OWNERSHIP & CONTROL – 1992

JANUARY – MARCH.

One of the best years for JSE industrials

STAR 2/1/92

By David Canning 232

JSE industrials finished one of their best years on a high note but enthusiasm for mining shares has visibly melted in line with falls on bullion and commodity exchanges

Nevertheless a brokers' analyst believes the mining board is likely to outperform industrials in the next few months with the industrial market retaining positive prospects on a six to nine-month view

Gold's dip in recent days drew the JSE gold index down six points to Tuesday's closing level of 1142 — representing a dip of nearly 10 percent over the past year

Industrials, buoyed by strong performances on overseas markets, rose 35 points to 4133 for a rise of over 37 percent this year

The all market index showed a gain of nearly 25 percent

Meanwhile, a study on this year's prospects by Frankel Kruger Max Pollak Vinderine analyst Dee Campouroglou concludes that the industrial market has in fact been over-bought relative to the market as a whole

The study, based on mid-November figures, leads to a prediction that "under-performance" of industrials is expected in the next few months "During this time, the mining board is expected to re-rate relative to industrials"

However the longer-term view of industrials remains positive

Sectoral recommendations which emerge from the analysis are that investors should avoid clothing, footwear, textiles and furniture while the following sectors look fully priced Beverages and hotels, building and construction, motor, printing and publishing, stores and transportation

Attractive for purchase are sugar and fishing shares while also to be purchased, though at lower levels, are industrial holdings, steel and allied and electronics

Worth holding are chemicals and oils, engineering, paper and packaging, pharmaceutical and medical, tobacco and match and food

MALBAK (232)

What plans for the cash?

Activities: *Diversified conglomerate with main interests in packaging, consumer products, food and health care* FM 3/1/92
Control: *Malhold (40%)*
Chairman/CE: *G S Thomas*
Capital structure: *206,6m ords Market capitalisation R2,59bn*
Share market: *Price 1 255c Yields 2,6% on dividend, 9,9% on earnings, p e ratio, 10,1, cover, 3,8 12-month high, 1 300c, low, 600c Trading volume last quarter, 2,2m shares*

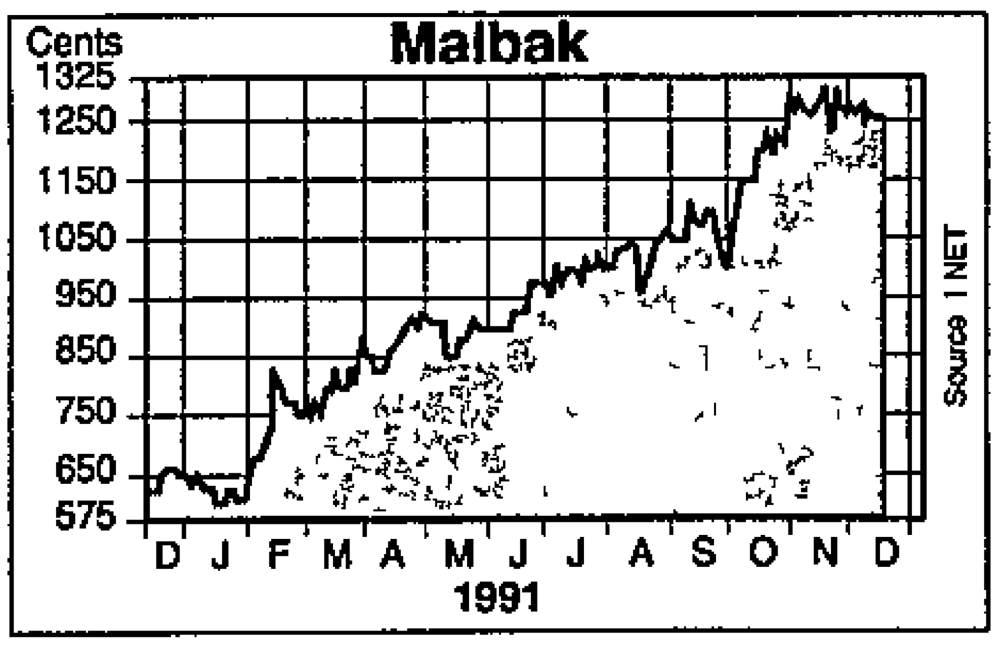
Year to Aug 30	'88	'89	'90	'91
ST debt (Rm)	281	539	656	550
LT debt (Rm)	186	216	171	189
Debt equity ratio	0,23	0,41	0,38	0,24
Shareholders' interest	0,49	0,46	0,46	0,51
Int & leasing cover	9,3	5,0	3,6	4,8
Return on cap (%)	20,1	17,4	17,2	15,4
Turnover (Rm)	5 234	7 329	8 374	8 441
Pre-int profit (Rm)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

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

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

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

Dilution would be lessened if the funds are



FM 3/1/92 (232)

Malbak's Thomas *facing fresh challenges*

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

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

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

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

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

Just how much any of this can impact on 1992 results remains to be seen In normal circumstances management's 117c EPS forecast could turn out conservative, especially as there were signs during the second half of last year that earnings were starting to recover despite the continued downtrend in the economy But this forecast did not take into account extraneous factors such as the prolonged strike at Ellerine and its impact on the Branded Consumer Goods division which, at 27%, was the largest contributor to earnings last year Still, the market does not seem unduly worried The share price has run up from a 1990 low of 450c to 1 255c, which is just 3% off its peak

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

1991 RANKINGS

Portfolio	Appreciation (%)
Broker C	66,4
FM	40,8
Broker E	34,3
Broker D	28,7
Broker B	16,4
Broker A	15,9
Broker F	0,2

The *FM* also retained its mid-year position, ending the year in second place, with a gain of 40,8% Ground was lost in the second six months, as the portfolio was up by 47,9% at the end of June

At that stage, the main runners in the *FM*'s portfolio were M-Net, up 115%, Medi-Clinic (68,7%), Momentum (60%) and Impala (33,6%) Among six new stocks brought in at the change, Pepkor and TSI did reasonably well, but Reggies, Clinics, Amgold and Keeley dragged down the portfolio Outstanding counters for the full year were M-Net (250%) and Medi-Clinic (122,9%)

Elsewhere in the rankings, the second half brought some marked changes At the end of June, Broker E was lagging in seventh place, with 27% appreciation, but had leapt into third position by the close, when its gain had increased to 34,3% At the change, E brought in Amgold, Haggie and Mid Wits, though only the last of these was much help E's overall best selections were African Life, up 107,4%, Libvest (75%), Richemont, up 46%, and Premier, up 45%

Broker D held on to fourth position but its appreciation diminished from the mid-year 44,4%, to 28,7% This was partly because D decided it was time to venture into gold shares, it included H J Joel, which promptly depreciated 59% Best performers for D were Chemical Services, up 105%, Conshu (76,5%) and Carlcor (60,6%)

Broker B rose from the halfway sixth position, when the appreciation was 37,4%, to fifth even though the portfolio's growth slipped from 37,4% to 16,4% The result was weakened largely by several mining and commodity stocks whose prices disappointed Among these, Randfontein, Deelkraal, Doornfontein, Sappi and CMI showed losses or only small increases Better results came from Premier (up 74,6%), Cashbuild (70,6%) and Royal Corp (70,6%).

Broker A was fifth at mid-year, with a 39,5% gain, but slipped to sixth, with appreciation of only 15,9% A changed the entire portfolio at the end of June, with mixed results which were not helped by a market that had turned somewhat less bullish Free-gold, Jasco and Tradehold fell, best performeers were Premier (67,5%), Kanhym (49,5%), and Cashbuild (41,4%)

Broker F made eight changes at mid-year, and ended up with a portfolio heavily biased towards exporters and other rand-sensitive stocks Richemont (up 28,8%) and Anglo American (34,1%) showed good gains, but Lonrho (down 49,7%), Driefontein (down 12,8%) and FIT (down 30,2%) as well as some weak rises resulted in overall appreciation of only 0,2%

An important — and overdue — change is made to the brokers' competition this year With stockbrokers now allowed to advertise, the six firms participating in this year's competition have agreed to be identified by name (not all of them took part last year)

This will obviously add spice to the results It may also have influenced the selections to some extent Though choices have to be made according to each firm's views on the various sectors of the market, the portfolios this time are generally more conservative and better balanced than some have been in the past

Even so, the seven portfolios again reflect sharply divergent thinking Some, such as Anderson Wilson, have again opted for a fairly strong emphasis on mining or other shares with a rand hedge exposure Others, such as Martin & Co, have continued to avoid these shares

However, there are two common themes running through the 1992 portfolios After the powerful growth seen in prices of consumer stocks last year, these have been given only limited exposure this year Those that do appear, tend to be potentially special situations, such as Fedfood and Kanhym

Whatever the quality of the company, it is difficult to buy shares which already stand on dividend yields of little more than 2% Still, Richemont, yielding 0,8% and standing on a p e of 20,1, appears no less than four times

There are signs now of a swing towards industrial stocks which are exporters or manufacturers These are evidently being chosen well ahead of the hoped-for upswing in their profits — but the JSE has been rising through 1991 in advance of the eventual economic upswing which, one hopes, has become a less distant event and could be based on sound fundamentals

Also notable is that only one has included more than one gold mine Several have gained some exposure to a rise in the gold price through mining financials such as Anglo American, Gencor or Mid Wits But, where gold producers have been included, they are solid mines, of medium to high quality Nobody is yet willing to risk a high gearing to gold with marginal mines

☐ *Readers should note that all these shares are chosen as part of an equity portfolio game They should not be seen as recommendations or tips* ■

BEST AND WORST OF 1991

Tides in the affairs of men

Can 1992 be as eventful?

It was a busy year, quite apart from the Convention for a Democratic SA — probably SA's most important political event since Union in 1910 In fact, there was an unusual sense of history The disintegration of the Soviet Union finally undid the tyranny begun by the Bolsheviks in 1917; Yugoslavia slid into civil war, throwing up ethnic identities that recalled 1914, old bitterness surfaced with the 50th anniversary of Pearl Harbour, and old Springbok soldiers marked the 50th anniversary of Sidi Rezegh

From a crowded 12 months, here are a few verbal snapshots from *FM* staffers to capture some of the flavour of 1991

FM 3/1/92.

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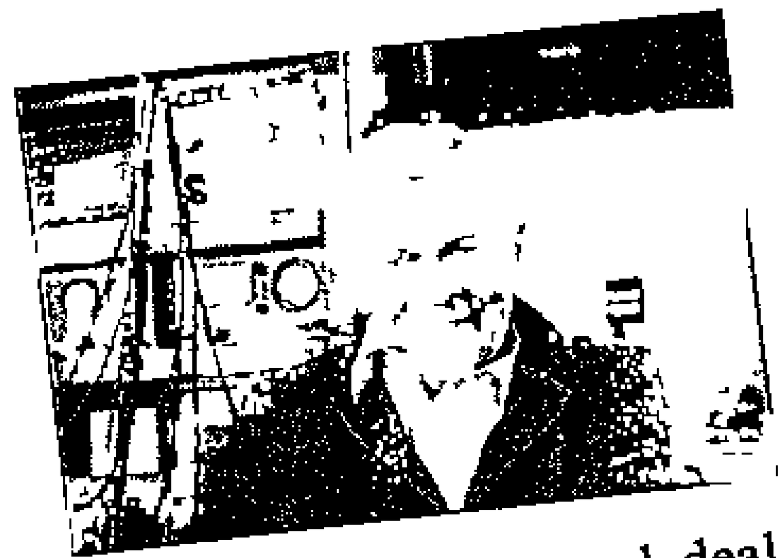
Big deals



Biggest and most controversial deal of the year was the takeover of Allied Group and the subsequent formation of a new banking giant — Amalgamated Banks of SA (Absa) — in a deal worth about R1,8bn Piet Badenhorst emerged as CE of R50bn-asset Absa, after First National's Barry Swart decided to withdraw from the battle for the Allied, whose MD Kevin de Villiers departed after selling his Allied shares for several million rands

Another megadeal, though one which was completed with little fuss, was the purchase by the Columbus stainless steel consortium from Barlow Rand of Middelburg Steel & Alloys (MS&A), for R1,1bn The acquisition will provide a firmer base for the Columbus project but the new owners lost little time in cutting costs — and jobs

Among the biggest loss-makers of the year was Frame Group It posted an operating loss of R104,8m and wrote off R125,1m as an extraordinary item Another shocker was Rusfurn, which made an attributable loss of R79,2m providing for abnormal items of R154,9m Similarly, Saambou wrote off as much as R96,5m, and chalked up a deficit of R72,7m over two six-month periods

Andrew McNulty

FM 3/1/92

BROKERS' PORTFOLIOS

Gains and losses (232)

Just over a year ago, when shares were selected for the 1991 brokers' portfolio competition, many investors did not believe the stock market was looking particularly inviting The economy was still deeply in recession and there was little assurance that the bear market of 1990 was over

In fact, 1991 turned out to be an excellent year for Diagonal Street — though the competition results were patchy when compared with the market as a whole Only two brokers and the *FM* managed to outperform the market Three lagged well behind the leading market indices

As has been evident in the past, selection of 10 shares, with an opportunity for changes halfway through the year, can result in a complex and risky exercise

FM 3/1/92 .

Results of the brokers' competition are calculated on the capital appreciation of fictional portfolios of 10 shares each, based on share price movements between December 13 1990 to December 12 1991 Over that period, the All Share index rose 28,7% and the Financial & Industrial index 38,4% — making the JSE one of the best performing stock markets in the world last year

All the portfolios showed at least some nominal growth Percentage gains ranged from a mere 0,2% for Broker F, to Broker C's winning gain of 66,4%, far outstripping inflation and more than double the rise in the All Share index (232)

In the more successful portfolios, particularly during the first half of the year, emphasis was placed on consumer-orientated counters As usual, inclusion of one or two high-fliers could make all the difference to the result The opportunity to change the portfolio at mid-year may result in profits or losses, which means that the overall appreciation of the portfolio will not necessarily be the same as the average gains for the shares held at year-end

During the previous year many investors had had their fingers burnt yet again for venturing on to the mining board The 1991 contestants generally did not place much reliance on mining shares — though at mid-year some showed a tendency to delve into gold stocks, and then lost money as a result

Broker C started the yea- with a well-chosen selection, and was leading the field at the halfway stage, with an overall gain of 50,9% Some fruitful changes were then made at mid-year, when M-Net and Carlcor were included Percentage gains in C's year-end shares were ABI (21,3%), M-Net (63,7%), Suncrush (80%), Afrox (56%), Genrec (165%), Ellerine (22%), Consol (52,2%), Carlcor (54,9%), CNA Gallo (54,6%) and Trencor (99,4%)

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Top deregulations

FM 3/1/92

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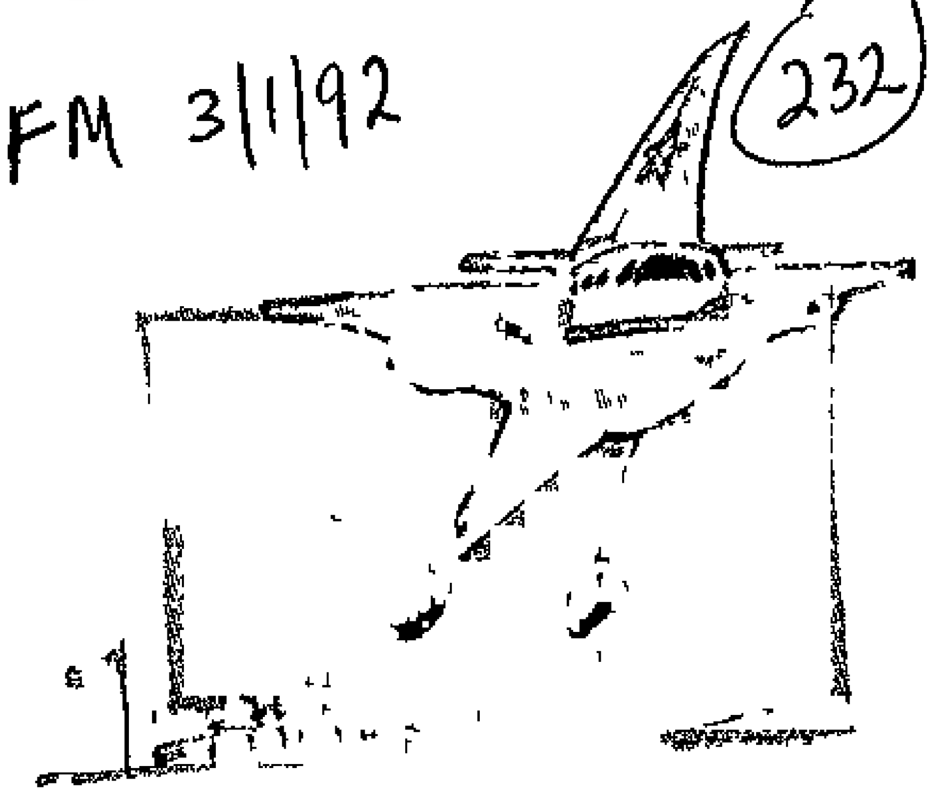
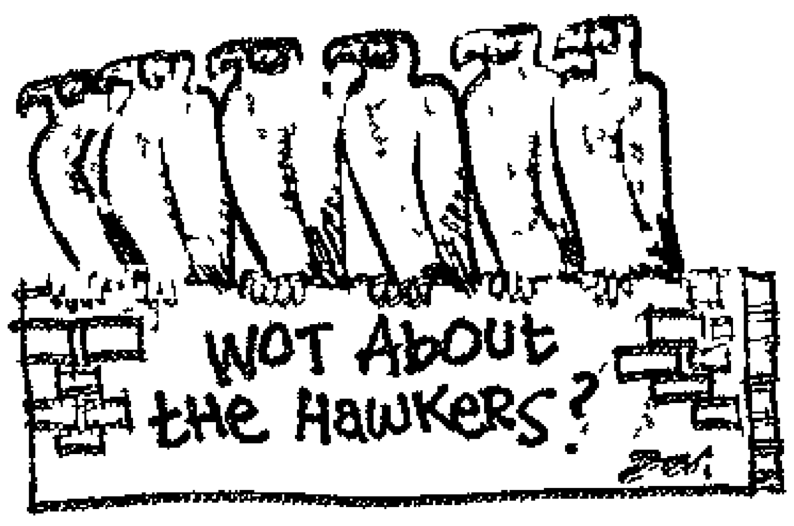


1 SA's new Domestic Aviation Policy sees Flitestar take off as SAA's first competitor on domestic main routes,
2 Changes to SA's International Aviation policy look promising as international multilateral aviation agreements replace bilateral ones,



3 Passing of the Business Act sees the demise of trading licences and an end to harassment of hawkers;
4 Scrapping of the Land Act ends restrictions on land rights,
5 Abolition of the Group Areas Act allows for unburdened property ownership,
6 Death of the Population Registration Act sees the end of racial classification and all concomitant socio-economic restrictions;
7 Land Tenure Rights are upgraded to allow for a simple form of land ownership which doesn't require conveyancing;
8 The Less Formal Townships Estates Law Act provides for the swift establishment of townships,
9. The Department of National Health deregulates restrictions on Food Handling and controls become appropriate;
10 The earlier deregulation of financial institutions and banks sees the swallowing up of building societies

JSE session one of 'quietest in decades'

B Day 3/1/92

(232)

MERVYN HARRIS

THE JSE opened the new year with barely a whimper yesterday in what was seen by some veteran dealers as one of the quietest sessions of trading on the market for "several decades"

Trading was expected to be sluggish in view of the fact that the big players will return from holiday only next week and Japanese and some other major markets are still closed But the lack of activity surprised even the most pessimistic of brokers

A sliding gold price on reports of German selling of the metal acted as a further dampener to trade The softer trend spilled over from Europe to the US where at one stage the metal was down more than $4 in early New York dealings, to test resistance at three-and-a-half-month lows of just above $350 Gold closed in London nearly $2 down at $351,70, while platinum edged off six-year lows to the $336 level

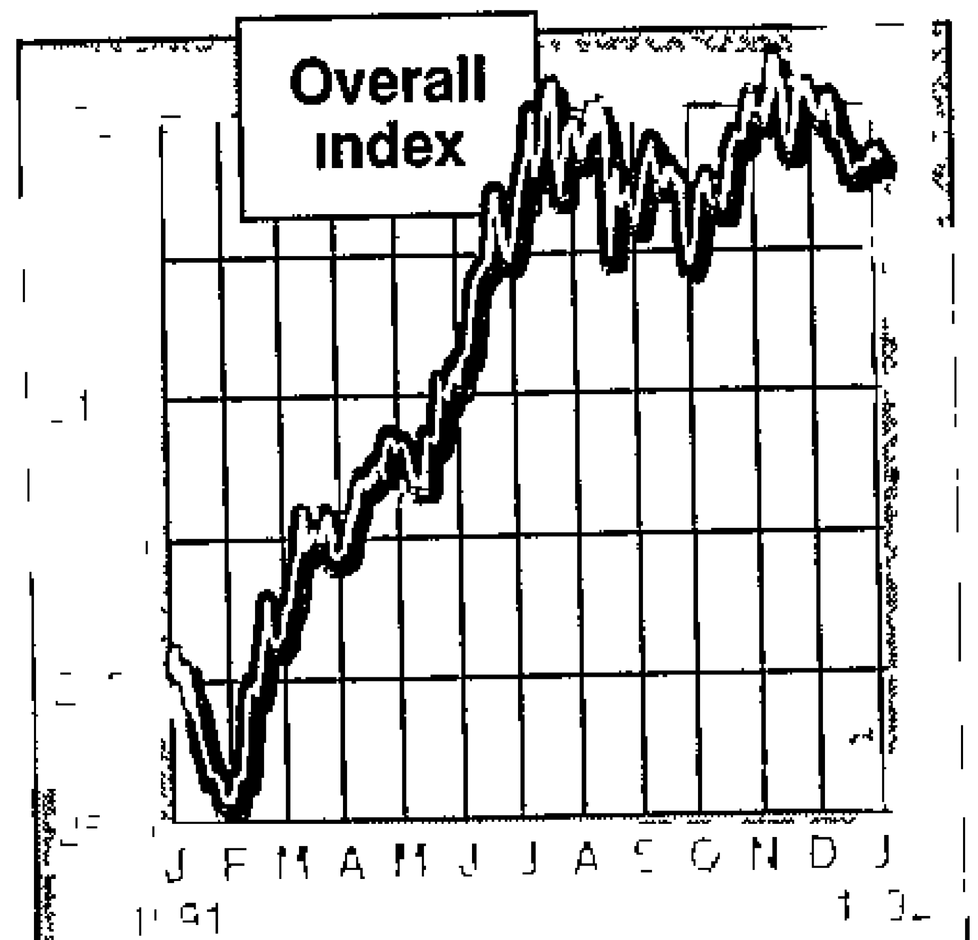
The JSE overall index, which started 1991 at 2 742 and rose 25,4% to end at 3 440, closed 134 points lower yesterday at 3 427, with only eight shares higher and 52 lower

The industrial index, which began the year at 3 007 and climbed 38,67% to close the year at 4 170, slipped a marginal one point to 4 169 The record-breaking Christmas rally on Wall Street seemed to peter out last night but some analysts said the domestic industrial market could catch up when players returned to work on Monday

The all gold index, which declined 10,6% in 1991 from 1 265 to 1 131, eased 12 points to 1 119 yesterday

Observers noted that in the absence of buyers, the market tended to take the line of least resistance and go lower. "Everybody here feels we have had two Blue Mondays in one week," a trader added

A dealer said "People still seem to be evaluating how their portfolios performed last year When fund managers get back from holiday, they will hold meetings to assess the potential for shares this year"



Graphic FIONA KRISCH Source I-NET

S| Times (Buss) 5|1|92 (232)

Beware the calls for rights money

A CLASSIC scenario for companies to raise equity capital will be evident at the start of 1992

But, warns Henry Blumenthal, head of the private client division at stockbroker Simpson McKie, investors should be wary of following every offer indiscriminately

High borrowing costs, thin dividend yields and a market desperate for quality scrip provide the ingredients for companies to tap the market for cheap money

Mr Blumenthal says that just as share selection should be made only after companies have been researched, so should the decision to follow rights issues

In 1991, the prices of leading industrials rose by an average 30% — a performance not likely to be repeated this year, particularly because the earnings and dividends of many counters are likely to remain under pressure

However, one area that should produce real earnings growth is the banks and financial services sector

The price earnings ratios of the big players are about 10 Earnings are forecast to climb by between 15% and 20% this year

This is in contrast to the much higher PEs of many leading industrials with poorer growth prospects Consumer-linked stocks have only lately been hit by the recession They look relatively overpriced in certain instances

The influence of foreign markets on the JSE should not be underestimated

HENRY BLUMENTHAL calls the odds Picture DAVID SANDISON

Mr Blumenthal says foreign bourses are delicately poised and their direction will continue to influence South Africa

He favours a strong rand-hedge component in the portfolios of clients because the rand is vulnerable against major currencies Increased exposure to capital-goods related companies and possibly to cyclical industries with strong recovery potential is also recommended

"In spite of the prospect of a slower advance from industrials, 1992 promises to be another year of total real returns to shareholders

"The fundamentals are in place — reserves are up, interest rates and inflation are due to ease and the economy is poised to resume growth

"Furthermore, there is some appealing value among the medium-sized, second-tier financials and industrials whose ratings stand to be improved in the 1992-1993 revival

"The socio-political transition will serve to underline to South Africans that they should invest in real assets, such as equity rather than in depreciating cash savings," he says

The 1992-1993 Budget, due in March, could herald significant change There could be a trade-off, such as the introduction of a capital gains tax offset by a lower rate of corporate tax

"Investing in equities is investing in the nations's factories and production lines The nation's infrastructure is due for a kick-start and there are several mineral beneficiation projects on the horizon which, if mobilised, will help companies strong on gross domestic fixed investment"

He warns, however, that turmoil associated with socio-political change is inevitable and the next few months will be characterised by a volatile climate for business

Mr Blumenthal believes that an improvement in the supply-demand balance is causing the gold price to bottom out But because the conditions necessary to spark a sustained rise in the gold price are not in place, portfolio exposure to golds should be kept low

Institutional cash flow seen propping up JSE

STAR 6/1/92

By Magnus Heystek
Finance Editor (232)

The estimated R40 billion cash flow of South Africa's life and pension offices this year should underpin any correction to the Johannesburg Stock Exchange, says the latest issue of the Bank of Lisbon's Economic Focus

A major proportion of these funds will find their way to the JSE, despite very high current share values

While most equity analysts sound a note of warning about the historically high levels, with the average dividend yield on industrial shares now well below three percent, the shortage of good-quality scrip, coupled with the existence of foreign exchange controls, should underpin the market

A partial relaxation of exchange controls could be a solution to the "damming up" of investable funds in the South African investment market, suggests the Economic Focus

But while the debt standstill remains in place, this option is unlikely, the study suggests

The total cash flows of SA's long-term insurers, unit trusts and pension funds are estimated to have reached about R35 billion in 1991 Despite some slowing down in certain areas, they are nevertheless expected to reach about R40 billion this year

A major portion of these institutional cash flows is invested in local quoted equities, thereby contributing to the "hothouse effect" as more money chases a limited number of investment avenues

This puts upward pressure on share prices, already at very high levels

The situation is expected to worsen because of the newly granted freedom of state pension funds, which can now invest in equities on the Johannesburg Stock Exchange

And if, as expected, banks start moving into the field of life assurance, this will boost even further the flow of cash looking for inflation-beating hedges

One factor that could deflate the build-up of local capital would be to grant large financial institutions the freedom to invest money in foreign investment markets

"Certain benefits could be derived from a dispensation in which local institutional investors are able to invest abroad

"Investment yields reaped should be boosted, while liquidity in the JSE would improve in the sense that the on-going accumulation of domestic shares in the tight hands of financial institutions would abate, and some institutional holdings could be sold to finance foreign investments," the Bank of Lisbon says

However, the article points out that there are problems associated with such concessions to domestic financial institutions

For a debtor country such as South Africa, granting permission to these institutions to invest abroad, unless strictly controlled, would mean either the financial exposure of the country by borrowing more from abroad, or curtailing the economic growth rate if the balance of payments position is not initially strong enough to finance new capital outflows

While the authorities are still trying to build up foreign exchange reserves, it would be difficult to relax exchange controls

The Bank of Lisbon adds that the authorities have indicated in the past that any dismantling of exchange controls will be piecemeal in nature, involving first of all the removal of exchange controls for non-residents

The authorities are seeking to boost the economic growth rate, which requires higher levels of investment This, in turn would be crucially dependent on new inflows of foreign capital

The presence of the foreign debt standstill complicates any moves to relax exchange controls on financial institutions overnight, the bank says

JSE industrial index powers on

STAR 7/1/92.

Diagonal Street

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ANN CROTTY

The JSE industrial index soared 80 points yesterday to a high of 4255 at the close of trade.

