in the export parity prices for timber products and "placed severe upward pressure on mining timber prices".

With limited timber availability in SA, timber processors appeared to be favouring pulp outlets locally and abroad, as well as wood chips for export.

Gencor's gold division, Gengold, has seen its timber prices rise 24% this year, although this is the first price hike in two years.

Other mining houses were hit by price increases of 22% to 27% last year This year, some have also had price increases of just less than 10%. Officials declined to disclose their actual price levels. "The mining timber price is ruled by the price of pulp, locally and internationally," an official said

The mining timber market — which is dominated by the two large forestry products companies, Mondi (via HL&H's hardwood division) and Sappi (through Sappi Mining Timber) — has also declined in importance to timber processors over the past two decades due to the shrinkage of the SA mining industry.

Timber is primarily used for mine support purposes, but some mines are now being forced to evaluate alternative roof support methods.

At present mining timber constitutes only 14% of SA's total hardwood timber demand of just more than 10-million tons a year. Pulp takes up 68% and wood chips for exports 15%.

Sources said the timber industry faced a dilemma: while export prices for timber products like pulp and wood chips may be attractive — relative to the domestic prices for mining timber — this situation might not last forever

"If we abandon our mining timber customers by raising our prices to export parity levels, we might destroy some of our domestic customers," one source said "Some time in the future, however, the export market could take a severe slide, but we might have no alternative as the size of the mining timber market may have shrunk even further."

Another source said the big question was "whether SA can export all of its timber all of the time. That is unlikely, but if the answer is yes, export parity prices are likely to manifest themselves over time in this country."

Cheaper timber sends Yorkcor into the red

ET (BR) 24/2/97 (199)

Roy Cokayne

Pretoria — Yorkcor, the forestry products group, has posted a loss of R7,2 million, or 68c a share, in the year to December 31 compared with earnings of R4,9 million, or 47,1c a share, in the previous year

Group turnover at R44 million was 5,9 percent lower than R47 million the previous year

However, Solly Tucker, the chairman, said turnover was in fact 4,6 percent higher than the year before "when allowance is made for business units disposed of in the previous year"

Tucker said the failure of sawn timber prices to come up to expectations had a big effect on the group's bottom line, accounting for 54c a share on the group's budgeted income

The dividend has been passed A dividend of 15c a share was declared the previous financial year

Borrowings, largely long term, rose R9,5 million to R20,4 million, which Tucker said was mainly to fund strategic improvements in production capacity

Yorkcor ended the year with ordinary shareholders still providing half the total share capital employed by the group at 49,3 percent compared with 75,5 percent in 1995, while the group's liquidity ratio stood at 1,59 from 2,25 of the year before

Tucker said the forest products industry in South Africa was in the grip of massive change and 1996 would be remembered as a momentous year of risk and opportunity "However, the cost of staying in the race last year, in the face of fierce challenges and competition, was dear The knocks hurt but we expect will be more than made good soon," he said

Cash absorbed by operating activities, before financing costs, taxation and dividends paid, was held to about the same level as the previous year at R1,7 million Tucker said that apart from this, spending was focused on strategic projects from which they expected a positive cash flow to commence this year

The group was aiming for earnings of 25c a share in 1997

Improving grading system could help the timber industry

(199)

Ingrid Salgado

BD 25/2/97

SA's foresters and sawmillers could improve their competitiveness if they converted to a system of lumber grading that recognised the needs of the downstream timber industry, Industrial Development Corporation (IDC) project development manager Dean Webster said last week.

Lumber prices were generally subdued, in part because sawmillers tended to avoid grading lumber for value, said Webster, who also co-ordinated the IDC's cluster initiative on forestry. "We have a fixation with volume throughput. Effectively there is very little grading and price differentiation compared to competitive nations."

An oversupplied local lumber market and unsustainably cheap imports from neighbouring countries were other factors pushing down prices.

Webster said an improved grading system could be achieved by training the inadequately educated labour force, gearing the industry towards greater export potential and adding value to raw material.

A recent study conducted by international timber consultant Jaakko Poyry on behalf of the cluster found that low input price advantages enjoyed by sawmillers were lost to pine furniture manufacturers due to wastage arising from grading problems.

Foresters were failing to achieve maximum value because of the inability to grade properly.

Webster said the needs of the entire industry — from foresters and sawmillers through to the downstream wood processing sector — had to be taken into account to improve solid timber's competitiveness.

An improved log grading system at plantations and stronger relationships between customers and suppliers would enhance development of differentiated products in the downstream manufacturing sector. However, plantations were often geographically isolated, making it difficult for all sectors to pool their skills to develop competitiveness.

The cluster was planning up to five projects that would bring together various elements in the production chain, including the plantation level, Webster said. He would not provide details, but said areas in Transkei could provide opportunities for exporting timber products at all levels of the production chain.

Webster said Poyry's study found that personnel costs per cubic metre of lumber output in the sawmilling industry were marginally higher than in New Zealand — where plantations were of a size comparable to SA's — and Finland, where the industry was regarded as the world's best.

Although SA used about 10 times the size of Finland's work force per unit of output and five times that of New Zealand's, the total labour cost a unit was roughly equal to those countries' production. Providing workers with a knowledge of the needs of the downstream industry and changing attitudes would add value to timber.

Increased productivity at sawmills was bound to lead to job losses. However, new employment opportunities would be created in the downstream sector, such as pine furniture manufacturing, which was labour-intensive by nature.

Forestry's other downstream sector, pulp and paper, faced different constraints, including a stagnant domestic market, the high cost of capital and restricted growth of fibre resources.

The sector was unlikely to expand significantly as a result, Webster said.

Natal timber *destined for Far East markets?*

TIMBER INDUSTRY 1997

(3) FORESTRY

LUMBER PUNCTURE

FM 14/3/97

Sawmillers are concerned about how the SA Forestry Company (Safcol) will be privatised SA Lumber Millers' Association executive director John Mortimer says its production is enormous and if it's sold to Malaysian interests, nearly everything it produces will be exported

This will create a shortage locally and push up log prices But whoever takes over Safcol may well do just that as 20% of its milling capacity isn't being used

To compensate, millers are turning to exports of value-added timber such as shelving, plywood, veneers and finger-jointed and edge-laminated timber rather than sawn timber

Shipping costs remain the same per cubic metre but millers get more rand for their cubic metres when they add value to the sawn timber

They export 5%-8% of their production and are working on increasing that to 30%

But the market is there and waiting, particularly in the Far East Because local foresters prune the lower branches of trees at an early stage, SA has the world's largest resource of pruned logs used to create an excellent grade of clear wood (wood without knots), which is sought after by furniture manufacturers SA pine prices are attractive in the export market because of the exchange rate

An increase in the price of logs doesn't faze Mike Edwards, executive director of the Forest Owners' Association "The timber price will go up whether the Malaysians get a stake in Safcol or not It's a matter of supply and demand," he says

On a more down-to-earth level, says Edwards, forest owners in SA and the Sadec countries will have to plant at least another 200 000 ha — some say 300 000 ha — in the next 25 years to meet requirements

But the decision will be influenced by decisions taken at the National Forestry Action Programme deliberations under way These, in turn, will be influenced by what could happen if the extra hectares are not planted If not, the options will include reducing exports and redirecting production to the local market

"But it's a growing market and the prospects are bright Opportunity is presenting itself now and we must grasp it," says Edwards

Forest owners are deeply involved in the National Forestry Action Programme which is seeking ways to implement the policy contained in the new forestry document, which will become the new Forestry Act

Also under review are SA's water laws and the formulation of a new environmental policy

Forestry is the third largest cultivator of land in SA (1,2% of the land area) Its products rank third on the list of exported manufactured goods and 96% of all wood products needed here are produced locally

The sale of 17m m^3 of roundwood (logs) saw a turnover of R1,6bn in 1995 Of that, 65% went to pulp, paper and board mills, 22,6% to sawmills and veneermills, 9,5% to mining timber mills, 1,6% to pole treating plants, 1,1% to charcoal plants and 0,2% to match factories Primary processing plant sales amounted to R7,47bn — of which 69% (R5,4bn) came from the sale of pulp and 11,2% (R880,3m) from the sale of sawn timber

Forestry accounted for 7,5% of all the water used in SA in 1995, compared with 19,6% for urban industrial and 51% for irrigation of other crops But it contributed 8,5% of the R18,9bn achieved by agriculture and 7,7% of the R96,9bn of manufacturing output

Of the R4,8bn earned from exports of forest products in 1985, 46% came from the export of pulp, paper contributed 33% and wood products 18,4% *David Pincus*

□ TIMBER

(199)