The strength of the index reflects yet again the tendency of the JSE to track developments on Wall Street

A dismal Christmas for most retailers appears to have quashed most hopes for even reasonable industrial corporate profit growth in 1992

In the absence of this fundamental yesterday's surge in the industrial index can be attributed to a number of technical factors

Chief of these include the sustained strong performance on Wall Street over the past ten days, optimism about stimulatory measures to kick-start the US economy; the tendency for equity markets to move ahead in the early months of the year; the belief that hefty institutional cash flows will support current price levels and, the fact that yesterday's increase in local industrial share prices was effected in small volumes.

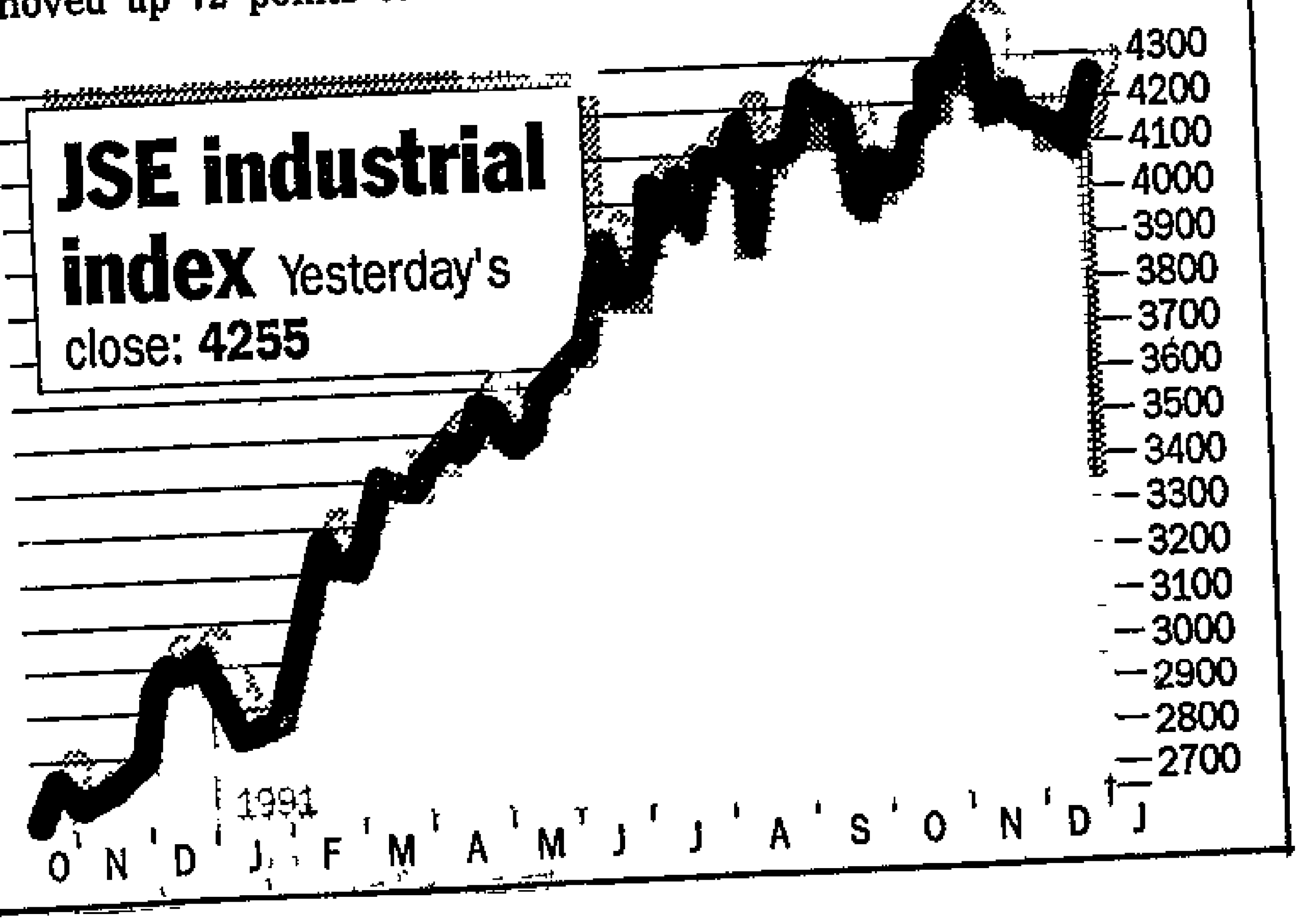
Between December 20 and January 3 the Dow Jones industrial index soared 267 points or 9 percent to 3201 Over the same period the JSE industrial index moved up 72 points to 4174 — equivalent to 1,7 percent

According to some local dealers, yesterday's advance was merely a case of catching up with the all-important Dow Jones. At the close of trade yesterday, the industrial index was showing a 3,7 percent advance on its December 20 level

December 20 is a crucial date It is when the US Federal Reserve cut the discount rate by one percentage point to 3,5 percent. This was interpreted as a sign that with '92 an election year, the US authorities would take whatever action necessary to get the economy on to a firm growth track. This meant improved corporate profits.

There was little sign of any institutional involvement in the market and it seemed to be jobbers and smaller investors chasing scrip that was in short supply.

Dealers also pointed out that the gold market was looking very vulnerable given the current situation in Russia



Paper industry probe also complete

Competition Board may kill Arwa deal

(232)

B/Day 8/1/92

JABULANI SIKHAKHANE

THE deal which saw FSI take over Arwa Hosiery in 1990 could be in jeopardy following the release of a Competition Board report within the next month

Board chairman Pierre Brooks said yesterday the board had completed its investigation of the FSI takeover which gave the conglomerate's subsidiary, Burhose, a 99% share of the pantihose market

"A report is expected within the next month," Brooks said

"Depending on the findings of the board and whether its recommendations are approved by the Minister of Economic Affairs and Public Enterprises, it could lead to the FSI/Arwa deal being declared unlawful or left as it was with certain conditions attached to it," he said

Should the deal be declared unlawful, FSI would be forced to dispose of the Arwa business, Brooks said

The probe into the FSI/Arwa deal has been on, off and then on again since 1990 when the deal was first proposed In the first instance, when the Competition Board announced an investigation into the deal, FSI withdrew its offer for Arwa

But after the board's preliminary investigations and an announcement in February last year that it would not launch a full-scale probe, the deal was resuscitated.

At the time the board reasoned that Arwa was in dire financial straits and the sale of its various divisions was necessary if the hosiery maker was to avoid liquidation Brooks said that after the acquisition had been completed, several new factors emerged which necessitated a full-scale investigation.

One was the discrepancy in the price that FSI was prepared to pay for the acquisition of Arwa Hosiery and what other interested parties were willing to offer Secondly, it transpired that FSI was in the second instance paying less than the original offer.

FSI's initial offer was pitched at R25m But last February it was announced that the purchase price would be determined only after an audit of the net asset value of the Arwa Hosiery business and that the ceiling price would be R27m.

It is understood that the actual price paid for Arwa by Burhose was closer to half that amount.

Yesterday Brooks said that, after FSI's takeover of Arwa, the board received complaints from retailers that pantihose prices had gone up and that their original contracts with Arwa had been changed. They also complained that FSI's Burhose effectively monopolised SA's pantihose market

Approached for comment yesterday afternoon, FSI chairman Jeff Liebesman would only say "It would be premature to comment because I don't know the board's recommendations"

☐ The board had also completed its investigation of the paper industry Brooks said the board's report had been approved by the Minister and should be released soon He added that the release of the report had been delayed by the fact that some of the

☐ To Page 2

Arwa

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☐ From Page 1

industry participants who made submissions to the board were private companies

"The information regarding the balance sheets and profitability of private companies is confidential"

The board would probably issue only a resumé of the report, he said The thrust of the board's investigation was to determine whether any restrictive practices existed in firms which made paper or paper products, including packaging materials The investigation looked at the extent, pattern and implications of price increases, as well as international prices and the relationship, if any, between the two

Safegro fund boasts 31% return

B Day 8/1/92

NINA SHAND

IGI'S Safegro Unit Trust has reported an average 31,2% total return on its repurchase-to-repurchase value for the 12 months ended December (628)

IGI Fund Managers fund manager Peter Linnell said the return compared favourably with the inflation rate and beat the JSE All Share Index's 26% rise for the year

The fund's total assets rose 34% to R31,2m while it boosted its stake in blue chip holdings for the quarter The Safegro fund's main equity investments at the year end were Richemont, Sunbop, Safren, Salife, Anglos, De Beers, Engen, SA Breweries and ABSA. It added Investec Bank to its holdings while increasing its interests in Royfood and Rembrandt (232)

Linnell said the fund decreased ~~its~~ liquidity to 12,5% from 15,6% for the last quarter He did not expect liquidity to change dramatically this quarter

Although Linnell expected the market to remain bullish in the long-term, he said its performance would probably be sluggish for the first half of the year: "A slower global recovery coupled with the fact that market ratings are near all time highs may impact on equity performances in the initial stages of this year," Linnell said

In the longer-term, Linnell expected the anticipated drop in interest rates, the lifting of sanctions and the present scrip shortage would see the market move higher over the next two years

The fund's main equity exposures were industrial holdings (17,93%), mining houses (9,51%) and beverages and hotels (7,24%)

Unit trusts continue on steady growth path

STAR 9/1/92

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UNIT TRUST PERFORMANCES TO DECEMBER 1991			
GENERAL EQUITY FUNDS	**1 YR (R-R)**	**3 YRS**	**5 YRS**
All Share index	31,02	24,56	16,24
BOE Growth	36,37	—	—
CU Growth (Allegro)	23,38	—	—
Fedgro	26,87	—	—
Guardbank Growth	32,34	25,33	20,82
Metfund	37,25	21,60	—
Metlife	—	—	—
Momentum	37,57	27,44	—
NBS Hallmark	30,47	22,54	—
Norwich NBS	24,65	18,48	—
Old Mutual Investors'	36,77	25,78	21,59
Old Mutual Top Companies	—	—	—
Safegro	30,98	—	—
Sage Fund	36,64	24,75	19,75
Sanlam Index Trust	30,60	25,59	19,14
Sanlam Dividend Trust	44,69	24,55	18,81
Sanlam Trust	33,58	25,62	18,39
Senbank General Trust	—	—	—
Southern Equity	41,58	22,59	—
Standard Bank Mutual	30,88	24,55	19,67
Syfrets Growth Fund	41,12	31,42	—
Syfrets	—	—	—
UAL Unit Trust	30,02	26,01	17,20
Volkskas	—	—	—
SPECIALIST EQUITY FUNDS			
Mining and Resources Funds			
Mining Producers' Index	17,13	14,33	6,82
Mining Financial Index	23,58	20,28	11,38
Guardbank Resources	20,38	15,81	—
Old Mutual Mining	8,84	9,23	—
Sage Resources	16,69	11,88	—
Sanlam Mining Trust	16,44	22,14	8,20
Southern Mining	15,01	11,48	—
UAL Mining and Resources	24,46	16,48	10,91
Gold Funds			
All Gold Index	−1,58	−0,15	−5,52
Old Mutual Gold Fund	−7,90	—	—
Standard Bank Gold Fund	−3,05	2,72	−1,84
Industrial Funds			
Industrial Index	42,35	33,15	28,30
Old Mutual Industrial Fund	42,51	—	—
Sanlam Industrial Trust	44,59	29,04	23,07
Senbank Industrial Trust	—	—	—
Other Specialist Equity Funds			
UAL Selected Opportunities	41,88	22,39	—
HIGH INCOME FUNDS			
CPI	16,10	15,30	14,70
Guardbank Income	17,35	18,52	—
Old Mutual Income Fund	15,78	—	—
Standard Bank Extra Income	19,70	18,01	16,55
Syfrets Income	14,69	16,43	—
GILT FUNDS			
All Bond Index	14,37	17,42	15,02
Corbank Gilt Fund	14,03	17,61	13,77
UAL Gilt Unit Trust	14,33	17,78	—

By Sven Lunsche

Unit trusts once again proved a safe haven for investments in the past year, with returns on general equity funds averaging about 35 percent.

This is well above the inflation rate of about 15,5 percent for the year and in excess of the 31 percent growth shown by the JSE's overall index over the same period

The list of unit trusts is topped by two funds in the Sanlam stable — the Dividend Trust (44,7 percent) and the specialist Industrial Trust (44,6 percent)

The returns, which measure the change in the repurchase price of a unit trust, are contained in the latest quarterly survey by the University of Pretoria's Graduate School of Management

Over a three-year and a five-year period the general funds are more in line with overall market growth.

Over three years the Syfrets Growth Fund tops the list with an annual return of 31,4 percent.

Over five years Old Mutual's Investors Fund shows an annual growth of 21,6 percent

Specialist equity funds, with the exception of those focusing on the industrial market, did not match the returns of the general funds, with only UAL Mining & Resources reporting a return in excess of the 23,6 percent growth of the JSE's mining financial index last year

Particularly hard-hit were the two funds specialising in gold shares

The Old Mutual Gold Fund and the Standard Bank Gold Fund showed negative growth of 7,9 percent and 3,1 percent respectively, worse than the 1,6 percent decline of the gold index

Analysts point out that the strong correlation between the JSE indices and the performance of funds over a number of years is a clear indication of the selective investment policy pursued by most fund managers

The indices comprise a few key blue-chip shares, generally those selected by fund managers for safe returns

Given the generally low volumes on the market and the strong influence of institutional cash flow, it is not surprising that the indices and unit trusts show similar growth trends

The trend is expected to persist in the year ahead

Fund managers of the Norwich NBS Unit Trust, which reported its results yesterday, suggest that the economy is set for a more durable upward phase in the year ahead

Traditional role

"The market will resume its traditional role of anticipating the future, once the current phase of uncertainty is over and institutional cash flows again become a powerful force, notwithstanding announcements of a number of rights issues"

Guardbank, which controls three unit trusts, is also optimistic about the current year's market performance

"While in the short-term many sectors of the JSE are in expensive territory, the ending of SA's international isolation, combined with expected strong economic growth rates and the potential for SA to become the hub of a Sub-Saharan trade block, should ensure a longer-term positive outlook for the equity market," the fund managers say

Guardbank has declared the following income distributions for 1991 Growth Fund 118,07c, Resources Fund 7,73c and Income Fund 18,47c

Unit trusts provide safe hedge against inflation

B Day 9/1/92

(232)

LINDA ENSOR

CAPE TOWN — Investments in the R11,4bn unit trust industry provided the man in the street with a safe hedge against inflation last year — provided he avoided most gold, mining, high income and gilt funds.

The market value of all unit trust assets rose 51% to R11,4bn last year from R7,57bn in 1990, Pretoria University Graduate School of Management professor Hugo Lambrechts said yesterday.

And while the total number of unit holders has not been finalised, considerable growth is expected over 1990's figure of 735 405.

Galloping industrial shares pulled the industrial index to a high of 42,35% last year compared with 1990's 33,15% and ensured handsome returns for investors in the industrial funds which, on a yearly repurchase-to-repurchase basis, have generated returns of 44,59% (Sanlam Industrial Fund) and 42,51% (Old Mutual Industrial Fund)

Lambrechts' survey of returns released yesterday showed that even a few general equity funds managed to achieve returns of over 40% well in excess of the 31,02% rise in the all share index

Sanlam Dividend Trust (44,69% on a repurchase-to-repurchase basis), Southern Equity (41,58%) and Syfrets Growth Fund (41,12%) were the top three among the general funds Thirteen other general trusts trotted along in the 30-40% band, while only three trusts — the CU Growth Fund (formerly Allegro, 23,38%), Fedgro (26,87%) and Norwich NBS (24,65%) — meandered behind in the 20s

Syfrets Growth Fund with a return of 31,42% is the best performing general unit trust on a three year term while Old Mutual Investors' takes top spot in the five-year (21,59%), seven-year (29,29%) and 10-year (25,77%) categories Guardbank Growth Fund takes the honours over a 15-year term with 29,29%, the survey showed.

Most portfolio managers do not believe industrial shares have the potential for much further growth this year and have their eye on mining shares as the generator of good returns Their view is based on the expectation that an upturn in western economies will stimulate demand for SA minerals and commodities.

However, they believe returns as high as 40% cannot be expected

Last year most mining funds just kept pace with or lagged seriously behind the inflation rate The two exceptions were the UAL Mining & Resources Fund, which achieved a 24,46% return, and Guardbank Resources with 20,38% This compared with the rise in the Mining Producers' Index of 17,13% and the Mining Financial Index of 23,58%.

The two gold funds turned in negative returns while the high income and gilt funds either did slightly better than the inflation rate or lagged behind it Standard Bank Extra Income Fund was the best performing high income fund with a yearly return of 19,7% on a repurchase-to-repurchase basis

UNIT TRUST PERFORMANCES TO DECEMBER 1991

UNIT TRUST & INDICES	1 YR(R-R)	1 YR(S-R)	3 YRS	5 YRS	7 YRS	10 YRS	15 YRS
GENERAL EQUITY FUNDS							
All Share Index	31,02	31,02	24,56	16,24	24,72	23,28	27,84
BOE Growth	36,37	26,84	—	—	—	—	—
CU Growth (Allegro)	23,38	16,58	—	—	—	—	—
Fedgro	26,87	18,17	—	—	—	—	—
Guardbank Growth	32,34	23,51	25,33	20,82	26,17	24,59	29,29
Metfund	37,25	27,87	21,60	—	—	—	—
Metlife	—	—	—	—	—	—	—
Momentum	37,57	28,63	27,44	—	—	—	—
NBS Hallmark	30,47	21,28	22,54	—	—	—	—
Norwich NBS	24,65	15,88	18,48	—	—	—	—
Old Mutual Investors'	36,77	27,06	25,78	21,59	29,29	25,77	28,89
Old Mutual Top Companies	—	—	—	—	—	—	—
Safegro	30,98	23,18	—	—	—	—	—
Sage Fund	36,64	27,66	24,75	19,75	24,97	22,81	26,46
Sanlam Index Trust	30,60	21,88	25,59	19,14	25,86	22,91	26,26
Sanlam Dividend Trust	44,69	35,07	24,55	18,81	21,72	18,21	22,63
Sanlam Trust	33,58	24,78	25,62	18,39	23,11	21,38	25,11
Senbank General Trust	—	—	—	—	—	—	—
Southern Equity	41,58	32,17	22,58	—	—	—	—
Standard Bank Mutual	30,88	22,70	24,56	19,67	24,85	22,12	25,46
Syfrets Growth Fund	41,12	32,00	31,42	—	—	—	—
Syfrets	—	—	—	—	—	—	—
UAL Unit Trust	30,02	21,43	26,01	17,20	23,57	21,76	26,05
Volkskas	—	—	—	—	—	—	—

Market becoming overheated, warn fund managers

By Sven Lunsche STAR 10/1/92

As the JSE's overall index surged to a record high yesterday institutional fund managers warned that shares prices, particularly on the industrial board, were becoming overpriced

The overall index rose by 57 points to 3 587 yesterday bringing its gains for the year so far to 140 points — a rise of just over 4,1 percent

The index has been largely driven up by the firmer share prices of blue-chip industrials such as Barlows, Richemont and SA Breweries

The industrial index itself has gained 206 points, just under five percent, since the beginning of the year and it closed yesterday at 4376, a whisker off its all-time high of 4 378 recorded in November last year

The recent rise in industrials comes on the back of a 38,2 percent rise in the industrial index last year

Even gold shares have joined in the action although the gold price can only boast a return above the $350 level this week The all-gold index, which closed yesterday at 1 225 has added 7,6 percent since January 2

Consolidation

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To a large extent the JSE has followed this year's trend on international stock markets, particularly Wall Street, but in its latest quarterly report Sage fund managers warn that the market is due for a rapid consolidation period

"We believe that further consolidation is necessary in many of the leading stocks to bring prices into perspective with modest earnings improvement expected over the next 12 months," they say

They are, however, more optimistic on the performance of the economy "We believe that the domestic recovery could get under way, possibly even quite robustly, despite the anticipated delay in achieving increased commodity prices

"The initial impetus for the upswing could be investment-led for the first time in more than two decades," the fund managers add

The Sage Fund achieved a total return of 37 percent during the year, while the specialised Resources Fund's return was 17,5 percent

NEW LISTINGS FM 10|1|92

Even fewer

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The number of companies coming on to the JSE continued to drop last year New listings fell from 22 in 1990 to only 15

But total capital raised, at R996m, was 52% higher than in the previous year The figure was boosted by Prefcor's listing on the Retailers & Wholesalers board, which brought about R582m in ordinary shares

continued

FM 10|1|92 232

and debentures

Capital raised in rights issues, R5,6bn until the end of November, was again much higher than that raised by new flotations

In 1990, new listings raised R586,5m, while rights issues by companies already listed stood at nearly R3,4bn

When it is considered that R6,42bn was raised by 211 new listings in 1987, the decreasing number of new companies raising capital through the market is painfully clear

Of the total R996m raised in 1991, about R344m was through rights issues and about R652m from shares issued by prospectuses.

The share prices of 10 of the 15 companies floated are now trading higher than the placing prices At the same time last year, only five of 1990's 22 new listings were trading above placing price

The unbundling hinted at by some conglomerates, which was expected to result in more flotations, did not materialise. Some people now see the talk of unbundling as only an option considered in the face of nationalisation

While a large number of new listings is not expected this year, 1992 will almost certainly be a year of rights issues, with a number already planned *Shaun Harris*

Sharp rise in business failures is on the way

ST Times (Buss) 12/1/92

(232)

By CIARAN RYAN

A POST-CHRISTMAS shock is on the way for many businesses, according to Credit Guarantee Insurance Corporation.

Senior general manager Mike Truter says "It is traditional to see an increase in failures after Christmas when businesses wind down after the rush and are faced with commitments — wages, bonuses and normal overheads."

By January many companies are unable to foot bills carried over from the previous year

Latest figures from Central Statistical Services suggest the economy is still a long way from emerging from recession

The value of civil default and consent judgments shot up by a third to R1,94-billion (R1,45-billion) from January to September compared with the same time in 1990

But the number of civil default and consent judgments rose by a slimmer 9,7% to 397 475 compared with the same time in 1990 This indicates that the size of judgments continues to rise at a faster rate than that of business closure

Close

Close corporations and companies were liquidated at an average rate of 157 a month between January and October 1991 according to CSS The rate was 133 a month in 1990

The number of liquidations between last January and October was 1 568, a 15% increase over the comparable months in 1990

The number of individual and partnership insolvencies between January and September was 2 831 compared with 2 344 for the same months in 1990

Credit Guarantee economist Luke Doig says reasons for the sharp rise in the value of default and consent judgments are the long recession and high interest rates

"We thought that most businesses had learnt their lessons from the previous recession They should have paid attention to cash flow and carried lower stocks

"But high interest rates must be the main reason for the increase in the number and value of business failures"

It was widely expected that the economy would bottom in the last quarter of 1991 and turn around in the first half of 1992 But economists have revised their forecasts, projecting an uptick in the second half of the year

Mr Doig says "Economic conditions are still flat Businesses will continue to fold at a similar rate for the first six months of this year"

Base

The rate of business failure usually rises when the economy picks up because of the time lag in administrative processing and the increased demand on cash flows to finance inventories

The increasing incidence of business failure and debtor delinquency has increased the demand for credit insurance, say Credit Guarantee and Credit Underwriting Agency (CUAL)

Credit Guarantee's insured turnover increased by 13% to R20,9-billion in 1991 in spite of an ailing economy after a 32% growth in the book size in 1990

But the difficulties experienced in business are reflected by the 45% rise in claims paid in the year to June 1991 to R92,6-million

CUAL managing director John Manners says his company's insured turnover grew by 65% in the year to December 1991 off a relatively small base. But gross claims, which are not disclosed, were also sharply up

Both companies expect claims to taper off in the second half of 1992

A problem with credit insurance is that for reporting purposes, the books are left open for three years Claims are generally made in the years after a policy is written

Unit trust reports called 'misleading'

ROBERT WICKS and JABULANI SIKHAKHANE

UNIT trust management companies have been slated for inconsistent and selective reporting of their annual performance figures. B/Day 13/1/92

Unit trust watchdog Hugo Lambrechts said comparisons of unit trust performances published by some unit trust management companies were misleading to the buying public

Lambrechts, who has been publishing surveys of unit trust performances for years, is an associate professor at the University of Pretoria's Graduate School of Management

He said that when publishing their performance figures, some management companies compared their unit trust returns, including reinvested dividend income, against the capital value of the JSE's all share index (232)

Lambrechts says a fair comparison would be to add the dividend return on the capital value of the all share index to achieve the benchmark against which to compare unit trust returns

He said the graduate school took the dividend income on the date on which the dividends were paid and reinvested the amount in new units at the buyers' price

To make fair comparisons with the all

□ To Page 2

Unit trusts B/Day 13/1/92 (232)

□ From Page 1

share index, the school also reinvests one-twelfth of the annual percentage dividend yield at the ruling current value of the all-share index value on a monthly basis as if the index is a unit

Sources said the period of reinvestment in the index could be the cause of discrepancies which occurred

Rand Merchant Bank Trusts executive director Ken Burns said the NBS Hallmark unit trust paid six monthly dividends and if dividends were reinvested monthly in the index, the total return would be higher than if the dividends were reinvested every six months or annually

"We have assumed that the dividend yield is therefore reinvested in the index half-yearly, which will produce a slightly lower return than other fund managers who may have reported a total return including dividends reinvested quarterly or monthly," he said

Lambrechts said the performance figures released by the Association of Unit Trusts indicated dividend income was reinvested at the repurchase price and not at the selling price. The repurchase price, which is the price at which unit trust management companies will buy back units from the investor, was a lower price than the buyers' price

"Dividend income is not reinvested at the repurchase price by any of the unit trust companies, with the result that their performance figures will always be slightly higher than ours, and this remains an unfair reflection of the position of any unit holder," he added.

Burns said there had been considerable debate over some time about the correct method of reporting performance returns

"The unit trust industry has recently secured agreement for all its members from the highly influential University of Pretoria unit trust survey to report performances over periods of not less than one year," Burns said

However, sources said at the weekend that some unit trust companies were not happy with the changeover

Yields on the JSE likely to decline

STAR 13/1/92

By Ann Crotty (232)

If investors keep pouring money into the JSE industrial sector as they did in calendar 1991, the average dividend yield of the sector could drop to as low as 1,8 percent by the end of 1992, with the average earnings yield going as low as 4,8 percent

This drop in returns from industrial equity investments assumes that the industrial index surges by around 40 percent again this year, while earnings and dividends grow by an average of 10 percent.

These are three considerable assumptions, but none is unrealistic

Only seven trading days into 1992 and the industrial index has already advanced six percent This was achieved despite a very uncertain performance from gold which dipped below $350 at one stage last week

It was marked by low volume trade, but dealers reported that institutions were in evidence as buyers where there were reasonable lines of blue chips available They were not sellers

The nature of investment in industrials remains unchanged with dealers stating that about 90 percent of listed equities are ignored in the rush for blue chips

Blue-chip status right now appears to have little to do with current earnings (recent past or near future) and everything to do with size and years on the JSE.

This is highlighted by the enthusiasm for Barlows That share has advanced 575c to R55 since Christmas

Since November, when it announced a 6,8 percent drop in earnings for the 12 months to end-September the share has been enthusiastically bought at around its current level

There has been no sign of any adverse response to the fall in earnings

With the poor results came details of a major restructuring of the group's strained metal and mineral beneficiation operations

Investors are not only falling over themselves to pick up Barlows on an earnings yield of 7,8 percent and dividend yield of 3,1 percent, but have indicated they are keen to take scrip instead of dividends.

Since Christmas, SAB has advanced 500c to R59,50, which puts it on an earnings yield of 4,6 percent and a dividend yield of two percent

A year ago SAB was trading at R40 — it has gained 50 percent, compared with an earnings increase for the 12 months to end-September of 10 percent.

A surge in corporate performance in calendar '92 might see earnings and dividend increases come more into line with price rises.

This is not on the cards It is not a strong bet in any of the major international equity markets. A hesitant improvement seems about the best that's expected

Alternatively, a slump in the flow of funds into the JSE could restrict price advances — bringing them into line with earnings and dividend increases This is also unlikely.