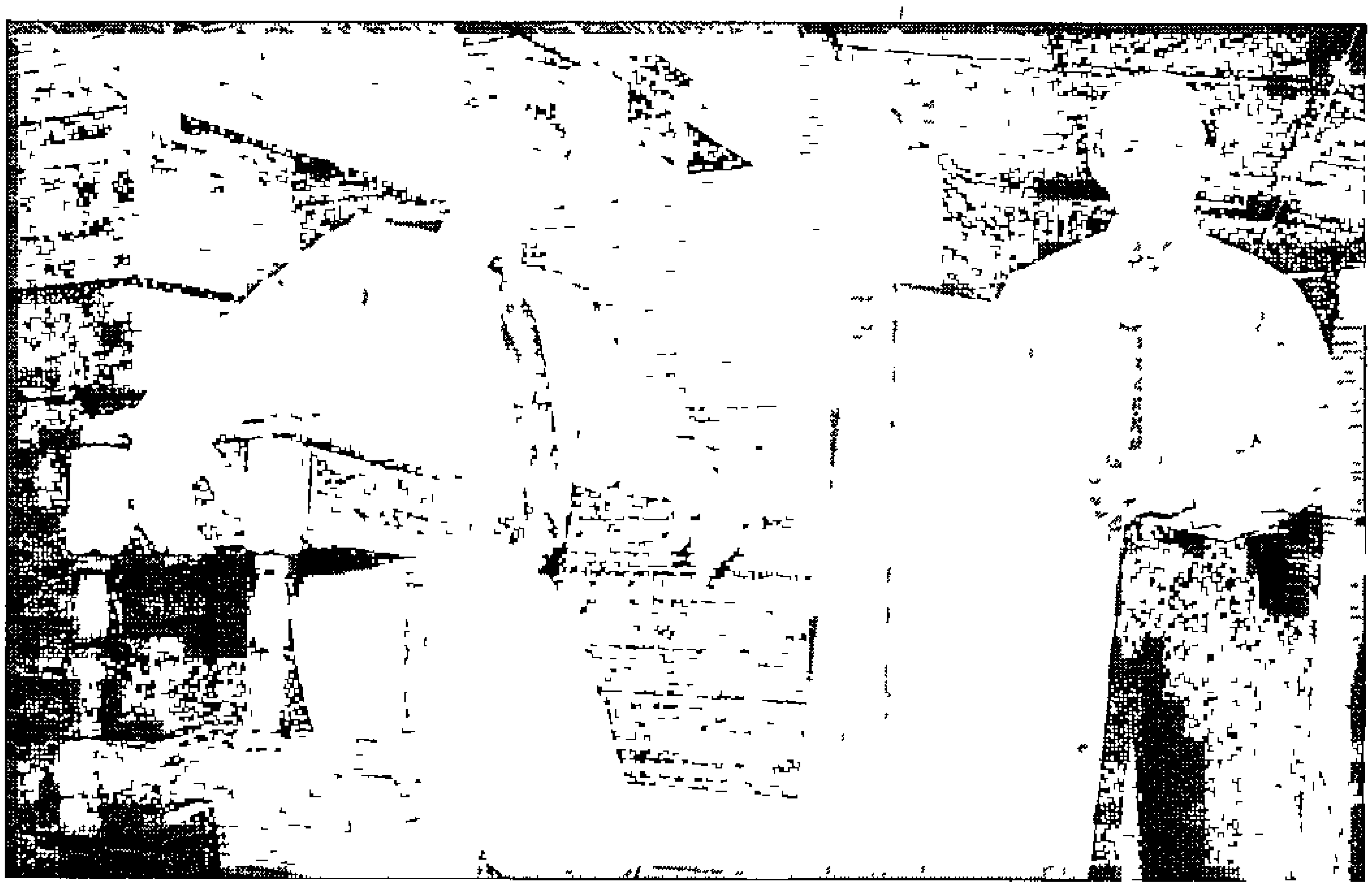
Union, company contest legality of strike

The nationwide strike by over 4 000 Federated Timbers workers allied to the Paper, Printing, Wood and Allied Workers' Union entered its third week yesterday with the parties making contradictory statements on the legality of the industrial action.

Trevor Hartin, a company spokesman, said the strike was in violation of labour legislation "This fact has been conveyed to (the union) but it has been ignored. It is important that in order for a resolution to be found (the union) and its members comply with and adhere to the laws of the land and good faith collective bargaining," he said

Hartin said Federated Timbers had been compelled to seek redress from the labour courts "to put to an end the numerous acts of intimidation, assault and the like" perpetrated by the striking workers. — *Frank Nxumalo* CT (DR) 14/5/97

COMPANY NEWS



PINE KINGS *Emil Unger, the managing director at Megacor, and Bruce Moxham, the managing director at Moxwood, have landed foreign contracts of R15,9 million* PHOTO PETER DUFFY

Megacor earns its export laurels

ET(BL) 14/5/97 (199)

RAVIN MAHARAJ

Durban — Megacor, the manufacturers of pine products, and sister company Moxwood, the exporters of pine doors, have landed foreign contracts worth R15,9 million, the companies said yesterday

Megacor and Moxwood were subsidiary companies of Megacor Holdings, which was listed in the building, construction and allied sector of the JSE on March 4

Emil Unger, the managing director at Megacor, said yesterday his company, which exported 99 percent of its pine products — tables, beds and cabinets — had signed a R1,2 million contract for pine furniture with the French West Indies — Guadeloupe, Martinique and French Guyana — and a R1,4 million contract with Reunion Belgium and Holland had renewed their R1,3 million contract

Unger said one of the main reasons for Megacor's rapid growth in the highly competitive furniture industry market was South Africa's positive "green" reputation among international wood product buyers

Veneer factory strike continues

199

27/5/97

BUSINESS REPORTER

The strike by close to 200 workers at Philippi-based Finewood Veneers entered its second week yesterday with no sign of an end in sight.

The personnel manager of the veneer manufacturing plant, Clarence Caswell, told Business Argus that a meeting had been arranged for Thursday with worker representatives.

He, however, held out no hope of a quick end to the strike.

"At this stage we have no idea of what is happening or what is going to happen," Mr Caswell said.

Workers at the factory went on strike on Monday last week after negotiations with the company failed to break a deadlock over wage increases.

The Paper, Printing and Allied Workers Union is demanding a 25 percent increase while the company is offering 11 percent

Mr Caswell said the strike had affected the company's productive capacity.

Government policies felling timber industry

(199)

Industry association claims state initiatives are unlikely to contribute to creation of employment

Star 30/5/97

BY NORMAN CHANDLER
Pretoria Bureau

Various Government initiatives affecting the forestry industry could result in rising unemployment in rural areas, say industry members.

The South African Timber Growers' Association (Satga) also believes submissions made to official workshops and conferences on policy planning are not being taken further.