The all-important institutional cash flows are expected to be considerably larger this year The obvious investment options remain limited

The various rights issues and the rapidly growing number of scrip dividends will not soak up much of what is available

In the absence of any major developments — unforeseen at this stage — there seems little reason why it won't be more of the same on the JSE this year, with the occasional "correction" as investors get nervous about the pace of advance

Institutional players justify their enthusiasm for blue chips by reference to the scarcity of investment opportunities giving real returns They stress that they are long-term investors so that soggy earnings for a year or two do not significantly alter their strategies

OM unit trusts bullish on JSE

STAR 15/1/92

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By Magnus Heystek

Old Mutual remains bullish about the outlook for the Johannesburg Stock Exchange, despite a general consensus that the market is very high

This is reflected in the low liquidity levels of its four unit trusts at end-December 1991

Roland Chute, assistant general manager in charge of unit trusts, says investments rose in companies likely to benefit from an expected increase in Gross Domestic Fixed Investment

This approach can be seen in the additional purchases of shares like Haggie, Chemserve, Toco, Reunert and Iscor

Other sectors favoured include the banking, financial and insurance sectors

Of interest was the more than doubling of the number of shares in GDM Finance, a company involved in trade finance

The number of accounts in Old Mutual unit trusts rose by more than 13 000 to exceed 300 000 for the first time in the December quarter last year, making it the largest unit trust management company by far

The Investors' Fund, the largest and most broadly based of all the funds, now has assets in excess of R3 billion

Traditionally a front-runner when it comes to investment returns, it kept up the sterling performance in the year to December, with an overall return of 36,6 percent on a repurchase to repurchase basis

The Investors' Fund has recorded overall performance figures over three, five, seven, ten and fifteen years of 25,8, 21,6, 29,3, 25,8 and 28,9 percent respectively

The Gold Fund remained fully invested, with funds available for investment down to 5,62 percent

Purchases focused on quality golds such as Driefontein, Vaal Reefs, Harties and Southvaal

Oryx was included in the portfolio for the first time and there were additions to Unisel, Deelkraal and East Dagga

The Mining Fund sold its stake in Sasol, while there was a partial switch out of Rusplats into Lydenburg

The total market value of the Income Fund grew by 20 percent for the second quarter in succession and now stands at R61,7 million

Overall returns, however, were below the inflation rate at 15,8 percent

Industrial market

OUTLOOK '92

By Syd Vianello STAR 15/1/92
industrial analyst,
Ed Hern, Rudolph

When I made my predictions for 1991, my confidence level was reasonably high because I had come through the previous year with virtually full marks.

This past year I regret to say it was not to be.

Not that I misread the market completely — all that happened was that the market rose by more than 40 percent instead of the predicted 20 percent.

Perhaps in analysing prospects for this year, we should examine why this seemingly strange paradox has occurred — a paradox of an incredibly strong market (with a substantial re-rating) against the background of a fundamentally very weak economy

A few reasons come to mind

● The composition of the industrial index is an important factor, in that around 10 stocks comprise around a weighted 50 percent of the industrial index

Many of these stocks are consumer-related stocks or rand ...ges where the impact of the ...rating economy, in both in... has been delayed (and been felt) or is irrel... ...ds theory remains a factor in that the institutions and now certain government or quasi-government pension funds have become major investors in equities in order to beat inflation (232)

● World wide there has been a substantial re-rating of stock markets in the face of deteriorating economies, so what has happened in SA represents a natural spill-over, given our strong correlation with London and New York.

It is noteworthy that the PE ratio of the Dow Jones is now nearly 30.

In the coming year we think the position will be somewhat different, in view of these factors:

● Profitability of consumer-related companies has at last come under pressure, with earnings growth having declined to well below the inflation rate

Who knows — we may even witness negative earnings growth

Profitability of GDFI-related companies has in the meantime deterioted even more significantly

Clearly the economic slowdown precipitated by Dr Stals' economic policies is now having the logical impact on company profitability

● We are not so sure the weight-of-funds theory will hold true to the same extent this year

In particular, we refer to the huge government overspending in its budget and expectations of even greater demands for social upliftment in coming years

Someone must finance this and for it to be non-inflationary, government will have to borrow from the very assurance companies whose prescribed investment requirements were lifted some years back, thus precipitating the strong rise originally in the JSE indices

We thus expect these rules to be re-introduced to fund the budget deficit with the inevitable negative impact on the market. The converse is increased taxes, with the same negative impact.

● World economies remain precarious, particularly in the UK and US and while the respective governments can be expected to do everything possible to revive their economies before elections later in 1992, it seems right now that no great success may be achieved before such elections

This in turn will delay an export-led recovery

If the lessons of the last recession are something to be re-enacted, then it may take a long time before the impact of the expected interest rate drop in early 1992 filters through via an improved economy

More particularly, the political situation remains very unstable (people still remember the ANC threat of a 33 percent tax on assets, despite it being denied) and I think it may well be most difficult to encourage increased spending against this climate.

This in turn will prolong the delay in creating a climate for increased employment. It is noteworthy that in more than one annual report recently published company chairmen were questioning whether the recovery will occur before the end of 1992 or whether it will not be delayed to 1993

● The gold price remains locked in between seemingly upper and lower limits, thus proving unable to revive the economy

We predict therefore that the industrial index will drift down in the coming year and while we think evidence of a recovery in the economy may become apparent (with the inevitable positive impact on the market), we have difficulty in believing the overall level of the industrial market will be much above present levels by the year-end

M&R could get slice of Fedvolks

BDay 15/1/92

(232)

SEAN VAN ZYL

THE finishing touch to Sankorp's restructuring of its industrial investment arm, Federale Volksbeleggings (Fedvolks), would see the group's interests in the motor component industry sold to the Murray & Roberts (M & R) group, a source close to the company said yesterday

Sankorp CE Marinus Daling confirmed that the industrial holding group's investments were being reviewed as part of a major restructuring of the Sankorp stable

However, Sankorp had no intention of selling off its manufacturing interests in Fedvolks, which was being turned into the "service division" of the group, he said

Means of tidying up the group's holdings were being examined

"There is no question that the restructuring presently under way should be seen as disinvestment by Sankorp"

Daling could not say whether the Fedvolks motor component companies would be hived off into M & R

The group's scrutiny of motor component interests was a continuing process, he said.

Sankorp, Sanlam's investment holding company, holds a majority stake in M & R, Malbak and Fevolks.

All three have undergone rationalisation recently, with various of Sankorp's "loose" interests hived off into the companies

Fedvolks' interests in the motor component industry include shock absorber manufacturer Gabriel SA, First National Batteries, Firestone tyre manufacturers, Trichamp Components, distributors of Champion spark plugs and Trico windscreen wipers

Industry sources peg the value of the motor component interests at between R250m and R300m

M & R CE Dave Brink said although his group had taken a close look at Fedvolks' motor component interests late last year, the decision to acquire the companies had been turned down

As a result, M & R was not presently involved in negotiations with Fedvolks

However, he said "I can't say our decision not to acquire Fedvolks motor interests won't be revised at a later stage"

CU Growth Fund up 26%

B/Day 15/1/92 (232)

SEAN VAN ZYL

COMMERCIAL Union's general equity unit trust, CU Growth Fund, achieved a total return of 26% for the year to end-December

The fund's total asset value more than doubled to R26m from R12,4m during the year, portfolio manager Roger Wanless said. The fund's improved performance was a result of a major restructuring of its investments over the past two quarters, he said

The fund's top holdings were Richemont, SAB, Premier, De Beers, Barlow Rand, Anglo American, Liberty Holdings, Anamint, Mid Wits and Pick 'n Pay

Barprop foresees ongoing difficulties

STAR 6/1/92

Diagonal Street
(BS) 232
LYNNE PEACH

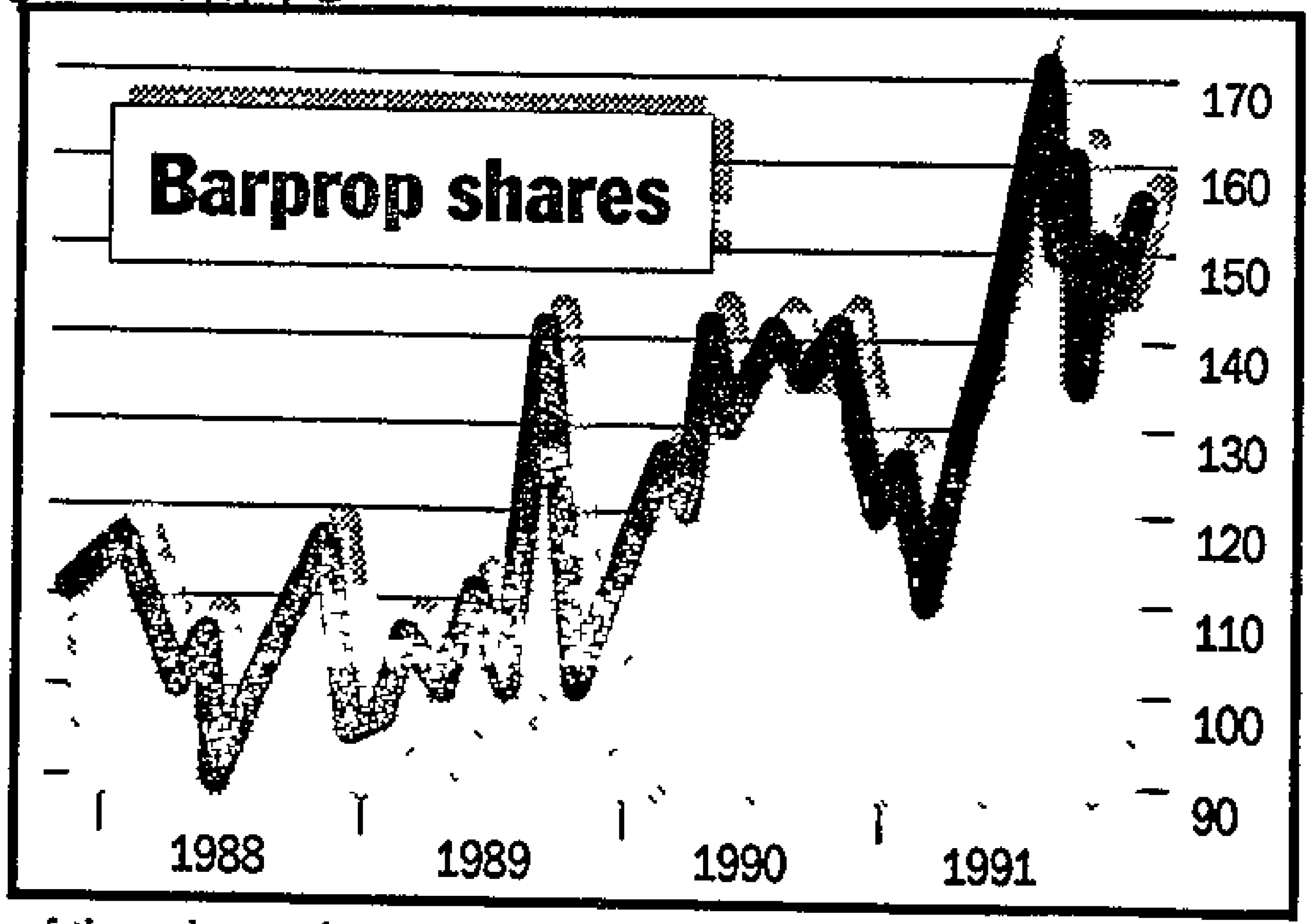
Barprop's performance in financial 1992 is expected to be hindered by continued difficult trading in the property market and fewer new developments

Nonetheless, chairman EM Groeneweg predicts in the annual report that the dividend, based on cover of 1,2 times, will increase six percent from 11,5c a share to 12,2c

He says growth in 1992 will come from rental escalations in respect of existing leases, additional rental income from acquisitions and new developments and interest from cash held for investment

It is actively engaged in the acquisition and development of investment properties mainly in centralised areas, the maintenance of existing developed properties and the leasing of accommodation to financially sound tenants

Barlow Rand holds 78 percent of the ordinary share capital and 100 percent of the deferred ordinary shares



In the year to September, group turnover moved up marginally from R48,5 million to R48,9 million, while operating profit declined from R43,8 million to R43 million

Mr Groeneweg attributes the marginal decline in operating income to lower rental income resulting from the disposal of certain investment properties and a higher requirement for property maintenance.

After income from investments grew 34 percent from R8,5 million to R11,4 million and interest expense increased eight percent from R33 million to R35,5 million, pre-tax profit fell two percent to R18,8 million

A decrease in the effective tax rate from 49,5 to 42,2 percent resulted in attributable profit rising 12 percent from R9,8 million to R10,9 million

Mr Groeneweg says the decreased tax charge follows deductions for repairs to property and a lower rate of company taxation

Based on a higher number of shares in issue, earnings per share increased nine percent from 12,96c to 14,18c The dividend for the year was 11,53c a share, eight percent higher than the payout of 10,71c in financial 1990

The extraordinary profit of R2,4 million relates to a net surplus on disposal of properties

The balance sheet remains strong, with cash on hand of R63,9 million and investments properties valued at R510 million

Barprop, priced at 155c is trading on a P/E ratio of 10,9 and provides a dividend yield of 7,4 percent.

A projected dividend of 12,2c a share in financial 1992, places the share on a forward dividend yield of 7,9 percent.

COMMENT: Barprop touched a high of 170c five months ago before losing ground to 135c and recovering to its current level of 155c A break below 145c will signal a reversal of the positive trend

Mean return of 34,2% on general equity trusts

B/Day 16/1/92 (232)

SEAN VAN ZYL

THE unit trust industry's 18 general equity trusts, which attracted about 80% of unit investment, achieved an average total return of 34,2% for the 12 months ended December, latest Association of Unit Trusts (AUT) figures show

The association's 1991 survey showed that the specialist equity trusts earned an average return of 20,8% and income funds a total return of 16,5%.

AUT chairman Clive Turner said the industry enjoyed a record year in gross unit sales, which topped R2,9bn in 1991

Net sales, minus repurchases, came in at R1,4bn, which Turner said was the highest level in the industry's 26-year history

Unit sales by investors — otherwise known as repurchases — dropped 27% for the December quarter to R402m compared with the previous quarter's R556,5m

The industry's total assets, based on market value, rose to R11,4bn, up 13,6% in December on the previous quarter's R10bn

The industry's net sales increased 85% to R433m in December (September 1991 R234m) while the number of trusts on the market climbed to 42 from the previous quarter's 38

Turner said he was satisfied with the industry's performance, which exceeded the average inflation rate of 15,5%

As a result, he expected investor demand for units to remain strong in 1992

"Unit trusts have established themselves as a savings and investment vehicle which cannot be ignored in today's inflationary environment"

However, Turner conceded the equity market, which most investment analysts regarded as fully priced, could face "some form of correction" this year.

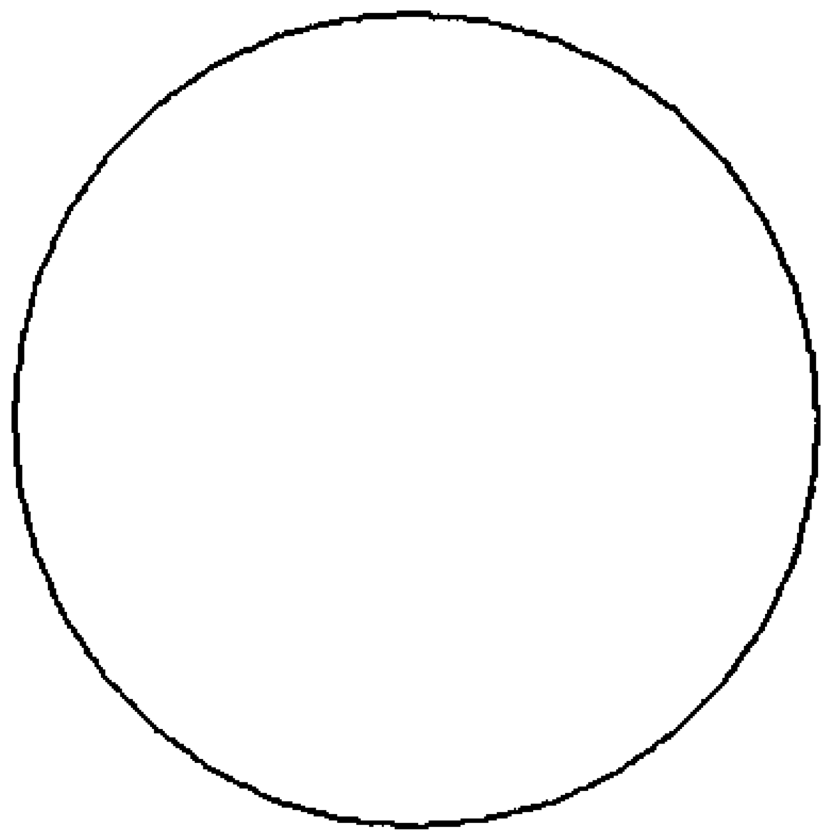
He expected new institutional money coming to the market to sustain share prices

"Investment for the medium to long term will be rewarded, but the volatility factor is high in the short term"

Object Snap

NEArest

Fig 20



Point

Assets of unit trusts at record level

The South African unit trust industry ended 1991 on a high note with the market value of the industry's assets at an all time high of almost R11,4 billion.

According to the chairman of the Association of Unit Trusts, Clive Turner, gross sales were a record R2,9 billion and despite higher repurchases net sales amounting to R1,45 billion were the highest in the industry's 26 year history

Because of the excellent returns which unit trusts have continued to provide, the industry attracted greater interest in the year and a further 202 800 accounts were opened bringing the total number of unit trust accounts active in South Africa to just under 940 000

Mr Turner said he was satisfied with the industry's performance

"The industry is often in the spotlight and commands a great deal of interest today so it is encouraging that the investing public has again been as well served by unit trusts as in the past year," he said.

Pointing to the excellent returns which unit trusts achieved for investors in the year to December Mr Turner said general equity funds, which attracted some 80 percent of unit trust funds, again achieved an outstanding result.

Most of the funds were quite fully invested and held an average 84 percent of their assets in equities at the December quarter-end — reducing liquid assets from 17 percent at the September quarter end to 16 percent at December 31

The 18 general equity trusts, which have been in existence for the past year, achieved an average total return (that is capital growth plus income) of 34,2 percent for the 12 month period with individual returns ranging from 45,2 percent to 25,1 percent, comfortably outstripping the inflation rate of around 15,5 percent for the same period (232)

Commenting on the outlook for the year ahead Mr Turner said there was every reason to think that there would be a continuing high level of interest in unit trusts

"Unit trusts have established themselves as a savings and investment vehicle which cannot be ignored in today's inflationary environment, and the range of trusts offered, and their inherent flexibility, will attract interest whatever the immediate outlook for equities might be," he said.

But while stock market fundamentals dictated that the market was vulnerable to some form of correction, ever-rising institutional cash flows could continue to sustain and even improve on current price levels — Sapa.

JSE continues to roar ahead (232)

By Sven Lünsche STAR 16/1/92

In line with a surge on overseas markets, the Johannesburg Stock Exchange continued its rally yesterday, with the key overall index rising above the 3 700 level for the first time

The overall index was up by 1,9 percent to 3 713, bringing its gains so far this year to 7,94 percent

The increases have been spread across all market sectors. The industrial index has surged by 8,81 percent since January 1, while the gold index has added 14,87 percent.

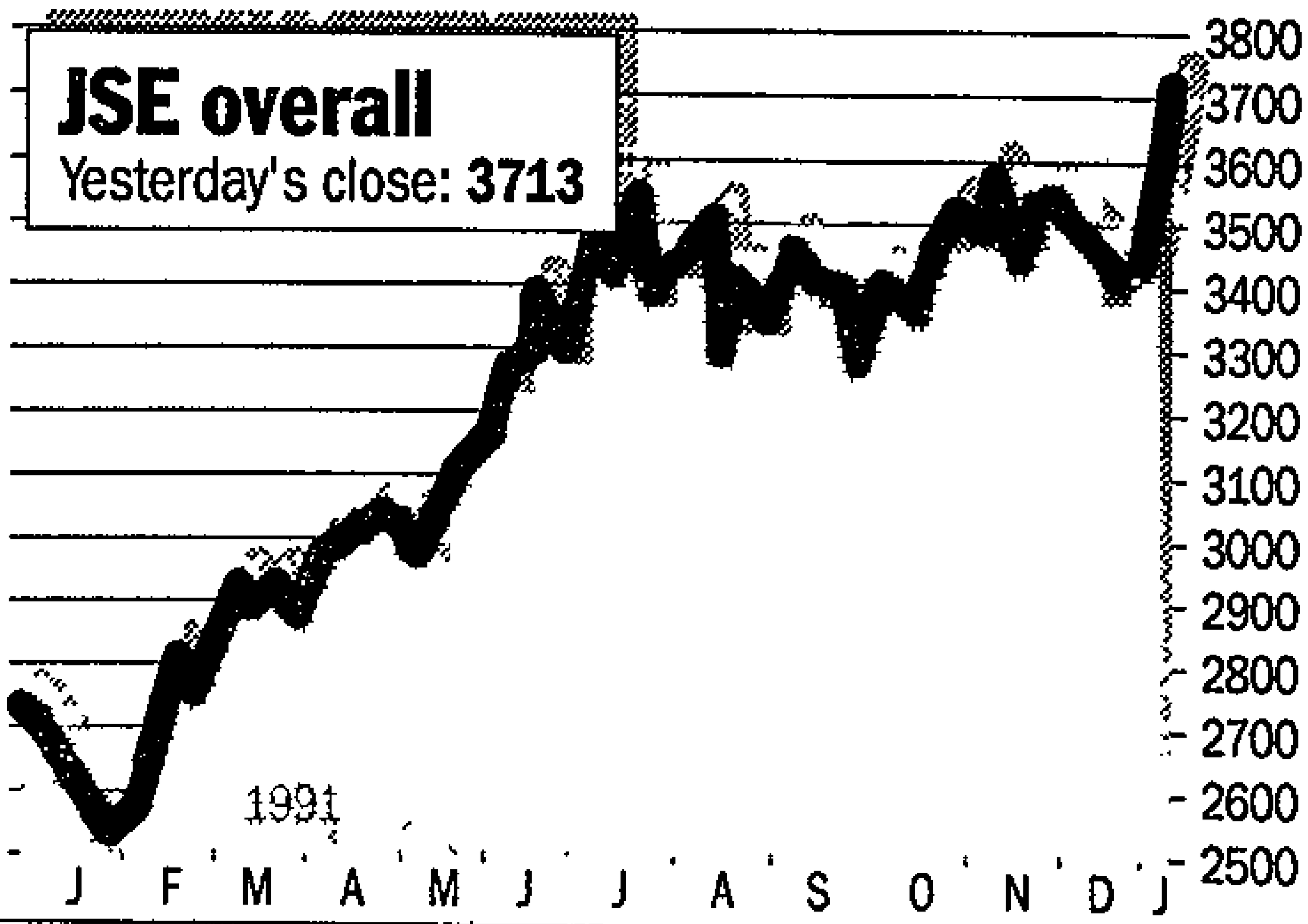
In the process, the JSE is ignoring warnings by analysts that the gains fail to reflect the continued depressed trading conditions experienced by most companies

The surge is being exaggerated by a shortage of quality scrip, with investments largely limited to key blue-chip counters.

The finrand also played its role yesterday in boosting prices as it fell by 5c against a soaring dollar to close at R3,305, allowing foreign investors a cheap entry into the market

The commercial rand lost 3c to the US currency ending the day at R2,82 However, it gained against cross-currencies, with sterling falling below the R5 level for the first time in months

● See Page 18



Spin-off markets take big step

MERVYN HARRIS

THE development of derivative markets in SA will take another big step next Friday when the JSE launches the Traded Options Market (TOM). (232)

This follows the establishment a few years ago of a futures market and will culminate in September with the formal opening of a centralised Bond Market Association (BMA) when JSE gilt and institutional screen traders will combine forces.

TOM will finally get off the ground after several delays and trial runs over the past few months to test the actual operation of options trading in simulated market conditions B/Day 16/1/92

Options markets, a natural extension of investment in the underlying equity market, have shown huge growth overseas and much effort and research has gone into seeing how best to serve local interests

The JSE will list options on certain company shares and options on share indices It has created a clearing house to act as agent for options clearing and to guarantee the performance of all options contracts.

Traded buy and sell options will initially be offered on shares of Anglo American, Barlow Rand, De Beers, Rustenburg Platinum, Sasol and Vaal Reef gold mine.

The exchange will list cash-settled options on the shares of each of these companies and scrip-settled options on some of them.

Options will also be listed on three existing indices — the all share index, the all gold index and the industrial index

Options have proved a popular trading instrument as an option buyer can limit the amount of investment at risk and can take advantage of the tremendous leverage inherent in the product

JSE spree sends dealers offshore

BD 16/1/92 (232)

MERVYN HARRIS

DEALERS on the JSE went hunting offshore yesterday to obtain large parcels of quality shares to meet domestic demand as trading on the market turned into a frenetic buying spree.

Large lines of shares bought from overseas investors could have contributed to the 1,4% weakening of the finrand to R3,30 to the dollar from R3,24 as the investment currency continued its retreat from last week's R3,15.

The weaker unit was one of the factors which helped propel share prices to higher ground yesterday in one of the most active sessions of trading for several weeks.

The market opened firmer on the back of strong gains on Wall Street, renewed strength in London, and news that PPI data for November dropped sharply, auguring well for lower interest rates.

Buoyant sentiment was lifted further by a rise of nearly $2 in the gold price to $356 in spite of a soaring dollar.

The rise helped pull the rand gold price back above R1 000 for the first time since early December.

Bouts of profit-taking pared gains but the overall index rose 69 points to close at a new high of 3 713 and the industrial index ended 80 points up at a record 4 535.

Liquidations, insolvencies increasing

STAR 17/1/92

232

By Sven Lunsche

Insolvencies and liquidations look set to surge to their highest levels since 1987 in the wake of the sharp economic downturn last year.

Analysing latest Central Statistical Service figures on liquidations, Credit Guarantee economist Luke Doig says that in the first 11 months of last year liquidations at 1 686 were 13,5 percent up on the same period in 1990

"A probable total of 1 800 will be the highest since the 1 809 liquidations recorded in 1987," Mr Doig says.

The same applies for insolvencies which are expected to fall just short of the 1987 total of 3 883.

For the first ten months of last year insolvencies at 3 221 were 22,8 percent up on 1990

Breaking down the liquidation figures, Mr Doig says the sector worst affected was construction, where 200 liquidations occured compared with 140 in 1990

Civil debt figures for the January to October period are no more heartening, Mr Doig says.

Almost 886 000 civil summonses were issued during that period, 10 percent up on previous year, while the number of civil default and consent judgements rose by nine percent to 443 139

The value of default judgements at R2,18 billion had risen by 32,6 percent over 1990's R1,64 billion

Few trusts outshine all share index

(232)

B/Day 17/1/92

SEAN VAN ZYL

WHILE a number of general equity unit trusts reported spectacular returns for 1991, independent research showed that very few of the funds achieved growth well in excess of the gains made by the all share index, including dividend reinvestment.

The unit trust industry reported an average total return, including capital appreciation and reinvestment of income, of 34,2% for last year.

Industry sceptics noted the industry was quick to compare its total returns with the all share index which climbed by about 26% in 1991. However, they added, a more fair rating would be to compare the all-share index, plus reinvestment of dividends, with returns achieved by unit trusts.

Hugo Lambrecht of the University of Pretoria, regarded as an independent specialist, calculated an all share index, including dividend reinvestment, of 31,02% for 1991. Analysts noted the average total return of 34,2% was modest compared with what investors could have made by investing in the all share index

In addition, they noted the industrial index, including dividend reinvestment, rose by about 42% last year, with only two of the 18 general equity funds achieving higher returns

Of the 18 general funds, three reported total returns below the gain made by the all share index, including dividend reinvestment.

Fedgro unit trust director Dries van Rooyen said his fund's performance was negatively affected by high liquidity early in what was its first trading year.

Roger Wanless, senior GM investments for the Commercial Union unit trust which achieved a total return of 26% for 1991, said the fund's performance was hindered by its investment in a number of poor stocks. Commercial Union acquired the fund and its investment portfolio from AA Life in June last year. "Since then, we have been busy weeding out the underperforming stocks."

The Norwich NBS unit trust, which fetched its investors a total return of 25% for the year, was effected by its high exposure to platinum and mining shares, portfolio manager Charles Graham said

Graham added the fund's market value dropped off considerably in December when the international platinum price dropped below the gold price However, the fund was now well positioned to benefit from the middle to long-term value expected to come through in mining shares

Syfrets portfolio manager Tony Gibson also felt mining shares would offer the most potential in 1992.

He said the Syfrets Growth Fund was concentrating on buying quality stocks offering good value.

He ascribed the fund's strong performance of 41,5% last year to its investment in select stocks.

Stafford Thomas, portfolio manager for the industry's top performing unit trust — Sanlam Dividend — said the fund's exceptional return was due to its high exposure to blue-chip industrials. However, he also felt mining stocks would offer the most potential in 1992

Little hope of an end to the rise in liquidations

GERALD REILLY (232)

PRETORIA — Liquidations and insolvencies reached "depression" levels last year, and according to economists there is little hope of a reversal of the trend this year.

Latest Central Statistical Service figures show that in the three months to end-November, liquidations increased to 442 or 22,1% compared with the same three months in 1990

In the three months to end-October, insolvencies of individuals and partnerships increased by 25,9% compared with August-October 1990

The total for the three months last year was 1 172

In November alone 118 incorporated businesses (71 companies and 47 close corporations) were placed under final liquidation

Liquidations for the 11 months to end-November increased by 13,5% compared with January to November 1990

In the eight months to end-October insolvencies increased by 22,8% compared with the corresponding period in 1990 B/Day 17/1/92

Recession

Absa senior economist Adam Jacobs said there was a long haul ahead before the liquidation trend could be expected to slow

All indicators showed the economy was still in a deep recession Preliminary retail sales figures for December were down 7,6% and car sales fell 22% in November.