Satga says in its annual report, published on Wednesday, that there was concern that "various policy initiatives being pursued by Government are unlikely to contribute to the creation of more employment opportunities".

It complained that its views had been ignored at a national forestry policy conference.

"Examples are developments regarding labour legislation and new land tenure legislation which favour employees at the expense of potential employers," Satga said.

"The result will, in many cases, mean a reduction in the number of people employed and increasing reluctance (on the part of the employers) to provide employees or their families with accommodation and other amenities."

Referring to the forestry White Paper published last year, Satga said it was concerned that references to issues such as rural development, land affairs, land claims and labour matters, occupational health and safety, water and environmental conservation and gender rights were being retained in the policy document despite Satga's arguments that they "had no place in a policy on forestry".

It had also argued against Government determining timber prices, saying it should be left to free enterprise.

(199) CT (BR) 13/8/97

[illegible]

New technology raises Moxwood export orders

The installation of [illegible] pine manufacturer helped the company secure over R[illegible] million in export orders, the company said yesterday. Bruce Moxham, the managing director, said the company had recently installed a R500 000 [illegible] Optimiser at the Pinetown factory. The machine eradicates defects in timber through a computer scanner. Moxham said the machine would substantially increase Moxwood's production capacity and enable [illegible] timber for processing. He said the machine [illegible] price of clear timber and labour costs and increase accuracy. This could further benefit the company's international competitiveness, he said. Moxwood is a subsidiary of Megacor Holdings, which is listed in the Building, Construction and Allied sector of the JSE. — Ravi [illegible], Durban

Company News

Durban-based group secures 'one of the biggest contracts in the industry' with US company

Megacor nails down R60m pine contract

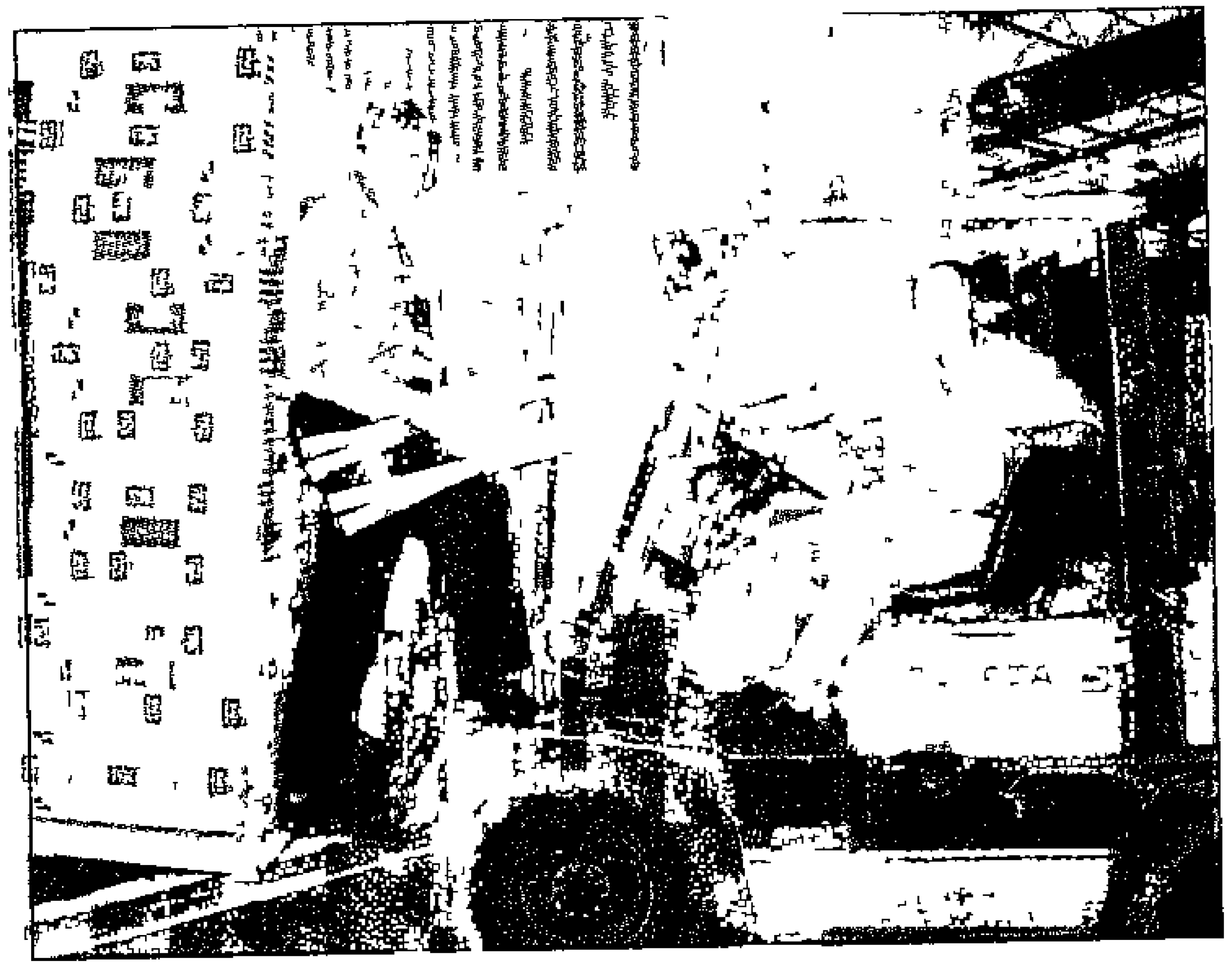
ET(PR)21/11/97 (199)

Ravin Maharaj

Durban — Megacor Holdings, the Durban-based pine conversion group, has secured a R60 million contract to supply a range of timber storage units to the United States market, the company said yesterday

Tony Dixon, the managing director of Megacor, said the deal, "one of the biggest contracts ever to be secured within the pine furniture industry", was concluded with Southern Pine, the Colorado-based forestry products company, through Moxwood and New Era Products, two subsidiaries of Megacor

Dixon said the contract would allow the company to increase volumes and capacity It would also enable the group, which listed on the Building, Construction and Allied sector of the JSE in March this year, to become even more competitive in the global pine conversion market



GROWING STRONG *Tony Dixon, the managing director of Megacor Holdings, left, and Bruce Moxham, the managing director of Moxwood, are ready for the US market* PHOTO BARRY TUCK

Dixon said the company would put in new production lines at Moxwood, the door manufacturer based in Pinetown, and at New Era, the value-added pine manufacturer based in Pretoria

The initial aim is to export 58 000 units by February next year but the order will increase later to 360 000 units to be retailed at 2 200 leading stores across the United States

"It's a major challenge for Megaco, but it's one that we relish," said Dixon

"The companies will have dedicated production lines for the product and we will invest about R5 million to R6 million in technology and capital equipment over the next year"

Dixon said the ability to spread orders through the group had optimised the company's resources

The company was also continuing to maximise the output capacities of its subsidiaries, which would enable it to service such large contracts effectively, he said

David Wolstenholme, the president of Southern Pine, said South Africa had been identified as an emerging market with good woods on offer

He said Southern Pine had considered Megacor as a partner because of the "tremendous synergies" within the group

"The group's prime focus is the conversion of timber and it aims at expanding its existing export base," he said

"It also intends to become a major global player in the industry through the expansion of existing production facilities and suitable acquisitions We see huge potential in this"

In addition, South Africa's timber industry had the potential to rapidly become a global player in the pine conversion market, he said

Wolstenholme said the wood market was changing in the United States Customers wanted natural wood products for aesthetic reasons, he said

"This is another reason why a major market opportunity for pine products exists

"South Africa has the ideal mix of infrastructure, labour and technology In this country you can bet on good forestry services, a stable workforce and technical support"

TIMBER *A recent survey shows the industry in KwaZulu Natal has been hardest hit by new factors affecting investment*

Crime joins arson as a threat to forest

RAVIN MAHARAJ

Durban — Crime, violence and arson in KwaZulu Natal were whittling away forests to such an extent that profitability was being hampered, thousands of potential job opportunities were being lost and business confidence had taken a plunge, Polla du Plessis, the KwaZulu Natal regional forestry manager of Safcol, the forestry products company, said last week.

The Forest Owners' Association (FOA) recently released a report from results of a survey during the first nine months of last year on crime and violence in South African forests It covered an area of about 800 882ha — 53,9 percent of total afforestation within South Africa.

The survey was distributed to FOA members, the South African Timber Growers' Association and the South African Wattle Growers' Union.

According to the survey, about 58 percent of the respondents felt crime had affected their business operations.

This meant that 5 258 potential new job opportunities were lost and of these 4 813 — or 92 percent — would be lost in KwaZulu Natal.

> *'Senseless' crime cost the forestry industry about R58 million last year*

Du Plessis said that "senseless" violence, arson and crime on forestry industry employees was estimated to have cost the industry about R46,5 million in KwaZulu Natal last year and R57,9 million, or about 3,2 percent of industry turnover, in South Africa

In KwaZulu Natal crime cost R30,4 million and crime against individuals accounted for 88 percent of the total Attacks on individuals resulted in 380 deaths and 115 who were seriously injured

Direct losses through theft and damage, including the cost of crime prevention measures, had amounted to R34,7 million — R43,32 for each planted hectare — or 2 percent of industry turnover

Crime preventive measures in KwaZulu Natal were R72,05 a hectare — 5,6 times higher than in Mpumalanga and the Northern Province — and 41 times higher than in the Western and Eastern Cape

In addition, damage and theft of about R9,6 million was reported Arson was responsible for 1 093 or 74 percent of all forest fires, and 2 825ha were damaged by arson, costing R16,5 million

During the period under review 1 478 fires had occurred, 935 or 86 percent of which were attributed to arson Some 30 000 tons of timber, which was valued at R4,45 million, was also stolen

Du Plessis said of great concern was the ineffectiveness of the criminal justice system to root out criminal problems On crime against individuals, including forestry industry employees, only 32 percent of the suspected attackers had been arrested

Du Plessis said the industry was "deeply concerned" about threats which affected one of South Africa's greatest natural assets He said industry, including Safcol, would incur significant capital costs in buying security, fire fighting, communications and other equipment to ensure survival of these assets