Information Trust Corporation MD Tony Leng said in the period January to end October last year the value of judgments for debt rose by 32% reaching record levels of almost R2,2bn

This was the equivalent of R7m a day for the first 10 month of last year

Judgments for debts against individuals in the 10 months amounted to R1,9bn

Unit trust investors could face unnerving ride

STAR 18/1/92 232

OUTLOOK '92

CLIVE FOX

By Clive Fox, managing director, Consolidated Fund Managers

Unit trusts are becoming a more and more popular investment, as is shown by the huge growth in the industry in the past few years

The trusts' exceptional performance and the flexibility they afford investors has gone a long way to promoting the growth in the industry.

The past year saw general equity unit trusts record an average performance of 33,6 percent This was well above the prevailing inflation rate and is somewhat surprising, given the slowdown in the local economy

This year has begun with strong rises in the JSE overall index, largely fuelled by impressive gains on the industrial boards

But can this momentum be maintained? This is what every serious investor is now asking

There is little doubt that institutional cash flows will continue to support the equity market to a considerable degree This is likely to occur, albeit that there could be some sizeable rights issues in the course of 1992.

Institutional equity activity will probably remain concentrated on blue chip counters With unit trusts so heavily exposed to blue chips, this buying pressure should translate positively for the equity-based funds

The argument does not however rest at that point The JSE and most major international stock exchanges, with the exception of Japan, are now at or near record levels

Dividend and earnings yields are in historically low territory and the prospect of an early and rapid economic recovery around the globe is uncertain.

Uncertainties

The economic performance of most of the major economies is dismal, to say the least.

The US authorities, in an effort to stimulate growth, have rapidly lowered interest rates to their lowest level in nearly 30 years

There has also been discussion of the need to stimulate the US economy with fiscal measures in a desperate attempt to reflate the recession-bound economy

Furthermore, the collapse of Soviet-style communism has heralded a further set of uncertainties Whether or not Russian president Boris Yeltsin has the ability to satisfy his people's basic survival needs is questionable

Given the strife in Yugoslavia and Georgia, is there now potential for similar social unrest in the new Commonwealth of Independent States?

Negative developments in this region could well shock world equity markets into some sort of downward correction

Closer to home, some of the enthusiasm for the new South Africa may not translate into tangible, positive benefits for the economy in the short term

There is certainly a risk that economic recovery may be delayed in line with that of South Africa's major trading partners

In the long term, unit trusts should continue to provide investors with inflation-beating returns

However, given the very high rating of the JSE at present, unit investors need to remain mindful of the risks attached to the market and therefore to their investments

It is probable that a fair degree of volatility lies ahead this year The market's progress could prove to be erratic and somewhat unnerving for the uninitiated

It could be year of second-liners

S|Times (Buss) 19|1|92 (232)

By DIRK TIEMANN

THE JSE will offer the best returns for investors this year, although its performance is unlikely to be as good as in 1991, say analysts

Investors could still reap up to 25% returns The JSE industrial index rose by 37% and the overall index 25% last year

Frankel Max Pollak Vinderine economic consultant Mike Brown says SA shares are not expensive in international terms

But when the SA market opens up, price-earnings will start approaching international levels

Mr Brown says this could make SA shares ripe for an upward rerating

The industrial index is at an all-time high of about 4 500 points It will be lifted up as former State pension funds buy shares, adding a possible R12-billion to the R25-billion reaching the market annually

MIKE BROWN: They're cyclical and highly geared, but they do well in the good times

Cyclical

Mr Brown says blue chips, such as De Beers and Richemont, reflect international price levels

Second-liners have been left behind and could advance this year

"These stocks are cyclical and highly geared and are usually bought when the economy is booming and interest rates are falling"

Mr Brown expects a lower gold price, but says the bottom is in sight, even if a telescope might be required to see it He would be a strong buyer at $330

Platinum looks more interesting because it has been at a discount to gold for three months — the first time in many years

Simpson McKie investment strategist Peter Trengove Jones says the economic recovery has not been cancelled and there is a lot of value to be had in shares Rembrandt, Richemont and SA Breweries dominate the industrial index and tend to skew the market's apparent value But cyclical stocks will benefit once the recovery starts

Mr Trengove Jones says fixed-investment spending is overdue Housing and related social infrastructure are expected to receive a boost

Boumat, Fraser Alexander, Voltex, Murray & Roberts, Tongaat and the cement companies should benefit from a recovery

Another analyst has his eye on Anglo American, Genbel and Gencor, Sasol and Middle Wits because of its stake in the Venetia diamond project He sees some good buys in financials and recommends Libvest, Nedcor and NBS

He prefers CG Smith Food and Richemont to FIT which is suffering in a depressed UK economy

He believes SA tourism has upside and tips Kersaf and Safren For good measure he throws in a few gold shares, Dries, Kloof, ET Cons and Southvaal

Analysts are shying away from gilts which seem to have some downside and have to contend with high inflation One analyst says that for one to be enthusiastic about gilts, inflation would have to fall to 10%

But Mr Brown says the difference between yields on gilts and on shares is at a historic high The average yield on shares is 2,6% and gilts yield more than 16%.

The derivative markets are thin and investors know little about futures and options Options could be saleable to the public as an investment vehicle with a limited downside, whereas futures are more risky

Those who are afraid of the share market should pay off their mortgages as quickly as they can The 20% interest saving is hard to beat

Property economist Neville Berkowitz says a house owner can save a packet in after-tax money if he increases bond repayments by a third

The investor on the other hand has more opportunity to use gearing On a R100 000 house which rises in price by 12% annually and carries a bond of R80 000, the equity of R20 000 will increase by a compound 58% This easily covers the 20% bond interest

Mr Berkowitz says house prices have been rising by about 12% annually since 1989 But in 1993 they could rise in price by 20% on the assumptions that the economy recovers, interest rates fall and political and social stability are present

Mr Berkowitz says sectional title properties and flats offer returns which outweigh other investments Rents are high because of a shortage of flats and offset bond interest

Mr Berkowitz says a threat is the possibility of rent control being reinstated

Medaid

Salary earners who have little investment money should make full use of company benefits, says Price Waterhouse Meyernel financial planning manager Martin McAusland

Mr McAusland says individuals can deduct 20% of their annual salary for pensionable investment He recommends beefing up arrear pension contributions because up to 15% of the pensionable salary can be deducted from annual income.

The more years bought in arrears, the higher the tax-free lump sum

Provident funds allow 20% tax deductions A R24 000 lump sum is free of tax on retirement

Deferred compensation policies taken out by a company on behalf of individuals allow 10% tax deductions

Mr McAusland advises salary earners to consider leaving medical-aid schemes and taking catastrophe and medical incurance

Octodec rides out storm

STAR 20/1/92.

Diagonal Street

232

LYNNE PEACH

Octodec, formed by the restructuring of Tomkor and listed in September 1990, performed better than expected in its maiden year, with continued growth forecast

In the annual report, chairman A Wapnick says that despite the prevailing depressed economy, which mainfests itself in the form of increased property-related expenses and a higher rate of vacancies, the property portfolio continues to perform well, in line with its historic track record of sustaining satisfactory yields in periods of recession

Mr Wapnick predicts that growth will result from the escalation in income from exising leases

He forecasts a a distribution of about R20 million (R19,3 million in financial 1991)

Octodec, listed in the property loan stock sector, comprises a selected portfolio of managed retail, commercial and industrial properties located chiefly in the greater Pretoria area

There are 84 developed properties in the portfolio, which have have relatively low maintenance costs and were acquired at R147,7 million.

In the year to August, turnover was R23 million and operating profit R18,1 million.

After additional income of R1,8 million, the group was able to distribute R19,3 million, which was about R1 million more than the R18,1 million forecast at the time of listing

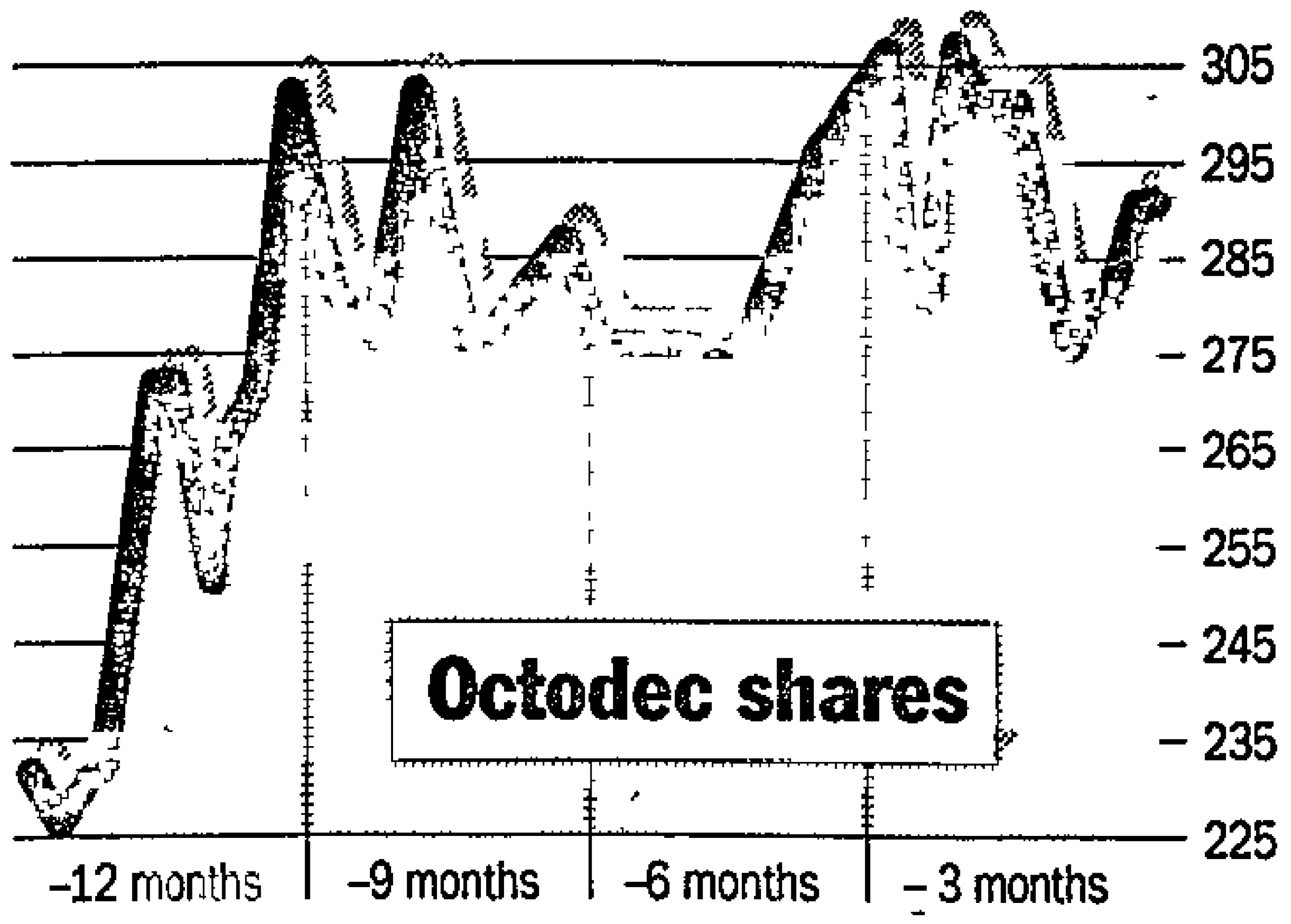
The total return of 40,61c per linked unit, comprising debenture interest of 39,81c and a dividend of 0,80c, translates into a yield of 18,46 percent on the issue price of the linked units

At the current price of 290c, the share provides an income yield of 14 percent, which exceeds the sector average of approximately 11 percent.

The share price appears to have upward potential in view of the group's credible performance in its first financial year and the expectation that returns will grow in the current year

COMMENT. Octodec's price rose steeply in the first quarter of 1991 and thereafter spent the year undulating between 275c and 305c

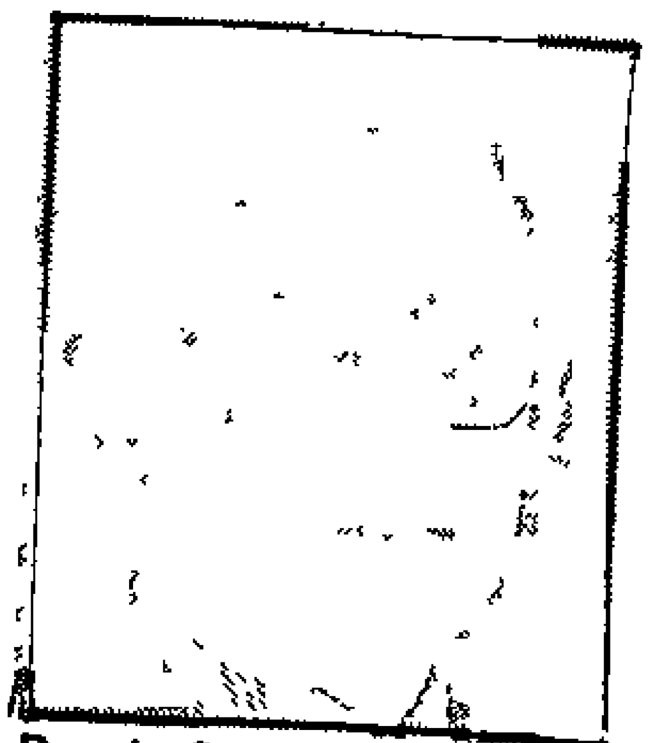
The current price is 290c and a decisive break in either direction should indicate the future trend



Barlow Rand more focused on consumers

STAR 21/1/92 (232) (100)(2100)

By Ann Crotty



Derek Cooper . new MD at Barlow Rand

Having spent the past 18 months sorting out Rand Mines and having, more recently, disposed of Middleburg Steel and Alloys the Barlow Rand group now looks like a food and industrial conglomerate — with a substantial coal house

The market obviously likes the new streamlined group Although off its recent high of R59,50, at R58 the share is on a fairly demanding earnings and dividend yield

As newly appointed MD Derek Cooper points out. "We are now close to the consumer, when the economy picks up as it must in the next 12-18 months, Barlows must benefit" He also notes that the group is now virtually borrowings-free

At yesterday's agm chairman Warren Clewlow outlined the recent major developments and referred to the group's results for the first quarter of financial '92

In the three months to end-December trading continued sluggish, however group turnover improved over the comparable period in financial '91 "Attributable profits have also increased against those achieved last year and, more significantly against our budget"

The major developments include the "completion of the structural adjustment of Rand Mines" which involved a rationalisation of operations in that division From December the group benefited from the receipt of R1,17 billion for the disposal of MS&A

"On the other side of this equation, the group has been very active in redeploying its resources in accordance with its strategic plan to increase the proportion of its business in branded value-added products and to optimise the use of its core skills in distribution and specialised manufacturing facilities"

Mr Clewlow believes that with the on-going urbanisation of the population this focus must be positive for the group's future.

He also refers to the listing of Smith Sugar and the R370 million rights issue at Tiger Oats

In addition there was the scrip dividend offer with 83,7 percent acceptance This provided additional cash of R190 million for the group

"These various developments will further increase the resources of the group thereby placing it in a strong position to take the opportunities that will no doubt come our way"

Referring to Mr Cooper's appointment as group MD, Mr Clewlow stated. "For the past year I have held both the positions of chairman and chief executive

"Derek, already vice-chairman is well qualified to assume this pivotal role, having had a wide range of experience within the group"

Barlow Rand notches up growth despite adversity

BDay 21/1/92 (232)

LESLEY LAMBERT

BARLOW Rand's turnover and attributable profit for the first quarter of the current financial year were higher than last year's and ahead of budget in spite of poor trading conditions, chairman Warren Clewlow told shareholders at the group's annual meeting yesterday

Clewlow said that as a sequel to last year's restructuring the group was committed to substantial new capital expenditure, expected to total R1,8bn this year Of this amount, R250m had already been spent on new acquisitions during the first three months of the year

Benefits of restructuring, which saw substantial disinvestment in certain mining and mineral beneficiation interests, would start flowing through at the end of this year, Clewlow said in his report to shareholders

The "structural adjustment" of Rand Mines had been completed while the sale of Middelburg Steel & Alloys and the chrome mining operations would contribute a total R1,172bn to the group's funds

The redeployment of these funds was already under way, with the focus on investment in "branded value-added products and the optimal utilisation of core skills in the specialised manufacturing and distribution facilities," Clewlow said

"With the ongoing urbanisation of the SA population, this focus must be positive for the group's future," he said

Recent acquisitions included a Caterpillar dealership in Bulgaria and offshore interests in the US for UK-based subsidiary, Bibby

Upturn

On the food side, Tiger Oats acquired the remaining 50% of Petz Products and the assets and brands of Colman Foods from Reckitt & Colman C G Smith bought a sugar mill and Reunert invested in Telephone Manufacturers and boosted its stake in Electric Lamp Manufacturers of SA

The group has also been busy with a number of other internal reorganisations In TSI a decision was taken to split its two computer-related businesses into two separate listings, and C G Smith Sugar is to be listed on February 14 with the offer extended to shareholders in C G Smith Foods and C G Smith

Tiger Oats is to raise R370m in a rights issue to enable it to extend its businesses in branded, value-added products.

Clewlow expressed concern about prospects for an economic upturn While there was reason to believe that many of the essential fundamentals for an upturn were in place, he warned South Africans not be too optimistic about an early end to the recession.

"I believe it to be further away than most people believe, not least because the expected recovery in world markets has not yet come about and there are disquieting trends in many of the major economies in which we, as a country, operate," Clewlow said

On the domestic market, the essential, co-operative triangle of state, business and labour was not yet working adequately, Clewlow said, and while there were promising signs of progress, until this co-operation was in place it would be difficult for the economy to achieve its full potential.

Service charge on unit trusts to be increased

BIO Day 22/11/92 LINDA ENSOR (232)(82)

CAPE TOWN — The Financial Services Board has approved a 50% increase in the maximum annual service charge which can be imposed by unit trust management companies, from 0,5% to 0,75% of the total market value of a fund's assets.

The board's deputy registrar Gad Ariovich confirmed the increase yesterday.

The annual service charge, a percentage of which is levied monthly, is imposed in addition to a 5% initial charge which covers marketing and distribution expenses and which will remain unchanged.

While welcoming the announcement, industry leaders expressed disappointment yesterday that the ceiling was not raised at least to the 1% requested by the Association of Unit Trusts.

They said the service charge covered the escalating costs of administration, portfolio management and regular reporting to clients and was not sufficient to cover costly investments in technology.

"There is a strong case for a higher fee but the industry accepts that a too rapid adjustment could be regarded as inequitable," association chairman Clive Turner said. The service charge had been held at 0,5% a year since the industry's inception in 1965 and even at the new level was well below the average in any other country.

Old Mutual unit trust manager Peter de Beyer said 0,75% would not give the industry the flexibility and financial base it required. He had hoped the ceiling would be higher so that there could be competition beneath that level between management companies over fees charged.

De Beyer felt all funds would be financially impelled to move to the maximum 0,75% fee immediately. He favoured no ceiling on condition that management companies were required to disclose their service charges to unitholders.

He said the low level at which the service charge had originally been set was mainly responsible for the slow growth in the number of management companies. He felt the increase was correcting this historical imbalance.

Sasol, Gencor news depresses trading

MERVYN HARRIS

DIAGONAL Street was weighed down yesterday by news of two huge rights issues and a consolidation of recent gains as some investors took profits on blue chip industrials and switched to rand hedge shares

Plans by mining house Gencor and petrochemical group Sasol to raise a total of R3bn in separate issues injected hesitancy into trading on worries that more cash would be tapped from the market than was expected B|Day 22|1|92

After coming down 20c on Monday, Gencor eased a further 3,7% or 45c to R11,65 as the share moved towards the expected offer price of around R11

Sasol held up slightly better After opening at Monday's closing high of R20,65, the share drifted back to close 3,1% down at R20 in strong two-way trade (232)

Sentiment remained firm and was reflected in gains on the overall market outnumbering losses by nearly two to one as the JSE all gold index rose 15 points to 1 327 and the industrial index fell 18 to 4 513 Precious metals were steady In New York gold closed at $357,85, up $0,20

Rights offers

B/Day 22/1/92 (232)

☐ From Page 1

R14bn of the institutional cash flows, some R20bn to R25bn (including funds from state pension funds) would still be available for investment ' an analyst said

Stockbroker Dawid Meades said the rights issues would be a "welcome relief to the market which is starved of blue chip shares" For example, preliminary calculations by Meades show that about R360m worth of Gencor shares, or 2,6% of its market capitalisation, were traded last year Meades said that excluding Gencor's controlling shareholders, the R2bn rights issue offered shareholders an opportunity to buy shares which would have taken them about three years to get in the market The Gencor rights issue would also give Sanlam, the ultimate controlling shareholder via Sankorp and Genbeheer, to invest up to R500m of its discretionary funds in new Gencor shares

Although no other major rights issues — in the R1bn mark — are expected to be announced, there was talk in the market that SA Breweries might also come to the market to raise funds

The scrip dividend route would also be attractive Companies like Sun Bop, Nedcor and Barlow Rand had already taken advantage of this

New skills honed in simulated trading

B/Day 23/11/92

232

JSE stockbrokers are ready to take on the traded options market, but much of its success will depend on factors beyond their control, such as institutional participation and liquidity.

After years of preparation for the new Traded Options Market (TOM), 16 brokers who have made a commitment to the market practised their newfound skills in a number of simulated trading sessions culminating in a live two-week trading session in December.

Frankel Max Pollak Vinderine director Trevor Amoils says: "It was a success.

"The feeling was that all the participants were capable of handling all facets of traded options, including client liaison, deal execution and traded options administration, while the computer system was adequate to launch the market and may require developments and changes as we go along."

Key

Martin & Co director Carmen Maynard says: "The brokers are keen to see TOM work. But the key lies with institutions and whether they will be prepared to write options."

Preparation for the new market has been extensive and costly.

Brokers have had to invest in high-powered computers geared to options. The computers are used to price options and keep brokers updated on their clients' positions.

While most bought their pricing software locally, some imported expensive international models.

Other computers, used to confirm trades and update clients' positions, are linked to the central clearing house, which is owned and administered by the JSE.

Payment is facilitated by the Corporate Terminal ATM Services (CATS) system, which also interfaces with the clearing house.

Back-office staff have been trained by TOM staff to cope with the strict administrative requirements of the new market.

ED Hern director Mike Bolus says: "The nature of the market often makes the back-office functions more important than the dealing."

Dealers have undergone training in options trading procedures which differ in many respects from procedures for equities and futures.

BDay 23/1/92

Wider and deeper capital markets are Norton's mission

(232)

THE Johannesburg Stock Exchange (JSE) is on the brink of justifying its standing as the most sophisticated exchange in Africa and one of the more developed in the world.

This will come about with the launch of the Traded Options Market (TOM) and the opening later this year of a centralised Bond Market Association (BMA).

The establishment of these markets will mark the culmination in the more than six year tenure of Tony Norton as first executive president of the JSE.

Promotion

The promotion of wider and deeper capital markets in SA was a major plank in the mission statement drafted by Norton in conjunction with the JSE committeee soon after he assumed his post.

Norton says: "The statement acknowledged that one of the purposes of the exchange was the promotion of such markets and we recognised the need to develop options and futures markets, which everyone else in the world was then doing.

"The biggest problem on the JSE is illiquidity and international experience of derivative markets is that they add to rather than take away liquidity from markets."

But the JSE was overtaken in its first bid to start a derivatives market by Rand Merchant Bank, which established and operated a financial futures market.

Instead of sulking about being pre-empted, the JSE under Norton led the initiative to get all interested people and groups behind Rand Merchant Bank.

This eventually resulted in the formation of the South African Futures Exchange (Safex).

Now that its plans to move simultaneously into futures and options had been thwarted, the JSE made a strategic decision to move swiftly with the establishment of a rushed and simplistic traded options market.

That was a mistake, Norton says.

"We tried to do something that was not part of our normal discipline and we goofed.

"The lesson we learned was that it is difficult to set up complex, computerised financial markets in a hurry.

"Now, after having adopted the right approach, we have a proper market for options trading with systems and services which will be of benefit to the investment community for years to come."

Combining

Next on the agenda is the formalisation of the BMA.

Scheduled to start in September, it will be formed by combining the JSE gilt market with the institutional screen trading market. This centralised market will have both screen and floor trading.

The new derivative markets will be further developed the BMA is to establish a traded options market in gilts and Safex will offer its own contracts on options on futures.

Norton says "SA will then have in regulated markets all the financial instruments which characterise a developed market."

[whole page (exclude adverts)]

– Traded Options Market

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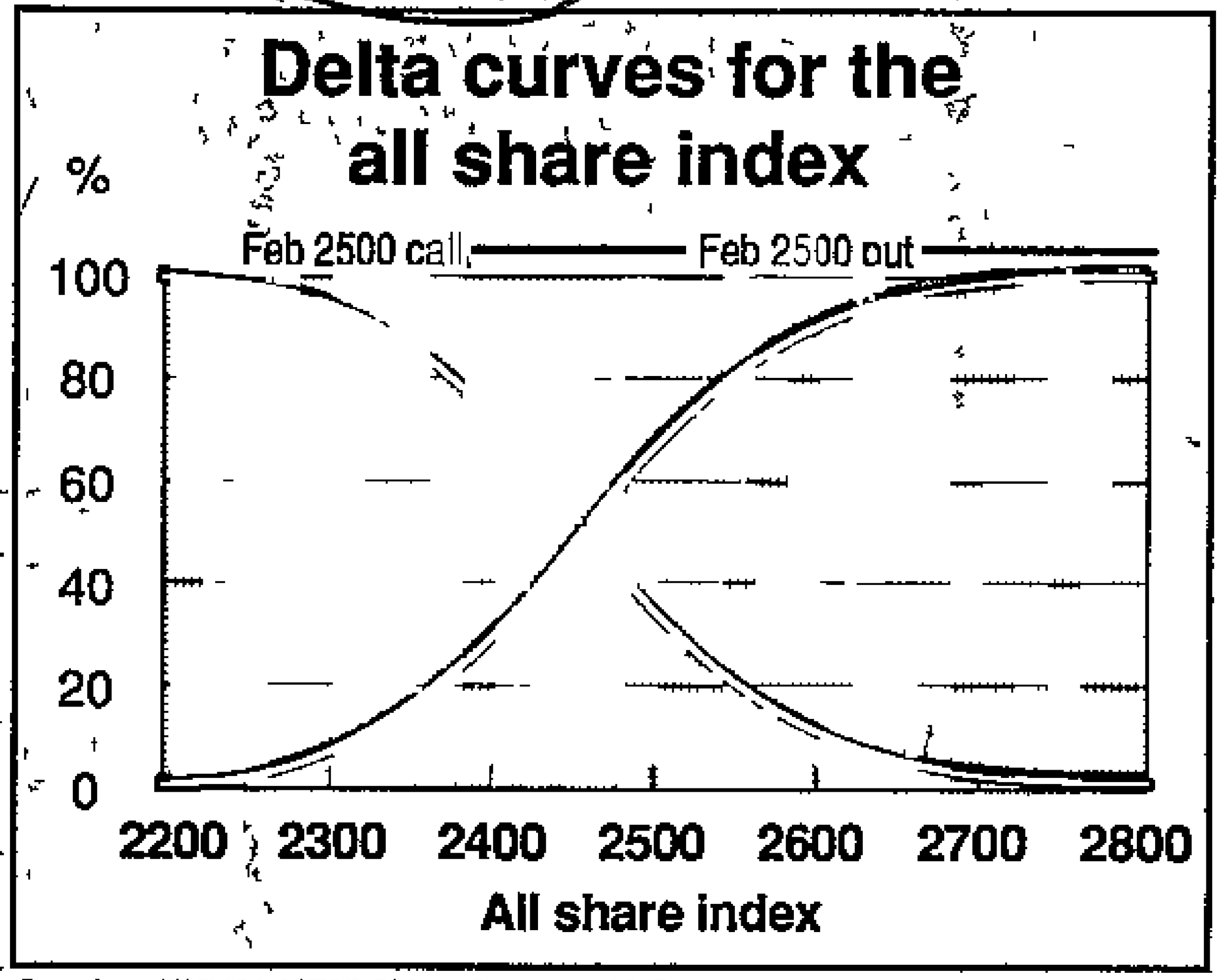


Graphic FIONA KRISCH Source JSE

THE concept of delta is important in understanding the value changes of an option. Delta is the measure of an option value change relative to the value change of the security. This is illustrated by the change in the value of the 2 500 call when the index moves from 2 495 to 2 500. The money value of the underlying security has increased by R50 (the index increase of five points multiplied by R10) Yet the money value of the call option increased by only R30 from R570 to R600. In this case the change, or delta, is 60%.