> *Plantations were 'easy targets' and people and trucks were being shot at*

Industry was organising an action plan to deal with crime and violence in KwaZulu Natal through the FOA

Industry partners, including Mondi and Sappi, had met the South African Police Service and the South African National Defence Force to find solutions

Du Plessis said forestry plantations were increasingly becoming "safe havens" for people who lived in violence-torn rural townships, which mostly neighboured the forests

They were also thoroughfares, which saved people from walking long distances, and Safcol did not want to be seen as "turning people away" from the forests

But the plantations were "easy targets" and people were being shot on the way to work, timber-carrying trucks were being fired at, and intimidation was becoming a serious problem, he said

"Timber theft is becoming a huge problem Unlike the sugar industry, there are no quotas in the timber industry In timber, there is competition for limited resources When the market is good, the demand is high

"Industry will also have to work on curbing timber thefts For this, we have brought in our own security which also comes at a considerable cost

"We have invested heavily in security and fire prevention equipment over the last three years Helicopters, at great cost, are being used to douse fires when they break out "

The industry, he said, could not afford fires, because once the trees were destroyed, sustainability was affected

"Once there is a fire, the investment is gone," Du Plessis said

Profitability

CT(BR) 10/12/97 (199)

MANUFACTURING - WOODEN CORK
1998-1999

Sawmilling Yorkcor group confident it's out of the woods now

CT (BR) 25/3/98 (199)

Ravin Maharaj

Durban — Yorkcor, the forest products group, had found its way forward, Solly Tucker, the chairman, said in the company's latest annual report

But the road ahead was not without pitfalls and potholes

"We cleared major road blocks in 1997 and see a surer way forward," he said

Tucker said the company had entered the new financial year with enhanced balance sheet strengths In the year to December 31 1997, gearing had improved from 43,3 percent to 28,4 percent Net asset value rose 53 percent, from 218c a share to 333c

Tucker said the forestry products industry in South Africa was undergoing "convulsive change"

But in the face of the "seismic tremors" that had shaken the industry, the company had ensured that it did not lose sight of its day-to-day business, the chairman said

Yorkcor's core business is sawmilling

Tucker said one significant benefit which should flow from properly structured privatisation — which could bring balanced competition back to the forestry products arena — was that log prices could become more sensitive to their true market value

"It is an open secret that there are Safcol (the state-controlled forests company) mills that do not show a profit

"Not so open is whether they can afford the price levels Safcol has sought, and seeks to impose on us and others"

Yorkcor's bulwark against these pressures was its long-term sawlog contracts, Tucker said

Safcol's plantations represent about 18 percent of the total area of commercial plantations in South Africa

It provides about 36 percent of the country's sawlog production

Apart from privatisation, Tucker said the company was also proactive in the process regarding the divestment of state forests by government, which was also on the cards

In addition, Tucker said the forestry industry had entered a period of turbulence some time ago and needed more road maps,

"The national forestry action plan could be such a map, but where are the roads?"

The government published the plan last year It outlines a strategy for sustainable forestry development in the country

Union urges haste to set up bargaining forum

Reneé Grawitzky
and Deborah Fine

THE newly formed Chemical, Energy, Paper, Printing, Wood and Allied Workers' Union has called on paper and pulp employers to speed up the formation of a centralised bargaining forum or face industrial action

At the same time the wage dispute in the security industry remains unresolved, despite reports last month that an informal agreement had been reached.

The parties said details of the agreement would be released once ratified It seems that divisions in some unions have prevented the signing of a final agreement.

The draft accord tried to achieve a trade-off between the premium paid for Sunday work and actual wage increases after weekly working hours were reduced from 60 to 55

The dispute originally focused mainly on an aspect of the Basic Conditions of Employment Act relating to a reduction in working hours and whether this should be accompanied by a corresponding cut in wages

The general secretary of the union, Muzi Buthelezi, said yesterday employers were delaying the finalisation of negotiations to allow for the registration of a bargaining council in the broader paper and pulp sector

The establishment of the council was being "retarded by employers forming and registering their associations" as required in terms of the Labour Relations Act

He said employers were not taking the matter seriously. "We will have to put pressure on them," Buthelezi said.

In line with developments in the chemical industry, paper and pulp employers would face a demand this year to enter into interim sector talks pending the creation of a council.

The sectors covered by such a council would include pulp and paper, paper merchants, tissue paper, saw milling and recycling The union wanted recycling to be part of pulp and paper, but employers opposed this

Buthelezi acknowledged that talks would get under way as job losses continued The union hoped to hold a sectoral job summit by the end of the year

Union demands for talks this year across all sectors included a 20% increase and a minimum wage of R2 000 a month, a reduction of working hours to 40 with no loss of pay or averaging, and a range of other demands linked to the Basic Conditions of Employment Act

Production at Toyota's Prospecton plant resumed yesterday as thousands of members of the National Union of Metalworkers of SA returned to work following a dispute over the payment of incentive bonuses

Meanwhile, about 1 000 SA Municipal Workers' Union members employed by the Welkom municipality in the Free State failed to arrive at work yesterday in protest against what they claim was a "unilateral downgrading" of their conditions of service

The workers have accused the council of withdrawing study leave, travel allowances and leave cashment provisions and refusing to pay overtime under the Basic Conditions of Employment Act Welkom administrative director Papiki Ngesi denied the union's allegations. The council was expected to meet with workers today to discuss the issue.