TOCH takes on the responsibility for risk management

B Day 23/1/92

A CLEARING house which addresses risk on a daily basis is one of the main features distinguishing traded options from traditional or over-the-counter options

In a traditional market, an option buyer has to select a writer who has the financial resources to meet his obligations if and when the holder exercises the option

On the JSE's Traded Option Market (TOM), the Traded Option Clearing House (TOCH) will take on the responsibility for risk management

TOCH will act as agent for options clearing and will guarantee the performance of all option contracts executed by members on the TOM trading floor as well as other registered participants

It will achieve this by setting position limits, collecting premium and margins, topping up the margin if the option value moves against a writer's position and close supervision of members' and clients' positions

If all these measures fail and there is a default, the clearing house will guarantee counter-party members against loss

Because counter-parties may, and probably will, be substituted as a result of secondary trading, holders who choose to exercise their options will be matched to writers by the clearing house

Holders who wish to exercise their options must notify their brokers

The broker will then give notice to the clearing house, which will use a computer program to randomly select a writer of the same option to make or take delivery.

All option writers will have to lodge an amount of margin related to their risk

An in-the-money option is more risky than an out-of-the-money option because the chances of the in-the-money option being exercised are greater

For instance, if Rusplats is trading at 8 000c, a 7 500 Rusplats call obviously has a better chance of being exercised than a 8 500 Rusplats call. The margin on the 7 500 call should thus be larger

The amount of margin that TOCH will require will be determined by the theoretical "fair value" of the options, which is calculated by the Black-Scholes pricing model

The total margin required from each participant will be stated on a position statement every day.

Margin may be lodged in the form of cash, bank guarantees, scrip representing the underlying security for scrip settled options, scrip representing the underlying security for cash settled options and securities and financial instruments

Initial listings will be limited

BDay 23/1/92 (232)

THE Traded Options Market (TOM) will kick off with traded put and call options on the JSE's All Shares Index, the All Gold Index and the shares of De Beers when it opens for trade tomorrow

TOM manager Jonathan Sims says the JSE decided to limit the initial number of TOM listings and add others based on the fledgling market's performance and demand

Underlying

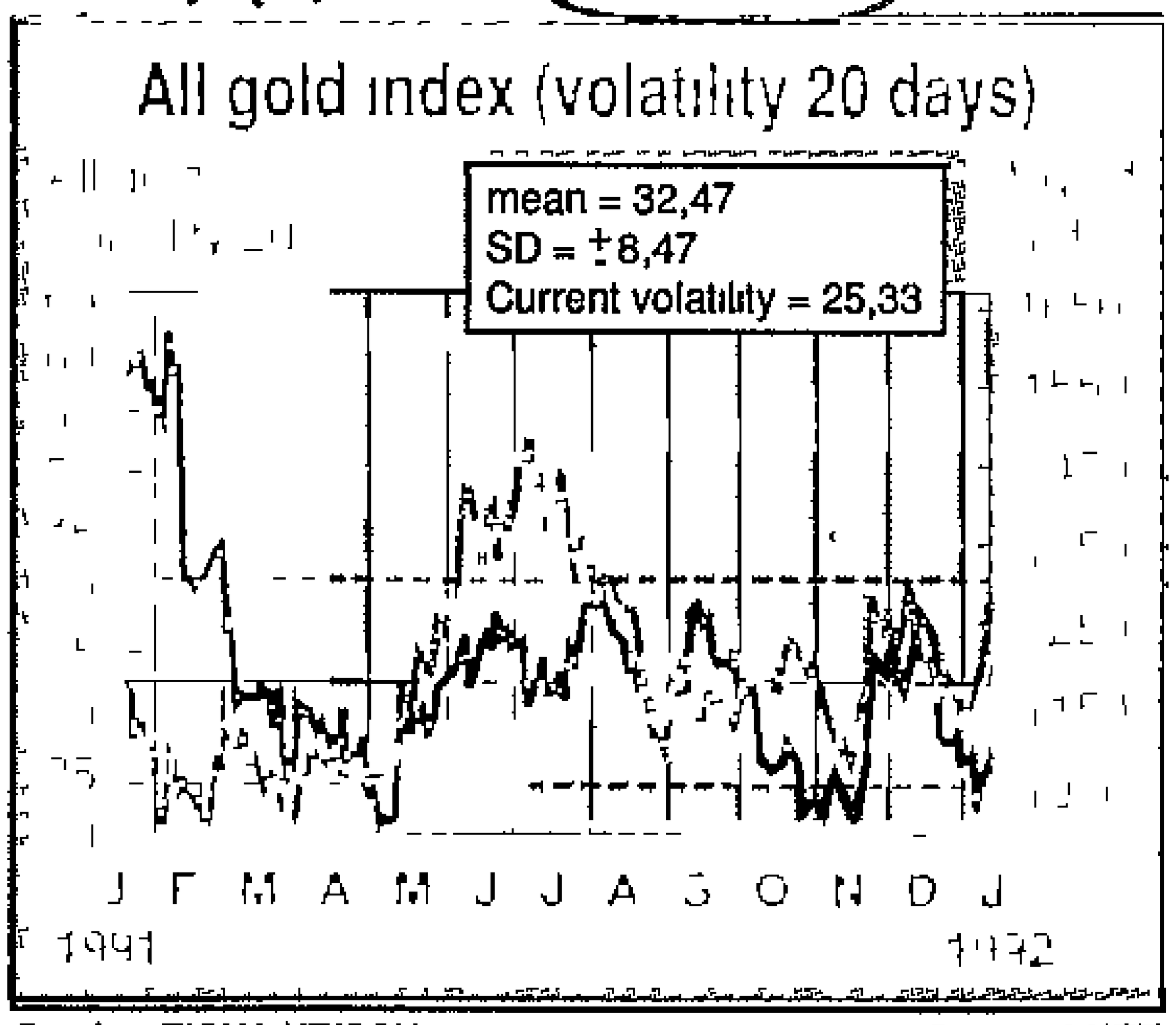
Other equities selected as underlying stock for options are Anglo American, Barlow Rand, Rustenburg Platinum and Sasol.

Vaal Reefs was also on the initial list but has been replaced by Driefontein.

To be selected, equities have to be listed and highly marketable

Options on the industrial index will also be included at a later stage

The exchange will start off by offering cash-settled options on the equities and indices



Graphic FIONA KRISCH Source I-NET

Sims says the system is flexible enough to include scrip-settled options and accommodate other changes as the market develops

Normally, each share option contract covers the rights to 100 shares For example, in the case of scrip-settled calls, the holder would receive 100 shares and pay the writer a total money amount equal to the exercise price of the option multiplied by 100.

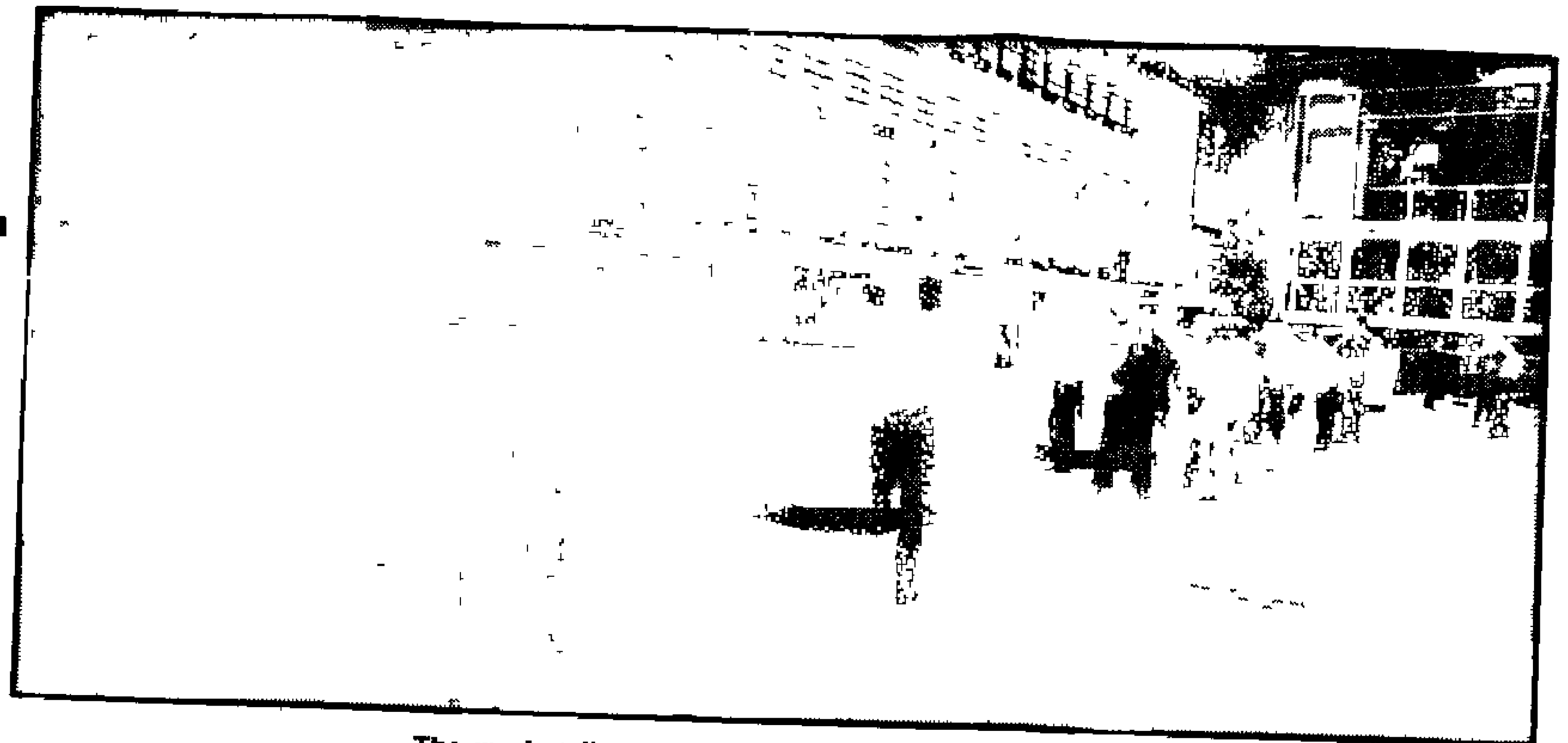
Similarly, the settlement value of a cash-settled put will be the exercise price of the option minus the share price multiplied by 100

The money value of the index options is the index multiplied by R10

For example, the All Shares Index at 2479 multiplied by R10 equals a money value of R24 790

Business Day SURVEY

The launch of the Traded Options Market (TOM) will provide brokers and investors with a further opportunity to trade in the derivatives market. The best lesson TOM could learn from its foreign counterparts is how to stimulate liquidity in the underlying market. ***MERVYN HARRIS AND LESLEY LAMBERT*** *report.*



The market floor on the Johannesburg Stock Exchange.

Chicago pioneered options exchanges

B|Day 23|1|92 (232)

TRADED options became an important part of increasingly sophisticated financial markets during the '80s because of the opportunities they offered investors to hedge risk and leverage capital gain.

Almost every financial centre in the world has an options exchange or traded options market as part of a bigger exchange.

The speed at which most of the international traded options markets have grown during the past decade — in spite of setbacks such as the 1987 crash — underscore their value in financial markets.

Statistics provided by Martin & Co show that in April 1973, on the first day of trade on the Chicago Board Options Exchange (CBOE) — the pioneer of options exchanges — 911 option contracts were traded.

Today, more than 2 000 contracts are traded each minute on America's listed option markets.

Similarly, volumes traded on the European Options Exchange in Amsterdam grew from about 1 000 contracts a day in 1978 to 41 470 contracts a day in 1990.

There have also been significant developments in traded options.

Ten years after the first equity options were traded on the CBOE, options on indices were introduced.

Growth in indices has been phenomenal, outstripping growth in all other types of traded options on the CBOE.

Mathison Hollidge director Peter Redman says the JSE based its initial plans for TOM on the experiences of international markets, but soon realised it would have to adapt to the special "requirements and peculiarities" of its own market.

During the time it took to develop the market, the JSE also found itself having to adopt the lessons being learned in foreign markets.

One of the major differences which the JSE has had to accommodate is the domination of the underlying equities market by a small group of institutional players.

To cater for their needs it has developed the concept of direct participation, which will enable the institutions to deal through multiple brokers but have all their transactions cleared through the central clearing house.

The JSE also realised after events such as the '87 crash and subsequent crises in the US that tighter controls were needed to prevent practices such as "front-running", says Redman.

This resulted in the development of a system of immediate reporting, immediate matching and speedy confirmation of transactions.

Another issue TOM will address says Redman, is the worldwide trend towards the use of European options, which can be exercised only at expiry as opposed to American options which can be exercised at any time.

This would help to iron out some of the volatility in certain markets and allow the writers of options to take defensive action.

One of the best lessons TOM could learn from its more experienced foreign counterparts is how to stimulate liquidity in the underlying market.

The US and Dutch traded options markets have benefited enormously from a large and educated retail market — an element lacking in SA.

Breakthrough for brokers and investors alike

(232) B|Day 23|1|92

THE launch of the Traded Options Market (TOM) tomorrow will mark another milestone for the Johannesburg Stock Exchange.

The start of trading will be the culmination of years of research and effort and the local development follows the phenomenal growth of options markets world-wide.

TOM manager Jonathan Sims says the advent of the Traded Options Market will be a breakthrough for the JSE as it will provide brokers and the investor with a further opportunity to trade in the derivatives market.

Extension

"A natural extension of investment in the underlying equity market, options have proved such a useful investment product that they rapidly gained favour wherever such markets have been established."

The concept of options itself is not new. Many individuals understand options, for example, on property or a car.

An option is simply an agreement involving a buyer and seller where the buyer is prepared to pay a premium in order to obtain certain rights and the seller is prepared to grant these rights in return for the premium.

"Ordinary share options give the options holder the right to buy or sell shares. The creation of TOM provides a centralised market place where the trading in listed options is controlled in accordance with standard procedures.

"The imposition of a formal clearing house ensures performance by parties to the transaction."

Sims says there are major advantages in trading in options:

- ☐ The buyer of an option can limit the amount of investment at risk,
- ☐ He can take advantage of the leverage inherent in the product,
- ☐ Sellers of options use them to generate income although, depending on their strategy, the risk taken might be higher than that of a buyer.

Sellers will, however, seek compensation for this risk in the price demanded for the option.

Because they are "traded" options, either buyer or seller is able to trade out of his position once it has served its purpose.

Much effort over the past three years has gone into the research and development of TOM to see how best to serve local investor needs.

A big problem on the JSE is a lack of liquidity.

"The introduction of options, which allows trading of an instrument aligned to the underlying equity market, could help alleviate some of the aspects associated with this problem," Sims says.

Among the aspects which the JSE had to consider in the development of an options market was how best to adapt what had been happening overseas to local conditions.

"We looked at markets in the US and Europe and found that matters were more complicated than we had anticipated."

Broking firms who want to trade in the options market must have staff with appropriate qualifications.

In addition to being entitled to trade in equities, they must also pass an examination on TOM.

Moreover, broking firms participating in TOM must appoint a "compliance officer" who will be responsible to the JSE for his firm's conduct on the options market.

Trial runs to test the operation of an options market have been in progress for several months. A full market environment was simulated with JSE staff acting as private clients placing orders with trainees from broking firms.

Identify

Brokers on the floor took the orders and carried them out as they would have to do when trading officially gets off the ground.

Sims says this helps greatly to identify any shortfalls in the systems and procedures applicable both within broking firms and the market administration.

Representatives of some 15 broking firms participated in this exercise and are now in a position to transact business when trading begins.

Sims says "We expect that initially the options market will take some time to settle down and for people to become aware of this instrument and understand it sufficiently to become regular investors."

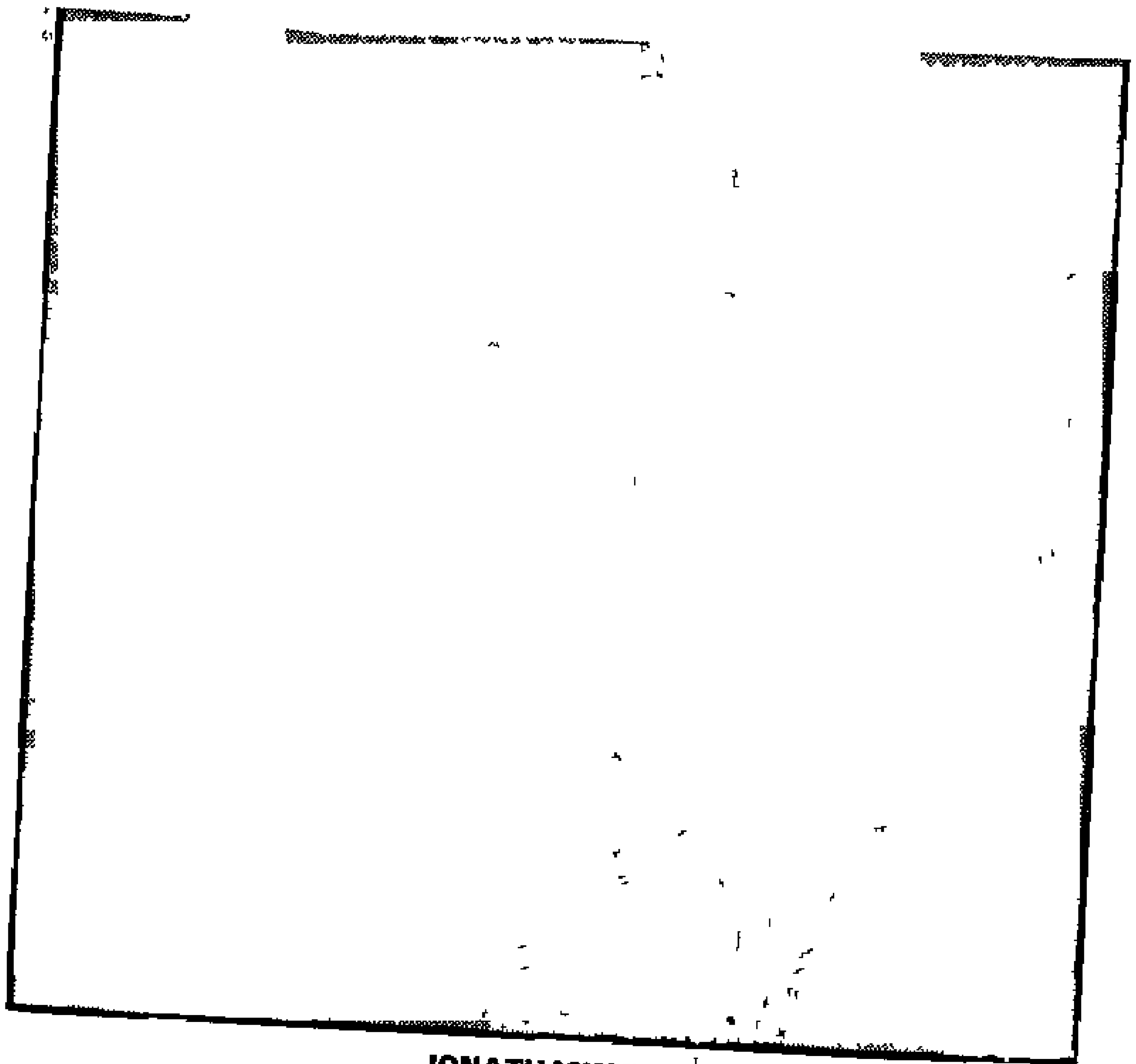
JSE warns of potential financial losses for holder or writer

B|Day 23|1|92 (232)

PEOPLE who intend to trade options should understand the nature and extent of their rights and obligations and the risk involved before they begin.

There are risks of financial loss, therefore participants should be aware of:

- ☐ The buyer (holder) of an option, in order to realise any profit, must sell the open position or exercise the option. However, conditions may be such that it may be difficult or impossible to sell an existing position on the exchange at the price being sought,
- ☐ The holder of an option must be able to withstand a total loss of the premium and transaction costs,
- ☐ The seller (writer) of an American style option must understand that the option may be exercised at any time prior to expiry,
- ☐ The writer of an option must deposit initial margin prior to requesting his broker to execute an opening sale and be able to meet calls for additional margin at short notice,
- ☐ The writer of an option must be able to withstand a total loss of cash or securities deposited as margin, plus transaction costs,
- ☐ Multiple option positions — spreads, straddles, combinations — may help reduce risk but may also limit potential gain [illegible]



JONATHAN SIMS

Opportunity to improve liquidity and control risk

B/Day 23/11/92 (232)

FUND managers and institutional investors, the fuel of successful derivative exchanges, are keenly awaiting the JSE's new traded options market, but are unlikely to be active participants from the start.

Spokesmen for leading fund management institutions and trading banks say they welcome any new market which has the potential to improve liquidity and open up opportunities to enhance profitability and control risk.

However, many are concerned about fundamental problems likely to limit their participation in the traded options market.

Rand Merchant Bank executive director Russel Loubser says: "We are talking about all the traditional negatives of the JSE — illiquidity, inability to short stock and regulation.

"But there are a lot of potential opportunities for portfolio managers to hedge stock and for companies whose shares are traded to hedge themselves if they have a rights issue," he says.

Cost is another inhibiting factor. Brokerage is based on premium, which is the amount users pay up front when they purchase an option.

"It is on a sliding scale running from 3% on premiums up to R10 000 to a fixed sum of R975, plus 1% of any premium more than R50 000.

"A separate clearing house levy is also charged per trade and per contract."

Most of the financial institutions say the cost could be prohibitive.

Visible

Standard Merchant Bank treasury GM Chris Kenny says the merchant bank's trading division is likely to trade options on Safex rather than TOM because it is a reasonably cheap, visible market and we have had good experience trading on the exchange".

Kenny says SMB will, however, be on the lookout for arbitrage opportunities in the traded options market.

TOM manager Jonathan Sims says financial institutions are likely to use the market to lay off some of the risk in their over-the-counter corporate finance transactions.

But, says Loubser: "One of the biggest problems will be the lack of natural market makers."

Revere shares shine in dull sector

BDay 23/1/92

MATTHEW CURTIN

REVERE Resources has emerged as one of the fastest moving but speculative mining shares at a time when dull metal prices have undercut confidence in the JSE's mining sector

Revere, the mining development and exploration company set up by Glenn Laing, appeared on the JSE in October last year The shares were listed at 10c and hovered around that level before taking off in December They closed at 33c yesterday

Revere shareholders have to approve the company's purchase of an 81% stake in the Haib copper-molybdenum project and other mineral rights in southern Namibia on February 10. The project is scheduled to be reversed into the Mervest cash shell, acquired by Revere in December, and will be relisted on the JSE on February 17 as Haib Mining and Exploration

An analyst said yesterday Revere was pursuing new techniques to make a variety of low-grade deposits viable Revere had the backing of several private financiers

He said Haib was an extremely risky venture which had many sceptics among the SA mining community

It was a low-grade shallow deposit, with one high-grade area so far identified, which would probably require a capital investment of R250m

He said the project's success depended on the economic application of biogenic leaching, a new bacterial process for treating ore pioneered on copper mines in Chile and North America

He said Laing was successfully mining the remnants of the Rand Leases gold mine, in which Revere had a 26% controlling stake.

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Revere also led a consortium which bought coal mining and exploration company Foston in December The analyst said Foston represented the most stable part of Revere's portfolio

Dividend rise 'at least 15%'

IN A report on Santam yesterday Business Day quoted MD Oosie Oosthuizen as saying that the short term insurer's dividend was expected to grow by about 15c to 48c this year.

In fact Oosthuizen said the growth would be at least 15%.

Business Day regrets the error.

EXECUTIVE SUIT

STAR 24/1/92

Unit trusts increase charges

The maximum service charge levied on the market value of a unit trust's assets has been lifted from 0,5 percent to 0,75 per cent a year

Clive Turner, chairman of the Association of Unit Trusts, pointed out that the increase was the first in the industry's 26-year history

He said the service charge was provided to enable management companies to undertake their fiduciary functions, while the initial charge, on a sliding scale starting at 5 percent for smaller investments and declining for larger amounts, was designed to cover marketing costs

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He pointed out that administration costs had increased sharply over the years and particularly more recently as the industry's unit holder account base has risen to nearly one million

The increased service fee will have a minimal effect on a unit trust's selling and repurchase prices — Sapa

Traded Options Market opens today

MERVYN HARRIS

THE JSE Traded Options Market (TOM) gets off the ground today but activity is expected to be slow and volumes low as investors test the water of SA's newest derivative market (232)

Trading will begin at 11am on the equity market trading floor after an official opening by JSE chairman Humphrey Borkum

The initial number of TOM listings has been limited to call and put on the JSE all shares index, the all gold index and De Beers' shares. BDay 24/1/92

Other shares and the industrial index would be added depending on the market's performance and demand

Inexperienced players have been advised not to trade options without the necessary knowledge and tools Most of the initial action is expected to come from corporates using traded options as risk management instruments.

230 000 ignore the risk of bad debts

S/Times (Buss) 26/1/92

(232)

BY DON ROBERTSON

ONLY 5% of South African companies are insured against debtor losses — in spite of the dismal state of the economy and the rising number of liquidations

About 11 500 companies have taken out credit insurance or credit-risk protection But about 230 000 businesses probably need this cover

Company liquidations increased by 45% in the three months to last October and insolvencies rose by 24%, according to Central Statistical Services

In recent months, however, businesses have become more aware of this type of cover Only a few years ago, it was virtually unkown in SA

Credit Guarantee Insurance Corporation (CGIC) offers domestic and export cover and Credit Underwriting Agency (CUAL), a member of Commercial Union, covers the domestic market

Johan Engelbrecht of Profguard Insurance Brokers says there has been a sharp increase in the number of businesses inquiring about this form of insurance It effectively protects companies against bad debts, can be used as an additional method of raising funds and can be considered an asset in the case of a company that changes hands

Mr Engelbrecht says insurance is particularly valuable for small companies which might face ruin if a major creditor should be forced into liquidation

The insurer guarantees a payout and allows companies to meet their own debts

(232)

Advice

In a typical instance, CGIC or CUAL will underwrite up to 80% of a company's debtor book at a fixed premium, renewable annually and zero rated for VAT

The premium will depend on the "age" of the book and the creditworthiness of the debtors, all of which will be established by the insurance companies and treated confidentially

Depending on any increase or decrease in the size of the book, the premium, perhaps 0,2% of the total value, will be charged

Accounts are monitored monthly and advice can be offered on debt collection

In the event of a debtor company facing collapse, both CGIC and CUAL will pay out on provisional liquidation

A company wishing to raise capital on the strength of its debtor book is traditionally restricted to 50% of the total value But with credit insurance, it can be increased to as much as 90% of the debtor book's value

In most instances, the premium for credit insurance, is less than a possible debt write-off

Shareholders in CUAL are Commercial Union and KreditInform. CGIC is backed by most commercial banks and insurance companies Political risks are covered by the Department of Trade and Industry

In the year to June 1990, CGIC collected premiums of R18,5-billion compared with R2,8-billion in 1981 and paid R63,9-million in claims compared with R2,8-million

Three years later, TOM opens early

S|Times (Buss)

26/1/92

By JULIE WALKER

A THIRD of the intended size, three years overdue and six times over budget, the JSE's Traded Options Market (TOM) opened 10 minutes early on Friday

It is on the equity trading floor and there was confusion before deals were struck, mostly in De Beers

Dealers crowded around the array of screens displaying trading details

JSE committee chairman Humphrey Borkum hopes TOM will improve the JSE's liquidity Options markets elsewhere in the world have been highly successful after faltering starts while dealers learnt the ropes

But the final cost of TOM — not yet determined but close to R15-million — has caused dissatisfaction among members

JSE publication Talking Options, dated April 1989, said TOM would be operating "by the middle of the year"

"In order to accelerate the development of TOM, JSE management retained FMDC, an American and Netherlands consulting firm, to provide technical and project management assistance to the JSE team"

TOM was budgeted to cost R2,5-million Much of the overrun was caused by the expense of hiring FMDC at a dollar-denominated rate Many JSE members are cross about JSE-related expenses — as much as 30% of total costs

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Scrip

Says one "The JSE is too bureaucratic, spending members' money A broker's profit margin used to be like Driefontein gold mine's Now it's like Doornfontein's"

The market that opened on Friday deals in only one of the six stocks and two of the four indices originally intended Only cash-settled options will be dealt in at first, but scrip settlement will be introduced later

Contracts will be written on De Beers shares and on the all-gold and overall indices multiplied by 10 and treated as rands Other instruments will be added as the market gains momentum

The JSE will use American options that can be settled at any time

There are two types of option The buyer or holder of a call option has the right, but not the obligation, to buy a specified quantity of the underlying security at a fixed price, called the exercise price This right is valid until the expiry date

The buyer of a put option has the right, but not the obligation, to sell the underlying security in terms of the contract

The amounts paid for options are called premiums The premium is paid to the seller, or writer, of the option

TOM is meant to standardise options contracts, exercise prices and expiry dates and to provide a central floor where options can change hands A holder will no longer have to exercise the option or allow it to expire

Mr Borkum thanked JSE vice-chairman Francois Tolken and TOM committee

● To Page 3

● From Page 1

TOM opens

S|Times (Buss) 26/1/92

chairman Peter Redman for their work

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Mr Redman justifies the cost overrun, saying the initial plans for TOM were naive and that a system working elsewhere could not simply be transposed to the JSE

He says the dealing system requires immediate reporting and matching of trades, together with speedy confirmation and allocation of trades to customers This should eliminate possible front-running — where a dealer could sit on a contract for a couple of hours to see how the market moved before either booking it to himself or to a client

All slips are time-stamped so that proper audit trails can be followed

Gencor pitches offer at R10 a share

STAR 27/1/92

By Sven Lunsche

Gencor's R2 billion rights offer has been pitched at an attractive R10 a share — a 14,5 percent discount on the ruling JSE price of R11,70

Announcing details of the rights issue yesterday, Gencor chairman Brian Gilbertson said the group was offering shareholders 17 new shares for every 100 held, resulting in 200 million new shares

Mr Gilbertson gave details of some of the projects which would require additional funding in the near future

The most important of these was Oryx, which would require a further R500 million to bring it to the self-funding stage, he said

Projects already in the pipeline and on which financing decisions would probably be taken later in the year were the Columbus stainless steel project and the aluminium smelter at Alusaf.

Gencor was studying the position of the No 6 sub-vertical shaft at the Winkelhaak gold mine, currently on hold, with a view to rationalising the project with some of the group's Evander gold interests

"The decision could facilitate future gold mining developments in the area, particularly if the gold price rose," Mr Gilbertson said

He indicated that Gencor was looking at major off-shore projects, but added that such projects would only be undertaken with the support of international financing agencies and other partners

The funds would also be helpful as the group expected pressure on its profits in the current financial year without the contribution of one-off earnings, which had boosted the bottom-line by R350 million in financial 1990-91, he said

"However, we expect that income at the operating level for the 12 months to August is likely to approach that of last year"

Gencor's parent, Gencor Beheerend, which is underwriting the offer, also announced details of its R1,1 billion offer to follow its rights in the Gencor issue

Genbeheer is offering 18 new shares for every 100 held for 900c a share On Friday, Genbeheer closed at R10

Genbeheer, which is underwriting the Gencor offer, has also undertaken to obtain subscriptions for its rights, as well as those for Genbeheer's subsidiary companies

Sanlam and its subsidiaries have undertaken to follow their rights entitlement to 386,8 million new Genbeheer shares, equivalent to 54,7 percent of the issue

The issue is underwritten by Sanlam's financial arm, Sankorp

Datakor emerges as top player on a sliding JSE

BDay 27/1/92.

MERVYN HARRIS

DATAKOR emerged as one of the best performers on a sliding JSE last week.

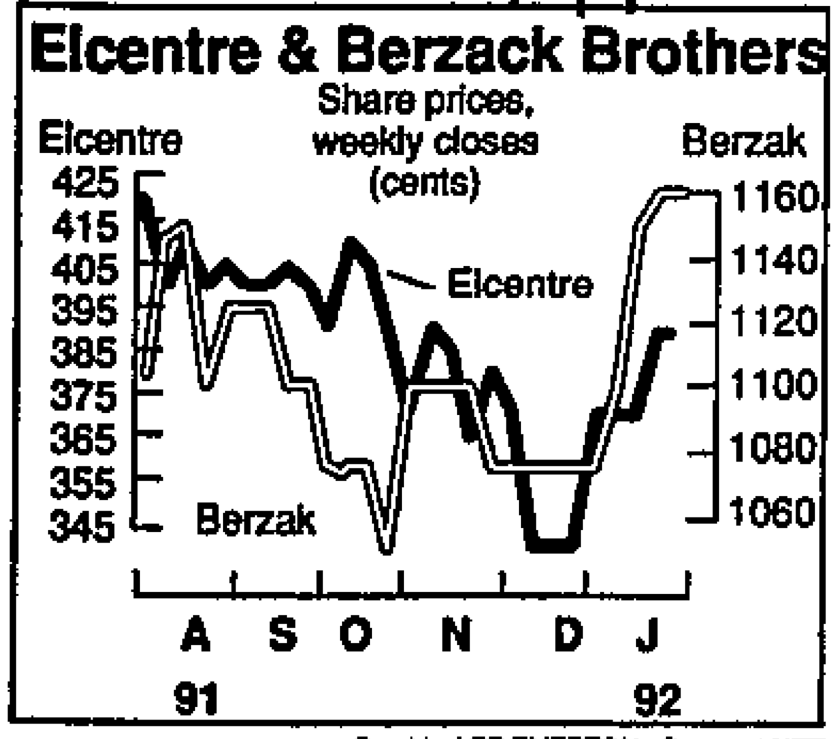
After climbing 21,4% or 30c to a new peak of 170c, taking its rise to 48% since the start of the year, the shares slipped back to 160c shortly before the close on Friday. But they are expected to retest the new peaks.

The upward rerating of the shares is recognition that Datakor has performed better than other computer groups in an electronic sector which has tended to lag behind the industrial board.

Datakor's performance puts to flight those sceptics who questioned its ability to digest the acquisition of Unisys in 1988. Unisys was purchased for R132m in a disinvestment move by its US holding company and was then larger than Datakor.

The issue of whether management under chairman Nic Frangos could sail smoothly through the process of integrating the two companies has been satisfactorily answered after three years.

Moreover, the large amount of debt which Datakor took over at the time, pushing gearing to well over 100%, has been eliminated and the group is now in a good cash position.



Graphic: LEE EMERTON Source: I-NET

The next question that investors could ask is which other company in the electronic sector is set to show a similar potential for growth in earnings and share price?

An increasing number of analysts consider the Elcentre group to be a promising target This is particularly so if the share price is compared to that of Berzack in the engineering sector

Essentially, Elcentre and Berzack have the same assets and income stream after both groups injected their cable and most of their other interests into Voltex, which then acquired a controlling stake in UK electrical wholesaler Bennet & Fountain (B & F)

But while Berzack has risen to a peak of R11,60, placing the shares on a historic dividend yield of 4,7% and a PE of 8,3, Elcentre has declined from a June peak of 450c to 390c, giving a yield of 9,2% and a p e of 6,15

Berzack retains interests in industrial and commercial sewing machines but these are relatively minor in the context of the group's overall business. Elcentre, however, ran into problems after it acquired Sanlic Hardware Holdings.

However, the R5m loss at Sanlic, which dragged Elcentre earnings down, is now believed to have been turned around — just as B & F chairman Phillip Aginsky reversed a loss of £10m into a profit of £2,5m in the last financial year.

Dividend flows from B & F to Voltex and then through to Elcentre and Berzack have probably been delayed by the sluggish UK economic recovery and a need to reduce finance costs because of the high level of the finrand when B & F was bought But growth is on the cards

Moreover, the cable interests of Voltex have strong potential while Elcentre should benefit from electrification of the townships

Anglovaal companies going to market for R135 milllion

STAR 27/1/93

Finance Staff 232

Anglovaal has announced the terms of the rights offers by its financial and insurance companies

The four companies will raise a combined R135 million, although the two pyramind companies, AVF Group and Avins, will use their funds to follow their rights in the Crusader Life and AA Life offers and the share issue of UK-based associate group Pegasus

The **AVF Group** will raise R43 million by offering 31 new shares for every 100 ordinaries held at 140c a share

The two major shareholders — Anglovaal and Absa Merchant Bank — have undertaken to follow their rights, while Anglovaal will also underwrite the issues.

Avins, the immediate holding company of Crusader and AA Life, is offering 63 shares for every 100 shares held at 50c each.

This will raise R37 million and will allow Avins to take up its rights, as well as invest R8 million in the Pegasus share issue

AA Life, which is not listed on the JSE, plans to raise R26 million, while **Crusader Life** is issuing 47 new share for every 100 held at 210c for its R20 million issue

The issue prices are on average about 10 percent below the ruling share price of AVF, Avins and Crusader on the JSE

JSE Traded Options Market starts slowly

B/D day 27/1/92

WILLIAM GILFILLAN

rading in the new Traded Options Market got under way on Friday. Initially trading will take place nly in De Beers and the JSE All Share and All Gold indices. New instruments will be introduced as the arket becomes established

Picture MIKE DUFF

THE JSE's R15m Traded Options Market (TOM) finally got off the ground on Friday But slow trade marked the opening with only nine transactions, with a premium value of about R13 500, recorded

TOM manager Jonathan Sims said the market needed to generate about 300 transactions a day to break even

However, JSE committee chairman Peter Redman said the nine transactions, with an underlying value of R250 000, were "highly satisfactory considering TOM is an entirely new market"

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The R15m final cost to establish TOM was a full six times more than the original budget of R2,5m given in 1988, the year the decision was made to establish a market

Redman said the initial intention had been for the JSE to uplift systems from overseas

However, it soon became clear that SA, with its dominance of large institutions on the JSE, required its own unique system

A large part of the R15m capital outlay went to paying consultants from overseas who then drew up rules and procedures suitable to the local market

Redman said increased investment flexibility for institutions and higher turnover on the JSE were two benefits expected to flow from the establishment of the TOM

He said there was a great need for an options market in SA given the shortage of good scrip

"There are instances when an institution, believing a share is overpriced, wants to sell but remains concerned that, having sold, it will not be able to repurchase the shares because of the shortage of good scrip"

He said TOM provided a hedge as investors would be more willing to sell the underlying share in the knowledge that they could buy back through the options market'

Trading

Redman said exchanges overseas had found the existence of derivative markets improved liquidity in the underlying equities markets

Initially trading in three instruments was to take place on TOM They are the JSE All Share and All Gold indices and De Beers

However, new instruments would be introduced when the market became more established

Other instruments set to join the options market in time are the JSE Industrial index, Anglo American, Barlows, Rustenburg Platinum, Sasol and Driefontein Consolidated

Sims said the criteria used when deciding on whether a company would be allowed to join the options market were its market capitalisation, the turnover of the company's shares on the JSE and the integrity of the company itself

Genbel earnings up, but assets smaller

MATTHEW CURTIN 232

GENBEL, investment arm of the Gencor group, has posted an 11% rise in earnings a share in the six months to end-December, but in that period the value of the group's net assets fell more than 6%.

Stable or higher dividends from the companies in which Genbel is most heavily invested led to the group's attributable income rising in the interim period to R82m from R74m in 1990.

Earnings a share climbed to 19c from 17,1c, and the group declared an interim dividend of 15c, compared with 13,5c the year before. BDay 27/1/92

Genbel's biggest investement by value is in Genbeheer, holding company for the Gencor group, followed by Gencor's energy group Engen. Then come offshore company TransAtlantic, Impala Platinum (Implats) and De Beers.

They make up more than half Genbel's total investments

Since 1987 Genbel has reduced its holding of investments in the gold mining sector which, from representing 61% of its portolio by market value in that year, was only 13% on December 31 last year.

Chairman Tom de Beer said in a statement at the weekend that attributable earnings and dividends for the current financial year were expected to exceed last year's.

He said the major transactions in the

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Genbel

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interim period were Genbel's sale of shares in Rustenburg Platinum, an increase in its holding in Implats and the purchase of 1,5-million shares in Sappi

The market value of the group's assets fell to R3bn, or 693c a share, at the end of the interim period, against R3,2bn or 740c a share at its 1991 year-end in June, because of a sharp drop in the value of its gold and platinum investments

However, this compared more favourably with the group's net asset value of 642c a share at the interim stage in 1990

De Beer said the value of the group's net assets was R3,1bn, or 706c a share, on January 22 this year

Proposals for tighter surveillance of securities industry accepted by JSE

STAR 28/1/92.

(232)

By Sven Lunsche

The Government's Financial Services Board (FSB) yesterday proposed the registration of securities dealing staff at all financial institutions as part of a package to improve surveillance of the JSE and the securities industry

The proposals are part of a series of recommendations by the former Director of Enforcement of the London Stock Exchange, Bob Wilkinson, who was approached by the JSE and the FSB to conduct an investigation into surveillance of the securities industry in the wake of the Kahn investigation

At a press conference yesterday, FSB chairman Piet Badenhorst said some of the proposals could form part of the legislation to be presented to Parliament during the current session

Mr Badenhorst said that the FSB was working on a Financial Services Act, which would allow the board to take full supervisory jurisdiction over the fund management industry, equivalent to the JSE's regulation of stockbrokers

Power of veto

It is proposed that the FSB be granted powers of veto over decisions by the JSE and that it work closely with the recently formed Office for Serious Economic Offences

Particular attention would be paid to supervision by the FSB of financial institutions' dealings in securities, Mr Badenhorst said

Apart from the registration of institutional dealing staff, the proposals call for competency tests for dealers, as well as audits and inspection procedures

The proposals by Mr Wilkinson envisage stricter supervision at the JSE itself These proposals were supported at the conference yesterday by JSE chairman Humphrey Borkum

As part of the monitoring process, the proposals envisage using the recently introduced Broker Dealer Accounting (BDA) computer system to introduce a stock-watch system to monitor price movements and a "five-minute role" for reporting transactions

Independent audit

The JSE has been called upon to tighten up existing regulations, including the rules banning shared commissions with institutions, an annual independent audit of broking systems and stricter admission tests

Individual JSE member firms could be subject to stricter controls on Krugerrand transactions and checks on the real identity of clients.

Mr Borkum said the JSE was ready to amend its rules as soon as possible

Stockbroker to stand trial in Rand Supreme Court in October

Blank faces 49 fraud charges

STAR 28/1/92 (232)

By Marc Hasenfuss

CAPE TOWN — Details of the indictment served on leading Johannesburg stockbroker Gregory Blank (32), facing 49 charges of fraud, were released yesterday.

Mr Blank made a brief appearance in the Goodwood Magistrate's Court yesterday and the case was transferred to the Rand Supreme Court for trial on October 5

In terms of the indictment, the state alleges that Mr Blank, a former director of Frankel Max Pollak Vinderine, illegally secured personal profits by irregular share transactions involving the Old Mutual

The state alleges that in August 1989 Mr Blank joined Marco Celotti and David Schapiro (both portfolio managers at Old Mutual) in a scheme to buy shares for an account at market price and then on-sell them to Old Mutual at a profit

According to the indictment, Mr Blank approached a business associate and persuaded him to open an account with a R3,5 million revolving credit facility through which shares could be bought and sold

Profits from this venture would be transferred into Krugerrands State documents show that over the period August 1989 to February 1991 a total of 2759 Krugerrands valued at over R3 million were purchased

Revolving credit

The state alleges that Mr Blank and the business associate then approached a finance company, which agreed to open an account at his company in the name of the business associate with a revolving credit facility of R3,5 million

Once enough shares were accumulated in the account and the share reached a certain price, portfolio managers Mr Celotti or Mr Schapiro would ensure that Old Mutual purchased these shares

Furthermore, Mr Blank entered a similar scheme with Messrs Celotti, Schapiro in February/March 1990 in which they bought and sold shares through an account with an off-shore company, AW Bradshaw and Co (Guernsey)

Mr Blank and Peter Rawson of Bradshaw opened the Capital International Trust No 2 to buy and sell shares locally with the intention of selling them to the Old Mutual at a profit

The state alleges that operating through an off-shore account enabled Messrs Blank, Celotti and Schapiro to buy and sell through the financial rand and retain their profits offshore

Mr Bradshaw charged 15 percent on all capital gains as an administration fee, while the balance of the profits were shared by the other participants (Mr Blank was entitled to 20 percent of the capital gains)

A total profit of financial R6,2 million (before the administration fee) was realised through these offshore deals, state documents show

The state alleges that Mr Blank would ensure an increase in the price of the share purchased for Capital International No 2 by manipulating the market price with the assistance of other stockbrokers, or by aggressive buying

Foreign account

The profits were held in foreign currency in an account at Barclays Bank Plc, Angel Court, London, by Mr Bradshaw on behalf of Messrs Blank, Celotti and Schapiro

On four occasions Mr Blank instructed Mr Rawson in London or his assistant in Johannesburg to transfer his share of the profits to an account which he specified at Pictet et Cie Banque, Geneva, Switzerland, the state alleges

According to the state, Mr Blank did not have authorisation from the SA Reserve Bank to retain funds off-shore or have a foreign bank account

Yesterday the state said it had intended to apply for an increase in Mr Blank's bail (currently R500 000) in light of funds held overseas by the accused However, in light of the fact that Mr Blank had given instructions for the return of the funds the state would not proceed with the application

The state said that if the overseas funds were not returned to South Africa within the next few days, an application for an increase in bail would be made

During the short session yesterday the court accepted a request to transfer the case to the Rand Supreme Court The state stressed that it was at the request of the defence (who would not be available at an earlier date) that the case was postponed

JSE boss lists SA's priorities

B/Day 29/1/92 (232)

WILLIAM GILFILLAN

THE housing shortage was one of the main economic challenges facing the country, incoming JSE president Roy Andersen said last night.

Addressing the SABC Diagonal Street banquet, Andersen said there was shortage of more than three-million houses — "but sadly in 1990 we built only 40 000 houses to meet this need".

"Some excellent initiatives have already been taken, but we need to do more The UK experience has also proved that the mere provision of housing is not enough. The housing programme must be integrated with a project to create overall national wealth"

Opportunities in the country had to be equal. He said that although the desired manager/worker ratio was 1 25, the ratio in SA in 1988 was a 1.60 and expected to worsen.

"Education cannot provide the experience and judgment required of managers. This takes time and we therefore cannot delay in the advancement and training of more managers from all race groups"

He said that when SA's productivity figures were compared with those elsewhere in the world it became obvious that SA's productivity had to be improved. Over the past 15 years SA's productivity rose by 18% while wages soared by more than 500% In Taiwan, by comparison, productivity increased by 112% and wages by 110% over the same period

Andersen said exports were essential for the country's future success and so new projects such as the Columbus stainless steel plant were most welcome.

Referring to labour opportunities and job creation, he said SA's population was expected to jump to 60-million by the year 2010 while reliable estimates indicated that unemployment was already at about six-million

SA's high tax rate was not only demotivating but also made it difficult for companies to be internationally competitive.

However "although the government has expressed its commitment to cutting the rate, this will be difficult to achieve with much needed social spending".

JSE expecting R20-bn to be invested this year

STAR 29/1/92

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Pension funds and insurance companies are expected to invest up to R20 billion in the JSE this year, says incumbent JSE president Roy Andersen

Addressing the SABC's Diagonal Street banquet yesterday, Mr Andersen said only 50 to 60 shares were actively traded last year and only 15 new listings were recorded

The trading volumes and liquidity were the major challenges facing the stock market.

The poor liquidity was partly the result of the weight of funds which made it difficult for portfolio managers to sell large blocks of blue-chip shares as they might not be able to repurchase them later

He said liquidity could be boosted by reducing the unit costs per transaction, attracting overseas investors and removing the tax uncertainties about selling shares.

Gencor discount at 14,5%

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WILLIAM GILFILLAN

GENCOR's R2bn rights offer has been priced at R10 a share, representing a 14,5% discount on Friday's closing price of R11,70 a share

The new shares will be offered at the ratio of 17 for every 100 held

Expectations of lower earnings and a volatile market were the reasons cited by market sources for the "surprisingly low" R10 a share price chosen by Gencor

Chairman Brian Gilbertson, while accepting the price was "a little on the low end" said the discount was narrower than the 18% discount given in the group's 1989 rights offer which raised R1,4bn

"On Friday's closing price of R11,70 a share, pitching the offer at R11 a share would have given a discount of only 6% which could be considered a little thin in this volatile market," Gilbertson said

Gencor was happy to select a slightly wider discount "in order to ensure the rights offer went off without problems and we get a full take-up of the shares"

One stock market analyst believed a reason for the wide discount was that Gencor knew the market was expecting a drop in earnings this year. The mining group, heavily dependent on commodity prices, has been hit by the weakness in the commodity market. Earnings below 110c a share are expected, which would be more than 8% down on last year's earnings of

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Gencor

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119,5c a share.

Gilbertson said "We expect the pressure on our profits which started last year to continue and shareholders should remember that we will not necessarily have the one-off earnings which we reported in our 1991 financial year"

Income from various one-off sources boosted Gencor's earnings last year by about R350m "However," he said, "we anticipate that income at the operating level for the 12 months to August 31 is likely to approach that of last year."

One analyst said another consideration when deciding on the wide discount was to ensure the offer went off without problems especially considering the chairman had only recently taken up his post. Gencor was also believed to be covering itself in case the market weakened before the end of February

Shareholders have until the end of February to take up their rights

Meanwhile Gencor's holding company Genbeheer is to raise R1,1bn in order to follow its rights in Gencor. The R1,1bn was to be raised through issuing 127-million shares at R9 a share on the basis of 18 new shares for every 100 held This compares with Friday's share price of R10 and reflects a 10,0% discount

Sankorp, which holds 50% of Genbeheer, and the Rembrandt group, with 25% shareholding, are to follow their rights

Gilbertson said the attraction for the institutions of this rights offer — the biggest yet in SA — was that it gave them an opportunity to invest in greenfield projects, rather than to continue chasing paper on the JSE

AVF, Avins and Crulife granted listings

THE Johannesburg Stock Exchange has granted listings for the AVF Group, Anglovaal Insurance Holdings (Avins) and Crusader Life renounceable (nil paid) letters of allocation and their respective new ordinary shares to be issued following their rights offers

Bday 29/1/92

The nil-paid letters of all three companies will be traded from February 3 to February 26 and their respective new ordinary shares from February 27

AVF Group's letters of allocation and new ordinaries total 30 596 194 each, Avins' totals are for 93 148 025 letters and shares, and Crulife's amounts to 9 652 625 each

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The last day to register to determine those shareholders entitled to participate in the rights offers is January 31. The listing of the nil paid letters commences on the JSE on February 3, and the last day for dealing in them is February 26.

Even JCI not proof against recession

210 232 STAR 29/1/92

By Derek Tommey

Even Johannesburg Consolidated Investment (JCI), a major mining house with large investments in gold, platinum, diamonds, property, newspapers and beverages, is not immune to the recession

After years of strong and sustained profit growth, its earnings showed little increase in the six months to December

The directors warn that as a result of continuing tight trading conditions, earnings for the full year could even be lower than those of last year

The interim statement, released yesterday, shows that equity-accounted earnings rose only R1,5 million in the six months to R190,6 million, equal to 129c (128c) a share

An unchanged interim dividend of 42c a share has been declared

Retained earnings

Pre-tax profit rose 2,9 percent from R171,4 million to R176,4 million, while tax took R10,3 million (R13 million)

Share of retained earnings of associate companies dropped to R24,5 million from R30,7 million

Retained earnings, after the transfer of R24 million from non-distributable reserves, amounted to R152,7 million, against R96,5 million at the end of December 1990

Despite the recession, JCI is continuing to invest heavily in new projects. Capital expenditure for the six months was R189,7 million, up from R98,7 million a year earlier

And at the end of December it had commitments to spend R122,7 million (year ago, R233,9 million)

Ordinary shareholders' interest rose from R2,2 billion to R2,38 billion, while total capital employed increased from R2,27 billion to R2,60 billion

Properties

At the end of December, JCI had R2,48 billion (year ago, R2,05 billion) in investments, loans, marketable properties and mining prospects, and R617,8 million (R567,1 million) in fixed and mining assets

Net current liabilities were R 502,6 million (R339,2 million)

The net asset value a share was R61,85, up from R61 at the end of June

An avenue to spread the investment risk

B/Day 30/1/92 (232)

INVESTMENT in property is an essential component in any investment portfolio, and property unit trusts provide an ideal way to invest in property and at the same time achieve a diversification of risk, says Association of Property Unit Trust Management Companies' Les Weil

"In contrast with investing in a single property, property unit trusts provide an avenue for spreading the investment risk.

"This is achieved through holding a multitude of properties in different geographical locations and tenanted by a large number of sound tenants

"There is also an advantage that the units are readily marketable through the JSE and an investor will experience no problem in realising all or portion of his units"

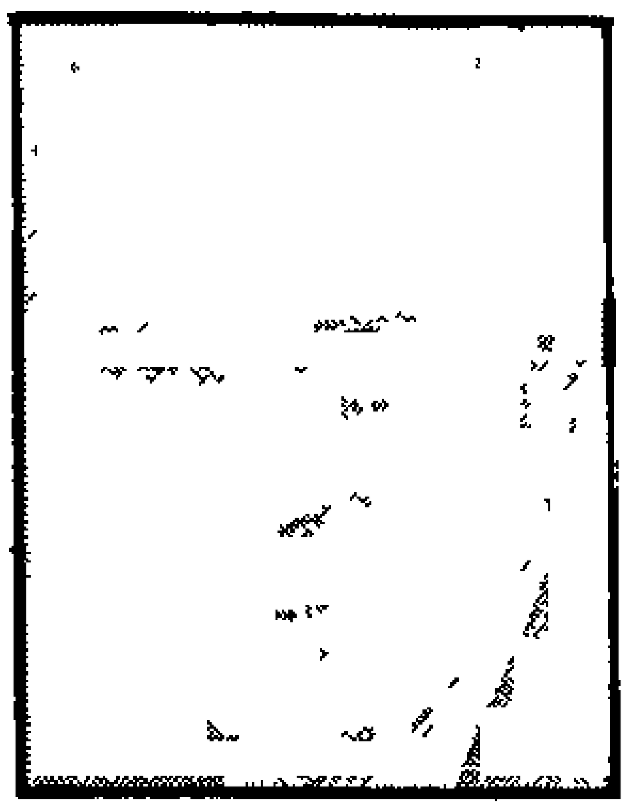
Weil says property unit trusts are not taxable as a result of a special clause in the Income Tax Act and since they distribute their entire rental and other income at least twice a year, investors receive their income in the same way as if they were directly invested in the properties

Benefit

"Investors will pay tax at their usual marginal rates on such income, but will receive the benefit of the interest income deduction of R2 000

"This is in contrast to receipt of a dividend from an equity trust where the companies in which the trust has invested will have borne a tax charge"

Weil says it is important to note that property unit trusts are not permitted to mortgage or encumber properties in a unit trust portfolio in any way, thereby substantially reducing investment risk.



LES WEIL

"There is nothing, however, to stop an individual investor using his units to secure borrowing at his bank and being listed

"They are a most acceptable collateral"

The 16 property unit trusts listed on the JSE have a combined market capitalisation of about R5bn and their portfolios cover all categories of real estate, namely offices, industrial, retail and residential

The prices of each of the property unit trusts are quoted daily and units can be traded on the JSE

All 12 management companies which manage the property unit trusts are members of the association Both property unit trusts and equity trusts are regulated by the Unit Trust Control Act

"The main difference between a property unit trust and an equity trust is that a property unit trust is closed end, which means the management company does not repurchase units from investors"

Weil says property trusts have in the past expanded through rights issues and have been able in this way to offer unitholders an ongoing opportunity to participate in portfolio growth

"In order to achieve the same comparative investment advantages as other categories of investors, the association believes that in addition to expansion through rights issues, properties should also be acquired for scrip and discussions with the Unit Trusts Advisory Committee of the Financial Services Board," Weil says

As is the case with equity trusts, the Financial Services Board will not register a management company unless satisfied with its financial standing and ability

Experienced

Weil says leading banks and financial institutions with longstanding track records are among the major investors in property trust management companies

"The property portfolios are managed by experienced and professional property management organisations

"In addition, the trustee is the custodian of each trust's assets and acts as the holder of funds awaiting capital investment and of title deeds and is responsible for the issuance of unit certificates and for ensuring each trust's assets are properly insured."

Weil says property is a long-term investment and considering the fact that there is a limitation of space in existing buildings and development of new accommodation can only be achieved if rentals escalate, the overall trend in income and capital appreciation is promising

The average yield for the sector is 10,9% and there are sound prospects for capital appreciation, especially if interest rates decline, he says

Plan will spark economy

Sowetan 30/1/92

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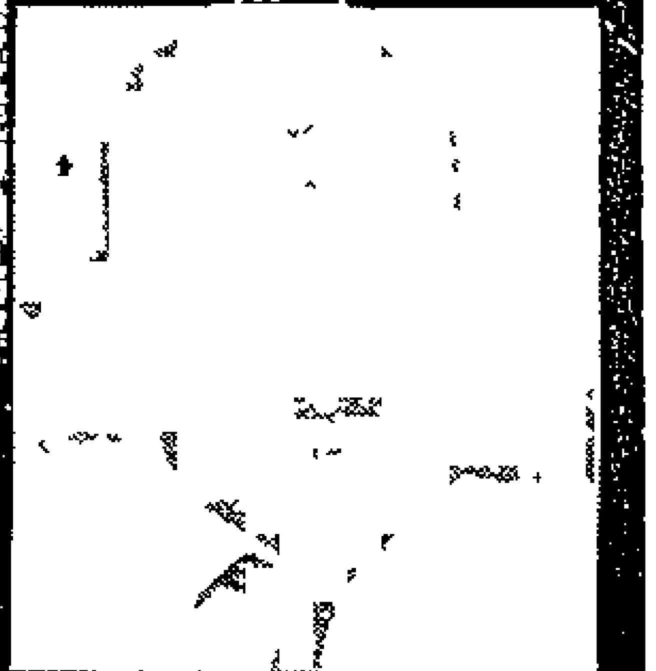
It's my business



THAMI MAZWAI

A LITTLE empathy could help the white business community understand Dr Sam Motsuenyane's suggestions on black economic empowerment.