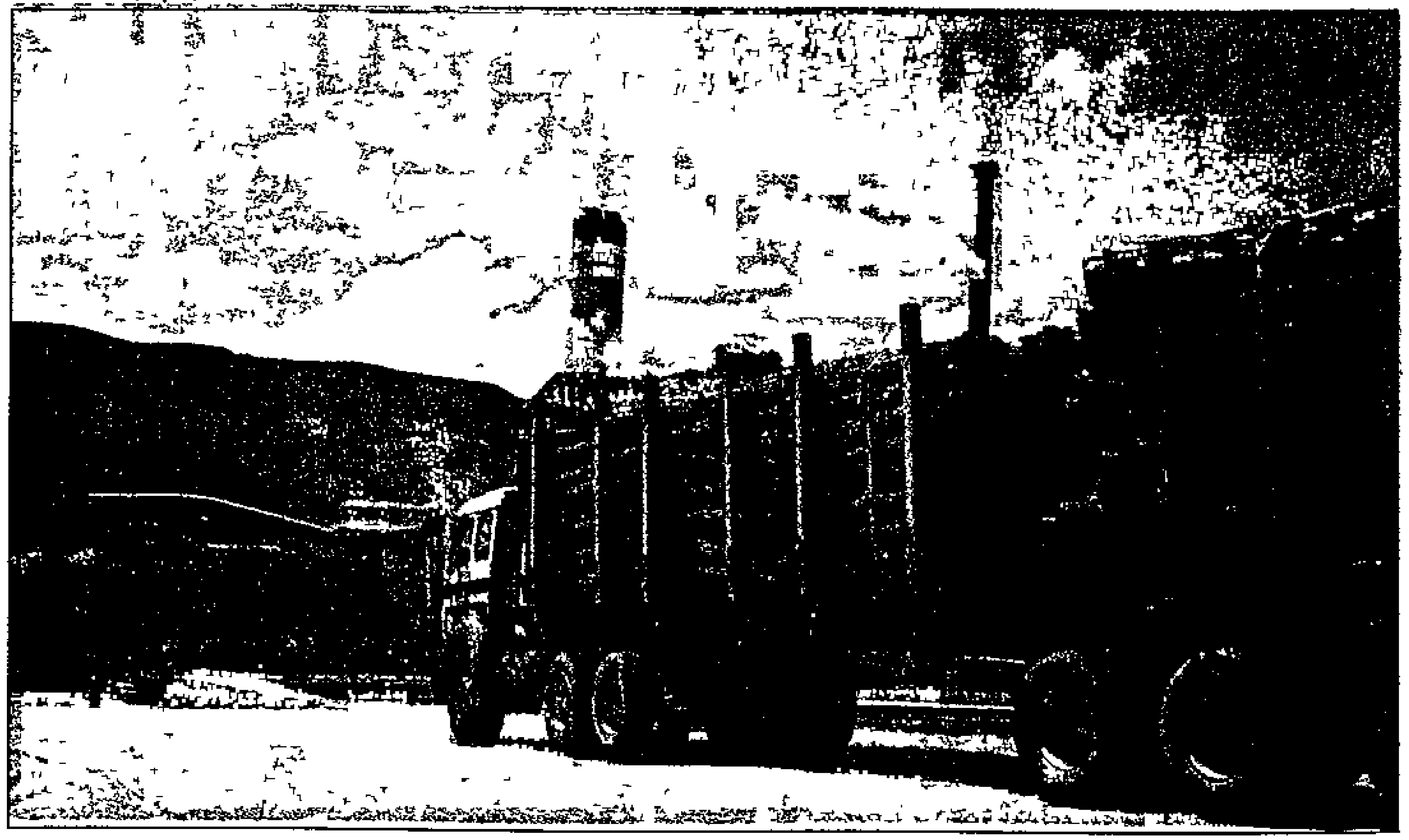
(199) BD 16/3/99

MHG 19-25/3/99

New law sorts the wood from the trees

(199)

Archaic and costly contracts ~~governing the supply of~~ timber to the South African market are being overhauled, writes **Lael Bethlehem**



Truckin' on out The old arrangement tied the state into supplying sawmills with huge amounts of timber. PHOTO: NADINE HUTTON

Over the past 100 years the state has played a classic developmental role in industrial forestry by stepping in to avert market failure It has done its job

Today there is a thriving private sector in forest plantation management. Now the state can step back from the management of industrial forests

New legislation will come into effect at the beginning of next month While there have been several areas of heated debate one issue stands out the changes to the system of timber supply to sawmills

The Cape colonial authorities realised 120 years ago that the fledgling South African economy was short of a strategic resource — timber The country is naturally short of forests, and the growing economy was placing the existing forests under strain The Cape authorities started a dual process of developing timber plantations on the one hand and protecting indigenous forests on the other So began a long process of state involvement in the supply of timber to industry

It made sense for the state rather than the private sector to grow commercial forests because they are such a long term business The private sector was unwilling to accept the long lead times and was poorly equipped to manage the risks As the plantations grew the state was able to move timber to the market But it encountered problems getting investors to buy the timber and turn it into products for the building industry and consumers

Investors were not keen to invest in sawmills usually in rural areas where little infrastructure existed. They played hard to get and the state needed to offer them strong incentives

So it came up with a package deal for investors a long term contract for the supply of timber a piece of land on which to erect a sawmill and a set of contract provisions that had the effect of keeping prices predictable and low The state also undertook to provide the sawmills with a minimum quantity of timber

This was the genesis of the state timber contract It usually took the form of an evergreen contract sawmillers were given the right to state timber on an indefinite basis

In many instances, the sawmillers were guaranteed that they would be supplied with timber in virtual perpetuity — and if the state ever decided to terminate the contract, it would have to offer compensation

It was an absurd arrangement seen in the light of a modern market economy And yet there was a logic to the system considering the sawmillers were small to medium sized companies relying on a single supplier

The contracts reflected the conditions of the developing economy of the time They were designed to suit the conditions of the 1950s 1960s and early 1970s But they put in place a system that is still with us today

The contract system now has a number of drawbacks The long term contracts have effectively closed the market which in turn means there are few incentives for outside investment Some of the contracts promise huge volumes of timber which cannot be supplied on a sustainable basis In some areas trees have been planted in an environmentally unacceptable manner in an attempt to fulfil the contract obligations

A third problem is that the "evergreen" contracts are not subject to competitive pricing Some millers are currently paying 1995 prices for their timber while others have had several increases since then — leading to intervention by the Competition Board.

The new law changes all this by laying down ground rules for state contracts All contracts for the supply of timber from state forests — existing as well as new — will have to abide by certain basic conditions

All contracts will have a five-year termination period and longer or shorter notice periods will have to be approved by the minister of water affairs and forestry

The state will not be obliged to supply a quantity of timber that cannot be provided in a sustainable manner unless the shortfall is due to negligence

These provisions introduce market principles into the supply of timber from state forests Some of the old evergreen" contracts have already been renegotiated and many sawmillers have come to realise that the old closed system cannot be supported Safcol the forestry company owned by the Department of Public Enterprises, has been able to sign new contracts with all but a few customers.

The Department of Water Affairs and Forestry has been able to renegotiate the terms on which more than 50% of its timber is sold, and more new contracts are expected once the law is passed in April. Those sawmillers who have resisted new contracts will now have to consider the effect of the new law in their dealings with the state forests.

Whereas in the past the state has planted, tended and sold trees, it will increasingly turn its attention to promoting and regulating forestry It will concentrate more on other pressing problems such as the management of indigenous forests and the use of trees in community development projects

The restructuring of the state's commercial forestry assets will draw the private sector in to grow and sell trees The land will not be sold, but will be leased with strict provisions for environmental controls, community rights and public access

Lael Bethlehem is chief director (forestry) in the Department of Water Affairs and Forestry

Numsa and merger companies in row

[illegible])(/99)

By Mzwakhe Hlangani
Labour Reporter

THE multinational Crown Cork and local company Nampak, the major manufacturing companies whose merger deal has been rejected by trade unions, are again locked in bitter rows with employees after reducing wages and lowering the negotiated working conditions

National Union of Metalworkers of SA (Numsa) spokesman Mr Osborne Galeni charged that Crown Cork was reneging on the conditions of employment stipulated in the charter of US-based company by reducing wage rates from R18 an hour to R12 an hour.

Nampak group human resources manager Mr Sipho Ngidi confirmed the dispute, but said it was not necessary to debate the problems in the media

The union was puzzled by the "worsening of the conditions of employment", Galeni said. He accused Crown Cork of manipulating a clause of the collective agreement with the intention of undermining it.

Crown Cork has proposed that the matter related to interpretation of the agreement and should be referred to expedited arbitration process at the Commission for Conciliation, Mediation and Arbitration.

"We strongly believe Crown Cork was bent on reversing the fundamental changes that have taken place and erode the hard won rights in the past few years This will be met with equal resoluteness from workers," Galeni said.

Sowetan 25/5/99

Hard time for wool growers

BD 13/7/99 (199)

THE SA wool industry faces a tough year promoting itself in foreign markets amid signs that domestic prices could rise, prompting increased production

Last year SA pulled out of the International Wool Secretariat, now known as Woolmark, due to cash flow problems

Cape Wool chairman Briers Bekker says the industry faces the challenge of promoting its own wool

"We had 100% access to what they did in terms of promotion, research and development Now, not being a part of that, we are in a much worse position," Bekker said

SA wool had benefited from the wool secretariat's worldwide promotional infrastructure by paying just a small percentage of its expenses through membership fees The fee was raised by a levy on local wool producers, which was scrapped by government last year "We will now have to build up our own structures and promotional strategies for SA wool," Bekker said He said they might ask government for assistance

SA could either pay for services of the Australia-based Woolmark or develop its own country-of-origin mark, he said

Despite concerns over promotion, the domestic industry is looking forward to an increase in wool production in the coming season

"There might be a price increase of 10% to 15% over the next season It will stabilise production and might bring more farmers in the grain producing areas to wool production," Bekker said

"I think the price increase will be gradual and that it should improve into the next season," he said — Reuter