He wants what they want - redistribution through growth - but he wisely links this with continuous black advancement at all levels of the economy

Motsuenyane says

- 30 percent of board members of JSE-listed companies should be black,
- 40 percent of shareholding at these companies be black;
- 50 percent of purchases should come from black businesses and,
- 60 percent of managers should be black

This would apply to companies listed on the Johannesburg Stock Exchange and be attained over 10 years

Big business responds, point by point·

- Our grounding on business issues is inadequate and such appointments would be mere tokenism,
- There is no law that bars blacks from buying shares,
- Businessman, like consumers, want the best product at the most competitive prices, and
- Promotions must be made on ability, not colour

These arguments, even to many blacks, make sense .If our economy is to expand, most people agree, much emphasis must now be placed on exports and the manufacturing industry

A leading development economist says "Countries which dominate the global economy are those which can manufacture goods most efficiently, develop technology for new products and processes the fastest, and win the biggest share of other countries' markets for their exports."

Disadvantage

Our major companies are thus forced to be cost-effective, and will hire experienced managers and buy from seasoned suppliers This puts blacks at a disadvantage

However, Motsuenyane still has a case

Firstly, as the white electorate voted for apartheid, and this policy is responsible for our lack of technical and management expertise, why punish us for not having these skills?

Secondly, as a lot of companies, for instance Anglo American, Barlow Rand, Anglovaal and others, have already started on the route suggested by Motsuenyane, why the outcry?

Thirdly, we are not talking *accepted market principles, sensible economies or any of those nice sounding terms;* we are talking of basic survival and our development as one nation

Western countries are deadlocked in the GATT talks, an international forum regulating trade between nations

Some insist subsidies to farmers must be retained, others see them as an unfair trade practice, while others want them scrapped altogether. In short, countries are looking at their own interests.

Our national interest is to bridge the economic gap between black and white Furthermore, all things being equal, Motsuenyane's formula will stimulate the economy to some extent

Bolster

An increase in black managers and the purchasing of supplies from township entrepreneurs will bolster black incomes

An increase in the sales of cars, furniture, white goods and other upper bracket goods will follow the increase in consumption that spontaneously happens when incomes go up

In turn, factories for these items become busier and jobs are created

Buying from township suppliers also attracts more blacks who will want a piece of the action - this time as producers

Keener competition will develop between township entrepreneurs and some will now want more skilled people, and more advanced capital equipment will be bought to get an edge over rivals

As Motsuenyane's formula has a 10-year time frame, companies can plan over several years to achieve these targets.

The sting is that stereotypes in management levels who are determined to keep the economy all white, will now be forced to consciously seek out black managers, or select and develop from the staff they have, and will also tap the townships for entrepreneurs who will supply some of their needs

Industry chief wants to see choice widened

B/Day 30/1/92 (232)

DEPUTY chief registrar of the Financial Services Board (FSB), Gad Ariovich, who took control of the unit trust industry in September last year is a firm believer in the free market system

He would like to see more unit trusts on the market to widen the choice available to the public and to increase competition

Ariovich is opposed to interfering with market forces and apart from creating an efficient infrastructure for investment organisations, says the industry should be left to develop on its own

"However, we would not allow the industry to make excessive profits at the expense of the man in the street.

"We have found the industry to be a responsible and efficient one and it has therefore not been necessary to be overly zealous in our watchdog role"

The legislative framework of the unit trust industry underwent fundamental revision in the 1990 parliamentary session to give more flexibility and self-control to the regulation of its affairs

Whereas previously the Unit Trusts Control Act contained rigid prescriptions over matters such as service charges, the maximum percentage of a portfolio which could be invested in any one share, advertisements, derivatives etc, the amendments removed these rulings from the Act and gave the registrar of the FSB the discretionary power to decide on these matters

Advise

The Act also made provision for the establishment of a Unit Trust Advisory Committee to advise the registrar in the exercise of his discretionary powers

Representatives of the board, the industry and the JSE sit on the committee

FSB unit trust and participation bond manager Gerry Anderson says it was an unnecessarily time-consuming process to have to pass amendments through Parliament in order to change the way the industry was regulated

He says the industry now has a healthy regulatory environment and he does not foresee any further legislative changes for a number of years

"The performance of the industry and the number of new funds registered has shown the demand by the public for the funds and that the unit trust industry is growing from strength to strength

"We expect there will be more unit trusts coming onto the market this year"

Anderson says there is sometimes a lag between the registration of new funds and their public launch as management companies await propitious conditions in the market

At present the authorities do not see the need to restrict the number of new funds being registered

"One of the criteria we apply to an applicant is that he must be able to indicate why an existing unit trust cannot act as the vehicle for the idea he is proposing

"Contrary to the view of the authorities in the early '80s, when a brake was imposed on the number of new trusts, the FSB is happy to approve any new fund if the applicant can prove there is a need for it and there is a reasonable probability of its being successful"

Refused

Some applications for new funds have been refused on the grounds of public interest and the presence of existing funds which could cater for the proposal

To monitor the financial soundness of the industry the board requires the submission on a quarterly basis of returns by the different funds

"There is a good relationship between the authorities and the industry and we would only introduce changes after intensive discussions," Anderson says

Commercial Union buys into blue chips

BDay 30/1/92 (232)

COMPOSITE insurer Commercial Union entered the unit trust industry last year with the takeover of the management of AA Life's Allegro unit trust, renamed the CU Growth Fund

Assets in the fund have grown from R10m at the time of the takeover to about R25m, and senior GM investments Roger Wanlass says the aim is to bring in assets to R100m over the next few years

Restructuring

Radical restructuring of the fund's portfolio was necessary after the takeover to rid it of the second and third line stocks which were its dominant features

The weighting of the portfolio was also changed to more closely reflect the JSE's all share index

Presently, the fund is concentrated on blue chips with the top 10 counters as follows Richemont, SA Breweries, Premier, De Beers, Barlow Rand, Anglo American, Anamint, Mid Wits, Rustenburg Platinum and Liberty Life

Liquidity at end-December stood at 17%

The fund lagged the industry in terms of performance in 1991, generating a sale to repurchase return of 16,58% compared to the All Share Index's growth of 31,02%.

Wanlass says the fund's performance record for the next year will be dragged down by its past history as it has inherited a poor performance but thereafter performance will equal that of Commercial Union's managed funds

"If we can emulate the performance of Commercial Union's managed funds we will be in the top quartile of the industry," Wanlass says

Despite the drawbacks of taking over a poorly performing fund, Wanlass says this route was considered preferable to starting up a new fund from scratch

While Commercial Union had wanted for some time to expand its financial services to include a unit trust, it had put off the decision to do so as it did not have the established distribution channels and systems.

It had therefore opted to take over an existing fund when management of Allegro was put onto the market

The trust will be marketed among others to Commercial Union's extensive client base in the short term insurance market

Instability

Regarding the coming year, Wanlass says stock market instability is expected and it will be difficult to find real value

The CU Growth Fund will stick to its policy of investing in blue chip shares.

Wanlass is reasonably positive about the prospects for gold in the medium term, and says the fund has invested in gold shares.

Small investors gain by pooling their capital

B Day 30/1/92

(232)

THE most often cited advantage of unit trusts and the reason for their appeal to the small investor is that they enable a large number of investors to pool their capital to invest on the stock exchange

By pooling their resources, investors can acquire a spread of investments in equities which would not be possible if they acted individually

The money is invested by highly professional unit trust managers in listed shares, quoted interest-bearing stocks and cash

So the investor not only gains from pooling resources, but also from the knowledge applied by investment experts on his behalf.

Obliged

Furthermore, the investor cannot become a victim of the vagaries of the market as the management company is legally obliged to buy back all units offered to it

The pooled resources of the fund are divided into identical units, each with the same value and the units are distributed to the investors

New units can be created or the number reduced as dictated by supply and demand

Sanlam unit trust GM Otto Jaekel says "For a small cost, the unitholder obtains a spread of investment and professional risk management of his money, the provision of a full administration service and the ability to acquire and realise the investment at ruling prices without having to compete against other buyers and sellers"

All industry spokesman stress the long term nature of unit trust investments Money can be lost if they are used as a short term investment vehicle

"A unit trust grows by long-term increases in the market value of the units, income earned on the assets in the portfolio and the purchase of additional units by reinvesting this income," says Jaekel

No tax is paid by a unitholder when he sells his units back to the management company

University of Pretoria Graduate School of Management professor Hugo Lambrechts says the capital appreciation of the investment is not taxed and the pure dividend portion of the income distribution is also not taxed.

A tax charge is only imposed on the interest portion of the dividend and a marketable securities tax is paid up front

Unit trusts are governed by the Unit Trust Control Act, which provides the legal framework within which they must operate as well as stipulates safeguards for the investor

Only financially sound management companies are allowed to operate unit trusts, there are strict reporting requirements and investment strategies are legally circumscribed to limit the risk

For instance, says Jaekel, the investments held by the trust must be reported to the Registrar of Unit Trusts every three months

These quarterly lists of investments are also made available to unitholders on demand

Management companies may not impose an initial charge in excess of a maximum 5%.

In addition, the management company receives a management fee equivalent to 0,75% a year of the average month-end market value of the trust's portfolio

The income generated by the trust after the deduction of management and audit fees is distributed either quarterly or half yearly and can either be paid in cash or automatically reinvested in further units

Determined

The repurchase price is determined by obtaining from the stock exchange the valuation of the securities held, based on their ruling prices Added to the securities figure is cash held plus accumulated income

This total is divided by the number of units in issue and the result is the normal repurchase price

"To determine the selling price the compulsory and intial charges are added to the repurchase price The selling and repurchase prices are quoted daily in the Press and usually provide a firm basis on which units can be bought and sold," Jaekel says

The selling price is the price payable by investors when they buy units and the repurchase price is the price payable to investors when they sell units back to the management company

New rules give managers greater flexibility

B/Day 30/1/92 (232)

THE change in the investment rules of unit trusts to allow them to invest up to 10% of their portfolio in shares with a market capitalisation of R2bn or more has provided greater flexibility to portfolio managers, but has not resulted in restructuring of shareholdings

Previously, unit trusts were only allowed to hold up to 5% in any one share and not more than 5% of any share's market capitalisation

Old Mutual portfolio manager Adrian Allardice says the ruling has made things easier as bigger companies can be given a bigger weighting

"It has changed the structure of portfolios a bit but not radically as we are using the inflow of new funds to effect the restructuring," Allardice says

Although there is no consensus on the issue, some portfolio managers say compliance with the 5% ruling which was introduced in 1965 could have downgraded the quality of portfolios and it was out of tune with developments on the stock market

Syfrets unit trust marketing manager Kevin Hinton says there are 60 counters on the JSE with a market capitalisation of over R2bn and they represent 73,9% of total market capitalisation

The limitation to 5% meant proper weightings could not be given to shares which dominated the stock market

Sanlam unit trusts chief investment manager Stafford Thomas says many of the shares falling into the R2bn category form part of corporate pyramids

There are only about 40 shares not involved in pyramids, six or seven of which are gold shares, so few shares are affected by the rules

But he says the change will benefit portfolio management

"In the old days the inflow of cash would water down one's holdings in blue chip shares which might have risen above 5% because of the increase in market values But you could not top up until you fell below 5%

"The change means we can exercise greater control over the effects of liquidities on the portfolios"

Thomas says the change evens out the portfolio management playing fields as in the past newly established funds could not have the same weightings as older funds which had exceeded the 5% limit through increases in share prices

Black community is slowly moving into the field

B/Day 30/1/92 (232)

THE unit trust industry's penetration into the black community has a long way to go, but recent adaptations of the concept to the saving patterns of the community should stimulate the growth of this market

Most unit trust management companies report a healthy growth in the number of unitholders in the black community

Old Mutual, for instance, estimates about 25% of its new unitholders are black

However, market research commissioned by Southern Life shows that as a percentage of the total population the number of unitholders generally and black unitholders in particular is low

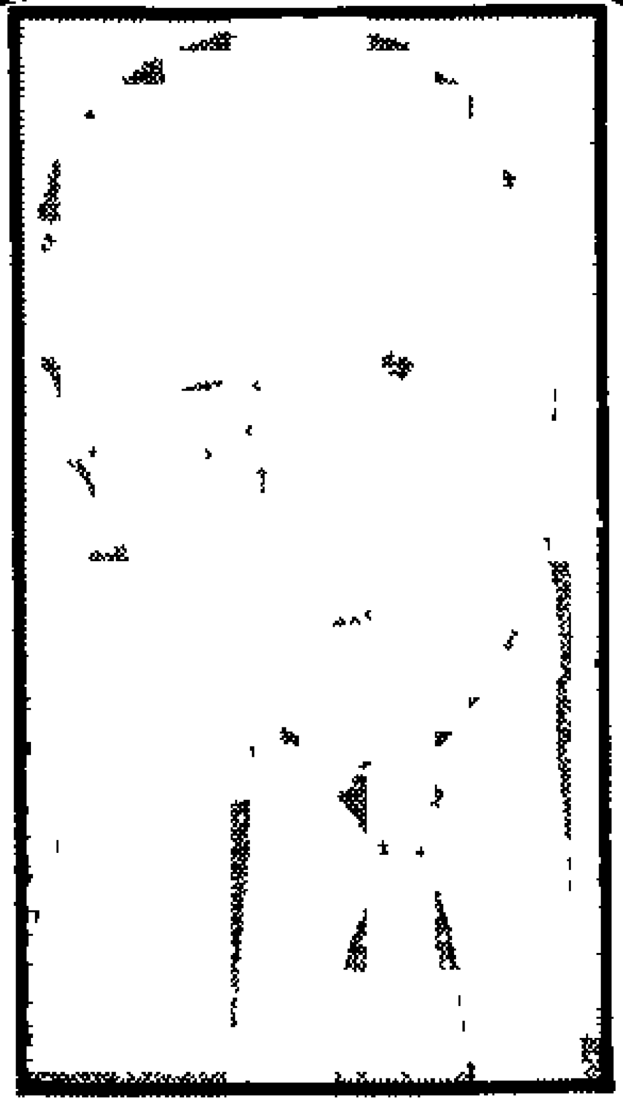
Association of Unit Trusts chairman Clive Turner says there is a need to ensure educational material has as broad a penetration into the potential black investment market as possible

"It is important that the implications behind the stock market are made clear before commitments are made to this form of investment

"It is not something which can be done in a hurry because of the expense and there is a danger of pushing too hard," Turner says

Recently, National Stokvels Association (Nasasa) president Andrew Lukhele announced a plan to divert millions of rands saved by informal savings groups into unit trusts, which could be used as collateral for home loans

First National Bank has backed the scheme, saying it would accept unit trust certificates as collateral, while Syfrets Managed Assets has signed an agreement with Nasasa for Syfrets units to be offered to stokvel members



ANDREW LUKHELE

Syfrets Managed Assets unit trust marketing manager Kevin Hinton says the agreement opens up a new market for the company's unit trusts and positions it as a company proactively involved in developing new products to cater for the needs of that market

Lukhele says the arrangement will allow black savings to be ploughed back into the black community

There are an estimated 800 000 stokvels countrywide with 10-million members who are believed to generate an income of over R200m monthly Lukhele says about 10% of these are members of Nasasa

He says a key feature of the unit trust concept is that the financial risk of a loan will be taken away from the bank and assumed by the stokvel which — as in other group credit schemes — will exert peer pressure on the beneficiaries of the loan to ensure loan repayment

Every major financial institution has a stokvel account, he says

"In the past there have been complaints that the financial institutions were a one-way street and did not plough anything back into the community"

Financial institutions in the past have been reluctant to lend money for homes to township residents because of the political risk

An educational programme is planned to educate members by means of newspapers, pamphlets and workshops about how the proposal will work

Lukhele says building materials depots will be established on the Reef to supply cheap materials to members

Unit trusts

BIDay 30/1/92 (232)

SPECIALIST EQUITY FUNDS

MINING AND RESOURCES FUNDS							
Mining Producers' Index	17,13	17,13	14,33	6,82	19,05	20,31	25,17
Mining Financial Index	23,58	23,58	20,28	11,38	24,58	22,91	29,06
Guardbank Resources	20,38	12,49	15,81	—	—	—	—
Old Mutual Mining	8,84	1,06	9,23	—	—	—	—
Sage Resources	16,69	9,02	11,88	—	—	—	—
Sanlam Mining Trust	16,44	8,60	22,14	8,20	17,63	16,16	20,60
Southern Mining	15,01	7,21	11,48	—	—	—	—
UAL Mining & Resources	24,46	16,21	16,48	10,91	20 41	19,47	24,02
GOLD FUNDS							
All Gold Index	+1,58	-1,68	-0,15	-5,52	8,05	14,32	21,19
Old Mutual Gold Fund	-7,90	-14,54	—	—	—	—	—
Standard Bank Gold Fund	-3,05	-9,43	2,72	-1,84	10,70	—	—
INDUSTRIAL FUNDS							
Industrial Index	42,35	42,35	33,15	28,30	30,29	24,93	29,19
Old Mutual Industrial Fund	42,51	32,30	—	—	—	—	—
Sanlam Industrial Trust	44,59	34,86	29,04	23,07	26,69	22,86	26,80
Senbank Industrial Trust	—	—	—	—	—	—	—
OTHER SPECIALIST EQUITY FUNDS							
UAL Selected Opportunities	41,88	31,91	22,39	—	—	—	—
HIGH INCOME FUNDS							
CPI (Estimated for Dec 1991)	16,10	16,10	15,30	14,70	15,70	14,80	14,30
Guardbank Income	17,36	16,11	18,52	—	—	—	—
Old Mutual Income Fund	15,78	14,52	—	—	—	—	—
Standard Bank Extra Income	19,70	18,36	18,01	16,55	17,19	14,68	—
Syfrets Income	14,69	13,54	16,43	—	—	—	—
GILT FUNDS							
All Bond Index	14,37	14,37	17,42	15,02	—	—	—
Corbank Gilt Fund	14,03	12,83	17,61	13,77	—	—	—
UAL Gilt Unit Trust	14,33	13,19	17,78	—	—	—	—

Unit trust industry

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SA versus overseas

Bday 30/1/92.

	SA	UK	USA
Value of all funds	R11,4bn	R280bn	R2700bn
No. of unit trusts	42	1386	3016
No. of unitholders	0,938m	4,8m	58,2m
No. of management companies	20	157	324
Average unit trusts per management company	2	9	9
Market capitalisation (JSE)	R508,3bn	R2600bn	R7756bn
Unit trusts as %	2,2%	10,8%	34,8%
	Note: figures as at Dec '91	Note F[illegible] as at Dec '90	

Source SYFRETS MANAGED ASSETS

UNIT TRUST PERFORMANCES TO DECEMBER 1991

UNIT TRUST & INDICES GENERAL EQUITY FUNDS	1 YR (R-R) Repurchase to repurchase	1 YR (S-R) Sale to repurchase	3 YRS	5 YRS	7 YRS	10 YRS	15 YRS
All Share Index	31,02	31,02	24,56	16,24	24,72	23,28	27,84
BOE Growth	36,37	26,84	—	—	—	—	—
CU Growth (Allegro)	23,38	16,58	—	—	—	—	—
Fedgro	26,87	18,17	—	—	—	—	—
Guardbank Growth	32,34	23,51	25,33	20,82	26,17	24,59	29,29
Metfund	37,25	27,87	21,60	—	—	—	—
Metlife	—	—	—	—	—	—	—
Momentum	37,57	28,63	27,44	—	—	—	—
NBS Hallmark	30,47	21,28	22,54	—	—	—	—
Norwich NBS	24,65	15,88	18,48	—	—	—	—
Old Mutual Investors'	36,77	27,06	25,78	21,59	29,29	25,77	28,89
Old Mutual Top Co	—	—	—	—	—	—	—
Safegro	30,98	23,18	—	—	—	—	—
Sage Fund	36,64	27,66	24,75	19,75	24,97	22,91	26,46
Sanlam Index Trust	30,60	21,88	25,59	19,14	25,86	22,91	26,26
Sanlam Dividend Trust	44,69	35,07	24,55	18,81	21,72	18,21	22,63
Sanlam Trust	33,58	24,78	25,62	18,39	23,11	21,38	25,11
Senbank General Trust	—	—	—	—	—	—	—
Southern Equity	41,58	32,17	22,59	—	—	—	—
Standard Bank Mutual	30,88	22,70	24,55	19,67	24,85	22,12	25,48
Syfrets Growth Fund	41,12	32,00	31,42	—	—	—	—
Syfrets	—	—	—	—	—	—	—
UAL Unit Trust	30,02	21,43	26,01	17,20	23,57	21 76	26 05
Volkskas	—	—	—	—	—	—	—

Unit trusts

Managers are now turning to mining shares

BDay 30/1/92

(232)

PORTFOLIO managers say the run on industrials last year has left little room for further growth in 1992 and they are turning to mining shares

Their view is based on the expectation that together with an upturn in world economies there will be renewed demand for commodities such as steel, copper, aluminium, platinum and manganese

Old Mutual unit trust portfolio managers have already started moving into mining shares

Sanlam unit trust investment chief Stafford Thomas says "The mining sector has underperformed over the last few years and there is potential for good growth, especially as it will be coming off a low base

"One of the changes which has taken place in our portfolios has been to increase their exposure to mining shares"

There is some disagreement, however, on the timing of the renewal of US, UK, Japanese and German economies

Syfrets portfolio manager Matt Brenzel says "We believe the American economy has bottomed out and will start to pick up, while the UK economy is close to a trough and will start bottoming out in the first quarter

"The emphasis in our portfolios will be towards selected commodity type shares"

Brenzel says, however, that it is too early to expect a recovery in the commodity cycle at this point

"Commodities will remain under quite a bit of pressure for some time as the final death throes of the world economic recession are played out"

He says not much growth is expected from industrials, which showed strong growth last year, especially as the economic recovery locally and internationally is expected to be a lacklustre one

Southern Life investment manager Carel de Ridder, however, says while commodities will benefit from freer trade he does not expect a broad recovery and pins his hopes on GDFI and export manufacturing stock

Thomas says there will be an upturn in Western economies throughout 1992 and 1993, though much depends on a revival of the American economy

On the other hand, Old Mutual portfolio manager Adrian Allardice says he does not foresee any significant upturn in mining shares in 1992 but they do offer reasonable value

The mining funds, which had a poor showing last year, should perform reasonably well in 1992

"There was a lot of nervousness in metal prices in 1991 because of fears about the world economy

"I do not think the fundamentals are going to get any better but the fears are going to fall away a bit Russia sold a lot of its stockpiled commodities last year and it is unlikely it will do it to the same extent this year

"So we should see some recovery in metal share prices this year," Allardice says

Old Mutual unit trusts have been slowing down their purchases of industrial shares and increasing their purchases of mining shares

Some of these shares are holding their own in an otherwise drifting market However, Allardice says there is a need for careful selection in the choice of shares

"Mining financials offer the safest investment as it is easy to be wrong about a particular sector At least mining financials have a broader spread and we are buying at a discount

"We expect reasonably good fundamentals, but that does not necessarily mean that all share prices will be stronger because some have overrun themselves"

Quarterly

Unit

Business Day SURVEY

THE phenomenal growth of the unit trust industry is likely to continue this year. Unit trusts have established themselves as a savings and investment vehicle which cannot be ignored in today's inflationary environment. Analysts believe they will attract interest whatever the immediate outlook for equities. ***LINDA ENSOR*** *reports.*

A volatile market calls for caution

THE stock market is likely to be volatile this year and caution should be exercised by potential unit trust investors, says Association of Unit Trusts chairman Clive Turner

He says the industry will not achieve the same rate of growth as last year B/Day 30/1/92

"The fundamentals alone suggest the stock market is at a high level and there could be some form of correction.

"But there is a lot more than fundamentals that is pushing up the market — for instance, the institutional cash flows and a possible rerating against the major stock markets of the world.

"The fundamentals cannot be looked at in isolation." (232)

Turner says investment for the medium to long term will be rewarded, but the volatility factor is high in the short term

Consolidated Fund Managers (CFM), a portfolio management company which offers advice to potential unit trust investors on the timing and choice of their investments, has also adopted a conservative stance on unit trust investments given the high level of the JSE.

CFM MD Clive Fox says there are risks attached to investing in highly rated markets

"During the latter half of 1991 we have become progressively more bearish about the outlook for equities," he says.

"While we recognise the positive impact of the massive institutional cash flow, yields on blue-chip industrials have fallen to dangerously low levels"

Fox says world equity markets are discounting a rapid recovery from recessionary trends.

Should the recovery be slower than expected or disrupted for some reason, a significant correction could occur.

The three types of funds

THERE are three types of unit trust — general equity, specialist and income-gilt funds

General equity funds invest across the entire spectrum of the stock market, holding shares in the gold, mining financials, other mining, financial, industrial and other sectors

A substantial portion of their assets are also invested in liquid assets

University of Pretoria Graduate School of Management's Hugo Lambrechts says "General funds strike a balance somewhere on the scale between capital growth and income producing investments These 'balanced' funds attempt to minimise risk through diversification"

About 80% of unit trust funds are invested in the general equity funds, which achieved a total average return (capital growth plus income) of 34,2% in 1991

Average

Over five years the average total return on a lump sum investment for the longer established general equity funds was 19,7%, rising to 20,7% for a monthly regular investment

Specialist funds invest in specialised areas, concentrating their investments within a particular sector

"These funds normally emphasise the need to derive capital profits rather than dividend growth and by their nature are less diversified and therefore more risky than general unit trusts

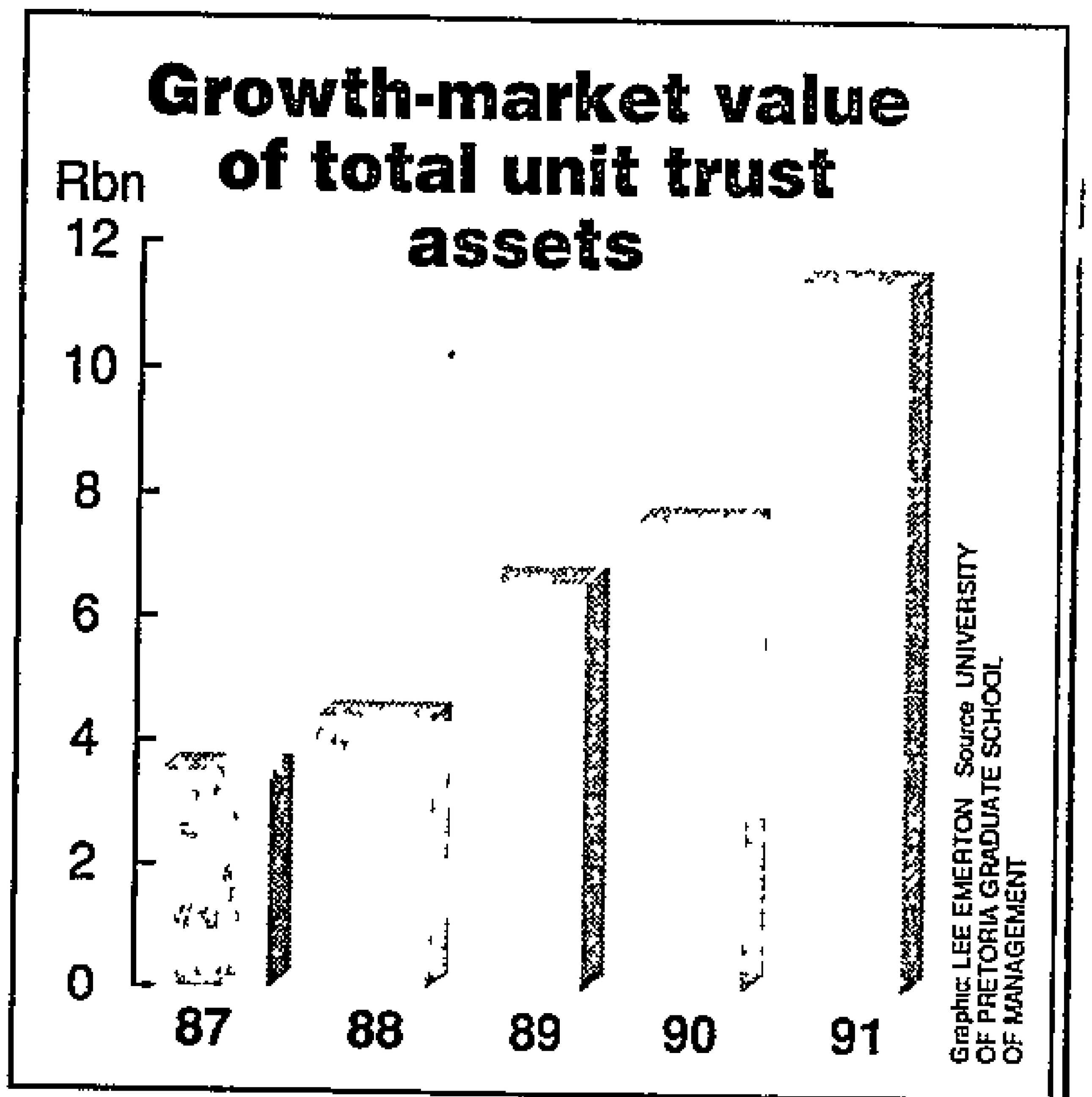
"This is by virtue of their concentration on specialised sectors such as the gold, mining, financial and industrial sectors," Lambrechts says

The specialist equity trusts earned an average total return of 20,8% in 1991

Lambrechts says the income-gilt funds invest in high income earning securities, with substantial holdings in long term government and semi-government stocks

"Due to the high cash requirements of such funds they must maintain a substantial balance of funds in liquid money market instruments"

The average total return for the six income funds in 1991 was 16,5%



Mining sector lags behind industrials

B/Day 30/1/92

LAST year was a difficult one for the JSE's mining sector, which lagged behind industrials in terms of performance

The mining producer's index, for instance, rose 17,13% and the mining financial index by 23,58% compared to the 42,35% increase in the industrial index.

The UAL Mining & Resources Unit Trust produced the highest sale to repurchase return of 16,21%, with the other mining funds generating returns below 10%, except for Guardbank Resources, which came in with 12,49%

Sage Resources Fund's result was 9,02%, Sanlam Mining produced a return of 8,6%, Southern Mining 7,21% and Old Mutual Mining 1,06%

UAL Mining & Resources also beat all the international resources based unit trusts, a feat particularly pleasing to its fund managers as they say it comes at a time when SA mining shares are a more acceptable part of the global investment market.

Investment manager W Belovay says the key to the fund's performance is its allocation of assets into the top blue chip mining shares with a low weighting in gold shares. Gold shares were an unrewarding investment in 1991

During the last quarter, the UAL Mining & Resources Fund changed the structure of its holdings in platinum shares, but maintained a 10,3% exposure in this sector (232)

The quarter saw the disposal of 75 000 Impala Platinum shares and the introduction of Potgietersrust Platinum through a dividend in specie from the fund's Rustenburg Platinum shares and the rights arising from Lebowa Platinum.

TOM FM 31/1/92

Thumbs down

(232)

Investors are treating the week-old Traded Options Market (TOM) warily and after two days, trading volumes were still low The absence of a guarantee fund may be a partial

continue →

FM 31/1/92 (232)

explanation for the apathy. Though TOM's developers have been aware of the need for a specific fund, they were not able to get it in place before the opening last Friday "It is now a priority," says TOM manager Jonathan Sims

He says the JSE's equity guarantee fund could possibly be accessed for TOM but some of the rules would have to be altered so that it could apply to options on equities. The JSE guarantee fund covers investors, should a stockbroker not be able to pay his liabilities arising from buying and selling securities on behalf of his clients

A margin system is in place for TOM which will provide primary protection for investors. Because the risk of a significant price change is with the writer of the options, the writer is required to put up a margin before he can trade. The current market movement factored into the margin system is 10% for the indices and 20% for options on De Beers. All margins are placed with the Traded Options Clearing House (TOCH), which is allowed to call for additional margins during the day if price movements warrant it.

In other words, the margin will cover the investor if the broker (writer) can't meet his liabilities

"It seems acceptable that the JSE should guarantee performance by market participants in TOM," Sims says "The JSE would first access the margin deposited by the option writers and then, in the unlikely event that this would be insufficient, would use the TOCH guarantee of the broker through whom the position is administered. Eventually, the assets and then the JSE guarantee fund could be accessed." Sims adds that the JSE is entitled to instruct the close-out of any position not adequately margined.

There are other reasons for TOM's slow start:

☐ Indices futures and options on the Safex market — an over-the-counter market — are cheaper than buying cash-settled options via a broker on TOM;

☐ The spread between buyers and sellers prices is also still too wide to be attractive for institutions The spread for options on De Beers is currently 150c-200c Brokers are hoping for the prices to move closer together — around 50c would be attractive; and

☐ Brokers and investors also have to complete the administrative requirements for trading in TOM. No-one can deal with brokers unless they have signed a TOM contract which spells out how the market works "Most institutions are putting this through their lawyers before they sign it and can then start trading," a broker explains.

The SA Futures Exchange officially opened in August 1990 After a slow start, it was obliged to cut costs to break even This week, it announced trade at an average of 53 000 contracts a month — above its break-even figure of 40 000 contracts. ■

Masterbore shares suspended on JSE

JONO WATERS

DRILLING company Masterbore's shares were suspended on the JSE yesterday after it was placed under provisional liquidation in the Rand Supreme Court on Wednesday.

Progressive Manufacturing Consultants brought the case before Mr Justice Zulman on behalf of former Masterbore financial director Basilios Tsingos The application described the company as "hopelessly insolvent" and unable to continue trade

Masterbore chairman Walter Peter Rawson, who has been linked to the irregular share dealings being probed by Cape Attorney-General Frank Kahn, lives in London He was described in the application as a "fugitive from justice".

Apart from Rawson, the only remaining Masterbore director was R B Dacomb, a Durban chartered accountant, Tsingos said in court papers. Other directors, including Tsingos, resigned on January 13 because of irreconcilable differences with Rawson, he said There was thus no one to manage Masterbore's affairs.

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An application was made for the winding up of Masterbore and its susidiaries, which, according to court papers, had investments of about R7,5m against liabilities of R7,35m, leaving net assets of R150 000. The return date is February 25

The company's shares have fallen steadily over the past two years from a high of 330c in 1987 The last quoted price was 10c.

2/2/89

JSE's tight-wads look to the future

S Times [BUS] 2/2/92 (232)

By ROBIN PEGLER

A FLOOD of articles question whether South Africa's blue-chip industrial shares are overvalued

The dividend yield on the JSE index has fallen to a similar level to that shortly before the 1987 crash But the price earnings ratio is somewhat less

It is important to establish a standard of value Some commentators have compared the JSE index figures with those abroad Although this does give a comparison, it is largely academic because SA institutions are not allowed to invest in other countries

It is unlikely that the Reserve Bank will relax this restriction in the foreseeable future because institutions would prefer to invest in stable currencies in contrast to a declining rand

So taking off the lid could result in large sums of scarce capital leaving SA

It is possible that the weight of funds will be as heavy as ever Although there must be some corrections along the way, prices should continue to advance

Nevertheless, it is interesting to compare recent international yields and PEs (see first table above)

Index	Div Yield %	Earnings Yield %	PE	Div Cover (Times)
JSE Ind	2,4	6,7	14,9	2,8
Dow Jones	2,8	3,15	31,7	1,125
FT 30 (LSE)	4,7	7,1	14,1	1,5

It raises some intriguing points The companies which comprise the Dow-Jones index appear to be amazingly generous in their dividend policies Of every $9 earned, about $8 is distributed to shareholders

Faster

However, one must not forget that the figures shown are averages

I suspect that some Dow-Jones companies have been incurring losses, but are still paying dividends This would, of course, reduce the average dividend cover

In addition, growth in US gross national product has been steadily declining compared with the highs of the 1950s

The decline of listed New York Stock Exchange stocks in this time has been even faster This implies lack of scope for expansion

In contrast, SA industrial blue chips appear to be a model of conservatism when it comes to paying dividends

However, this is necessary in an inflationary economy Stocks have to be replenished at higher prices, and old plant will have to be replaced at a much greater cost

The position is like something out of Alice you have to run as fast as you can to prevent yourself from going backwards

It must be admitted that dividends are themselves paid in a declining currency and that conservatism probably reflects uncertainty about the future

Two prominent listed companies, Afrox and Anglo-Alpha, publish their accounts in two forms current cost, which makes some allowance for inflation, and historic cost, which does not

The latest annual reports show some interesting figures (see second table)

	Dividend	Historic cost earnings	Current cost earnings	Historic cost dividend cover	Current cost dividend cover
Anglo-Alpha	132c	350c	200c	2,7	1,5
Afrox	170c	338c	278c	2,0	1,6

Of the two companies, Anglo-Alpha provides more generously for inflation Perhaps not entirely by coincidence, its historic dividend cover is similar to that of the JSE industrial index and the current cost cover is the same as for shares on the London Stock Exchange

Japanese

Accounting policies vary among companies and even more so from country to country This makes reliable earnings comparisons difficult

For example, Japanese companies are believed to charge a high rate of depreciation That would account for the high PEs on which they stand

Dividends give a better standard of comparison, although growth must be taken into account

But I think that if ever inflation in SA does come down to acceptable levels, companies will be more generous with their dividends

Record 3 000 deals a day for futures

(232)

S/Times [BUSS] 2/2/92

By TERRY BETTY

JANUARY was a record month for the SA Futures Exchange (Safex), which averaged slightly more than 3 000 contracts a day

Volumes reached an all-time high on Thursday when 8 550 contracts were concluded

Ray Cadiz, director of Cape-based Thirty Four South Research and Trading, says some of Safex's biggest deals ever were concluded this month, mostly by institutions

The derivatives market has blossomed because it offers an attractive alternative to the JSE which is plagued by illiquidity and a shortage of scrip

Views

Mr Cadiz says that from a buyer's point of view derivatives are more attractive than the spot market Transaction costs are lower, there is greater liquidity and futures trade at a discount to the fair value of the underlying stock

The derivatives market also appeals to sellers of stock. For example, institutions are loath to sell physical shares in case they cannot buy them back later

On the other hand, a short futures position or a long position in Elfi bears is the ideal vehicle for institutions which want to lock in profit

Mr Cadiz also attributes heightened activity to the market's being at a level where there are divergent views between the active traders, resulting in their all taking different positions

For example, more cautious traders are content to lock in profit at present levels, and others are still keen to increase their equity exposure

Safex assistant general manager Patrick Birley says although the formalised derivatives market went international two months ago, it has not been a stimulatory factor

Mr Birley says only three foreigners trade in large volumes The rest are mere dabblers

Most traders are interested in contracts based on the all-share index, particularly Elfi, a two-year gilt issued by Transnet

This is most popular because it is a long future Institutions prefer long-term exposure to speculative positions

Mr Cadiz says the market may consolidate at current levels or experience a slight downward correction But in the long run, the upward trend should continue even if it is only slightly above inflation

DIAGONAL STREET
by Julie Walker

65 points for market order

(232)

S Times (Buss) 2/2/92

IT was no coincidence that the Financial Services Board (FSB) chose to tell the press all about its good works on the very day a couple of stockbrokers were charged with fraud.

The FSB and the JSE met the cost of bringing independent bourse expert Bob Wilkinson from England to investigate JSE standards.

Mr Wilkinson's opinion is that the JSE has a reasonable standard of supervision. But he made 65 recommendations about the future role and activities of all parties involved in the securities business.

They are the FSB, the institutions and the JSE and its members

The FSB is to scrutinise the law to ensure proper definition of powers It must also promote general awareness of its presence and powers and will appoint a complaints commissioner to oversee JSE complaints.

Mr Wilkinson's report recommends that FSB supervision be extended to include regulations for institutional dealing staff There should be tests to determine how fit, proper and competent the dealers are They should be registered, and not be allowed to manage client accounts

Of the JSE the report says the BDA (broker dealer accounting system) should be brought in as soon as possible Many brokers using a cheaper system revolted last year when the JSE committee ruled that all member firms should use BDA

The BDA is intended to improve surveillance, the point being to restore the integrity of the JSE and to regain the confidence of the public.

Other recommendations for the JSE include the notation "dealt with an overseas non-member" on brokers' notes, a five-minute reporting rule as is being introduced through the Traded Options Market to be extended to equity dealing even though this cannot be accommodated yet and a ban on commission-sharing with institutions

Competency tests and registration for authorised clerks should also be made compulsory

The Registrar of the Stock Exchange, Piet Badenhorst, says discussions are being held with the authorities to implement them

● **The JSE has been advised not to go ahead with disciplinary hearings against Greg Blank and Kenny Fouche, who face the fraud charges, until the cases have been heard**

Afcom changes lift attributable income

BDay 5/2/92 232

MARCIA KLEIN

AFCOM has upped its attributable income by 32,5% to R3,7m (R2,8m) in the six months to end-December in spite of a depression in the furniture, motor and mining industries which it serves.

The company, which manufactures fastening, packaging, steel, strapping, adhesive tape and stationery products, was taken over by Bidvest in 1989.

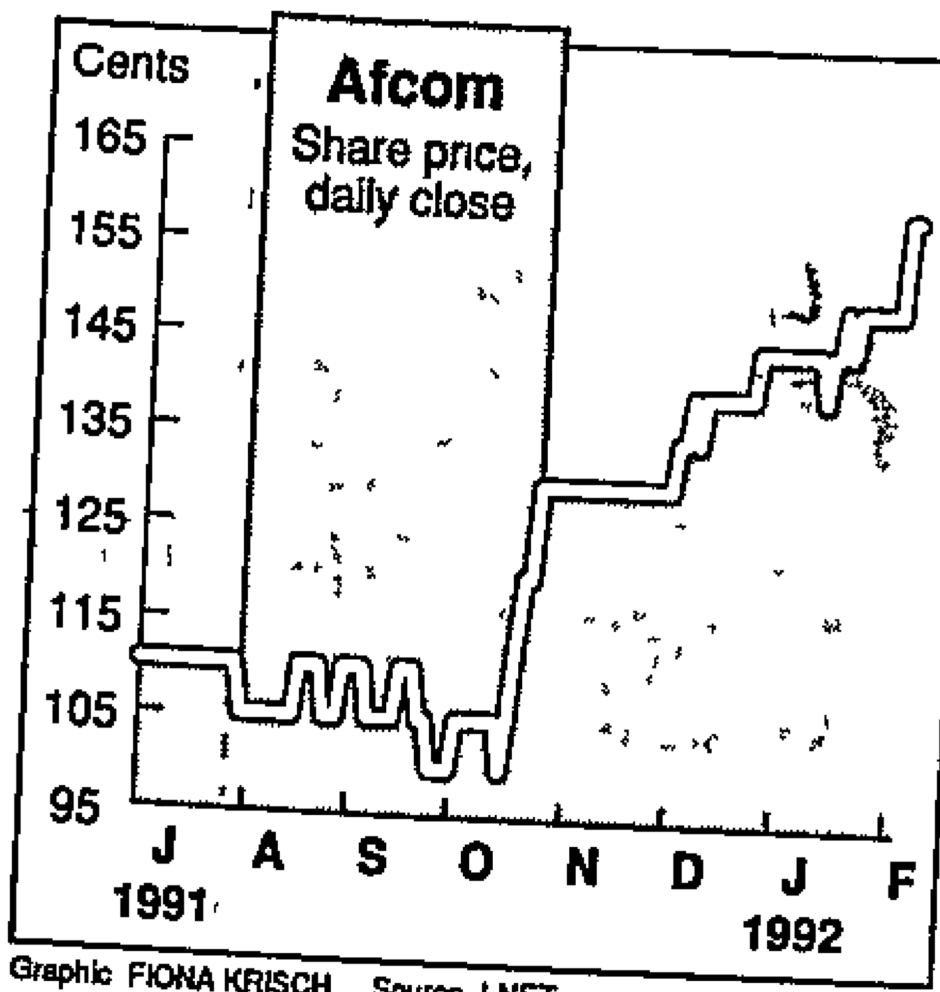
Tough trading conditions and additional focus on quality sales saw turnover grow a pedestrian 9,1% to R59,1m (R54,2m), but operating income rose 23,6% to R7,7m (R6,2m) The operating margin was improved from 11,5% to 13%, largely due to management's dedication to improving control of costs and manufacturing efficiencies, MD Alan Salomon said yesterday

Since the Bidvest acquisition, and Afcom's subsequent division into entrepreneurial units, the group's management performance had made a marked improvement, he said

A 20,6% rise in Afcom's interest bill to R1,7m (R1,5m) reflected additional debentures in issue for the full accounting period compared with only three months in the previous period

In spite of additional interest, gearing was reduced from 22,4% to 11,6% as other interest bearing debt declined

The 13,4% rise in taxation was the result of the lower company tax rate as well as export allowances



Graphic FIONA KRISCH Source I NET

Earnings rose by 23% to 10,7c (8,7c) a share, or by 15,6% to 8,9c (7,7c) a share on a fully diluted basis on more shares in issue.

Afcom declared a 31% higher dividend of 4,25c (3,25c) a share in line with the company's policy of a 2,5 times cover

Salomon said Afcom's interim trading performance would "at least be sustained in the second half

"Afcom has the infrastructure and manufacturing capacity to meet increased demand which would occur with an economic upswing," he said

Now that Afcom had completed its consolidation phase, it was focusing on increasing local and export sales.

TIMESHARE

FM 7/2/92 (232)

Putting Humpty together again

Big liquidations have created image problems for a growing industry

Do you — or do you not — need your head read if you buy timeshare? The industry has been plagued by an image of unethical and obtrusive salespeople and developers who often appear on the run. As investments, the holiday weeks bought can turn out to be unsecured, intangible — and unprotected.

The argument that timeshare should not be regarded as an investment *per se* is valueless if even the lifetime vacation you believed you were buying is swallowed up in sharp practice and escalating costs.

In 1991 alone, no less than 11 developers of timeshare schemes (just under 7% of the market) went into liquidation. For a jaded public — particularly non-owners — this seemed to provide further evidence that timeshare was, and is, a con.

The outfits that went under were Kruger Park Lodge (Willem Bester Trust), Sudwala Lodge (Frank Pennington), Mabula Lodge (three separate shareblock schemes developed by the Joubert family), Seafields (two shareblock schemes developed by a syndicate headed by Trevor Smith), Bronnehof (Merlin de Jager), Club Mykonos (Masterbond), The Hallyards (Hallyards Pty); and Corona del Mar (Dr Gerard van Rooyen).

Those big-name failures tarnished the industry's carefree image.

While there were no liquidations in 1990, in 1989 the Summer Leisure fiasco made itself embarrassingly apparent, and back in 1983, South Africans will remember the belly-flops of La Montagne and Club Hacienda on the Natal south coast.

Anticipating disastrous sales in 1991, Resort Condominiums International (RCI), in August 1990, forecast a 35% decrease in new sales in SA in 1991. RCI is a private company with its HQ in Indianapolis, it has a dominance over international timeshare exchanges and has managed to affiliate 140 of SA's 155 timeshare resorts.

But what actually happened in 1991?

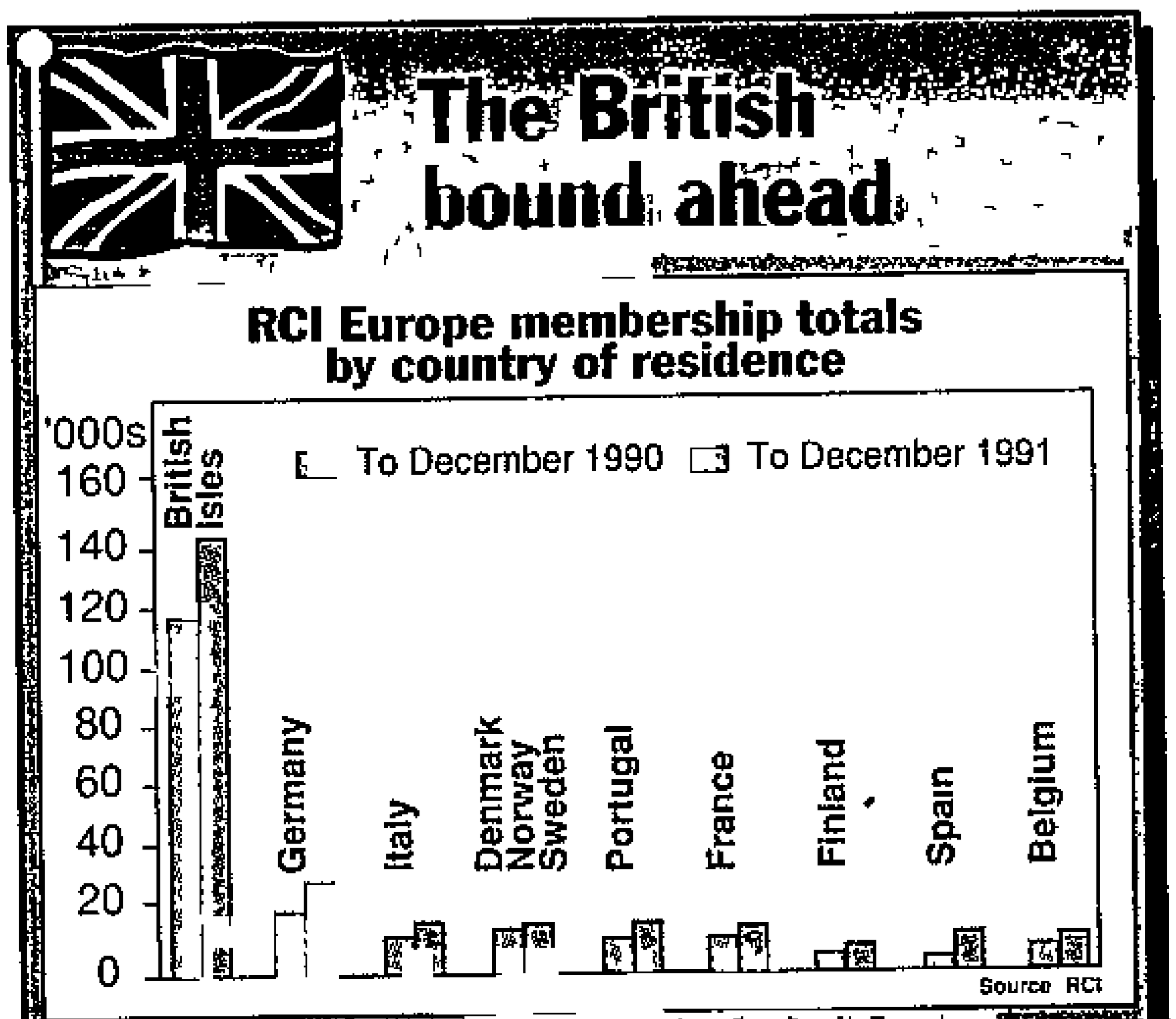
Instead of declining, SA timeshare sales increased by 17,5% over 1990 to a total of 23 500 weeks — the standard unit of timeshare — sold at a rand value of R235m. That is 3 500 more weeks and over R25m more in sales over the previous year.

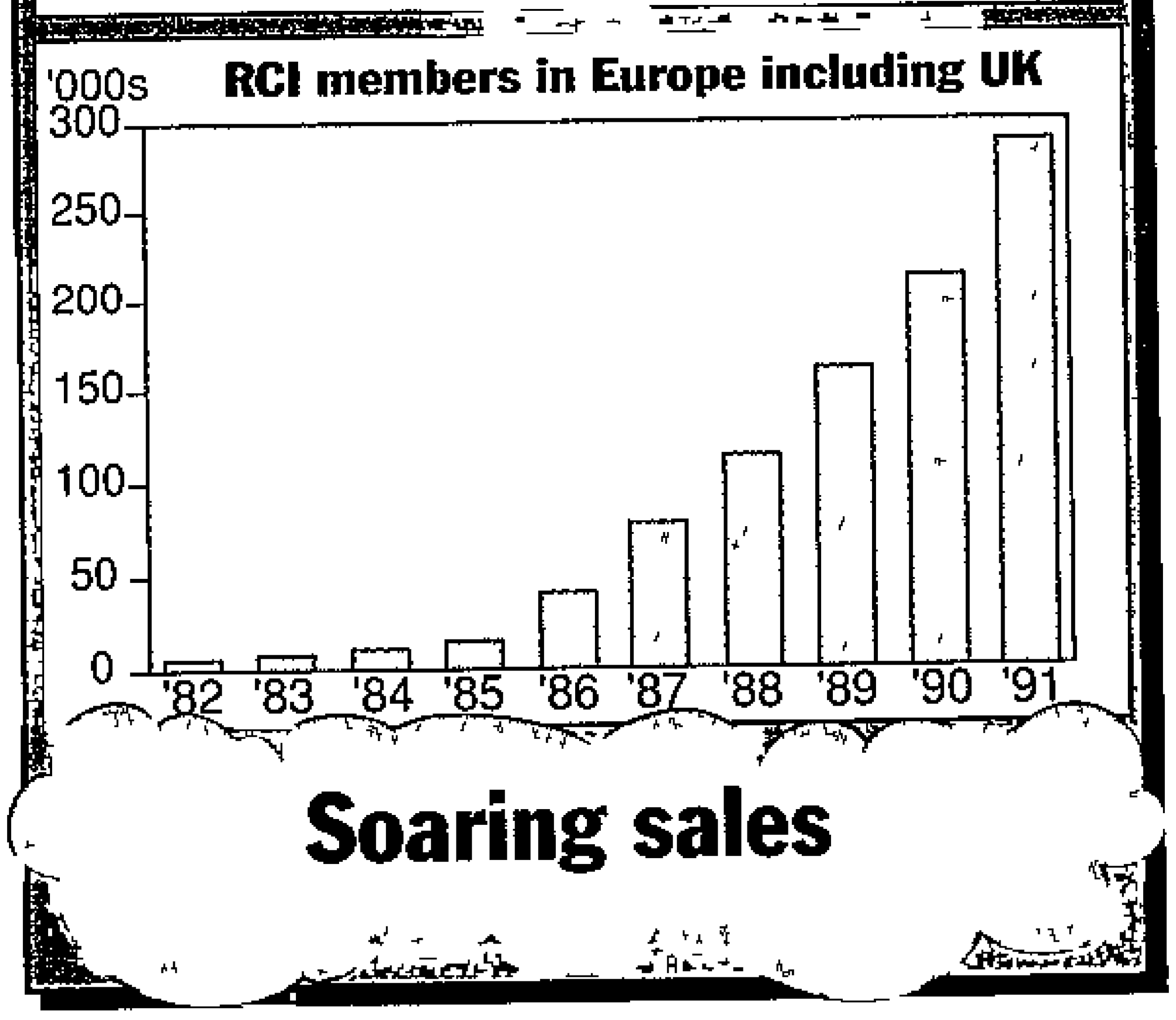
Admittedly, the average price (R10 000 a unit) was less than in 1990 (R10 500), attributable, in RCI's opinion, to greater price sensitivity. Nonetheless, "this 17,5% increase occurred despite the negative publicity and liquidations," RCI boasts.

The market also showed some interesting shifts in trend. Sales in Durban and along the Natal south coast dropped — the sign of a mature and well-established market, according to RCI — and increased remarkably on the Natal north coast and in the Cape, east and west, in line with general tourism patterns. Worldwide, 1991 sales reached their highest level ever at US$3,76bn — an increase of 32% over 1990's $2,85bn.

However, in the US — which until 1991 notched up the greatest percentage of timeshare sales per household — growth was stagnant: the total value of weeks sold remained at $1,2bn. In RCI's view, this level is still excellent considering the maturity of the market after a 16-year success story.

Europe matched US sales, increasing its weeks sold by 23% over 1990. Sales continued to be particularly high among the Brits — despite a vigilant and critical press — followed by the Spaniards, buoyed by rising affluence.





TOP OF THE POP RESORTS*

The Peninsula
Port Owen Marina
Drakensberg Sun
Kwa Maritane
Cabana Beach
Breakers
Champagne Sports Resort
Strand Pavilion
Karos Mont-aux-Sources
Karos Lodge
La Cote d Azur
Beacon Island
Mount Sheba

* Rated by Kessel Feinstein Consulting in terms of location of the resort resort amenities, unit amenities unit interior kitchen amenities, and resort services

In SA — among those who can afford it, at any rate — the proportion of timeshare buyers per household ranks first in the world. Market penetration in the white income group is a staggering 10% — lagged by the UK with 1,5% and, thereafter, by the US at less than 1%.

In 1991, SA also continued to rank high in terms of the number of resorts worldwide. It comes third on the list (with 140) after the US (876) and Spain (198).

What of SA's black, coloured and Indian market? The more affluent have begun to show more interest in timeshare, possibly for the same reasons as whites — increased costs of holidays, overcrowding at mass resorts, a general decline in access to quality leisure. Of sales in SA to mid-1991, RCI estimates only 2% were to non-whites. Since then, over the past six months, a whopping 30% of new sales have been to this market.

RCI expects increased tourism to SA to have a big impact on future sales.

Exchanges by SA timeshare owners grew 41% last year from 32 000 in 1990 to 45 000. Of that, 15% were international.

Worldwide the figure was 1m, an increase of 17,6% over the previous year's 858 000. Clearly timeshare — which is a flexible instrument given the simplicity of its basic idea — is gaining new respectability.

Speaking at the annual convention of the Timeshare Institute of SA (Tisa) at Sun City last month, RCI Europe chief Ron Haylock showed how Europeans — traditionally more conservative than their US and SA counterparts — are demonstrating greater interest in purchasing and exchanging timeshare.

Membership in RCI Europe increased from 211 000 in 1990 to 289 000 in 1991 (to the year-end) and there was a concomitant increase in the percentage of members exchanging time slots — from 39% to 42%

He feels it would be even "more scandalous" than a fresh bout of liquidations if RCI Europe did not have enough resorts to cater for the "exponential growth, as a result, we have opened four offices in Europe in 1991 and affiliated 98 new resorts, giving us a total number of 560 resorts in Europe "

Haylock says France has not been a major player in timeshare — but this is about to change Eurodisney, a theme park with associated timeshare and hotel accommodation (5 500 rooms), is to open about 30 km from Paris and should give that market a big push About 14m visitors are expected in the first year alone

Haylock's analysis included the opinion that SA will become a favoured destination for Europeans and others "if airfares can be brought down from the current £700 to £500 The deregulation of your airline industry and, in particular, the progressive blunting of the SAA and British Airways cartel, is music to our ears "

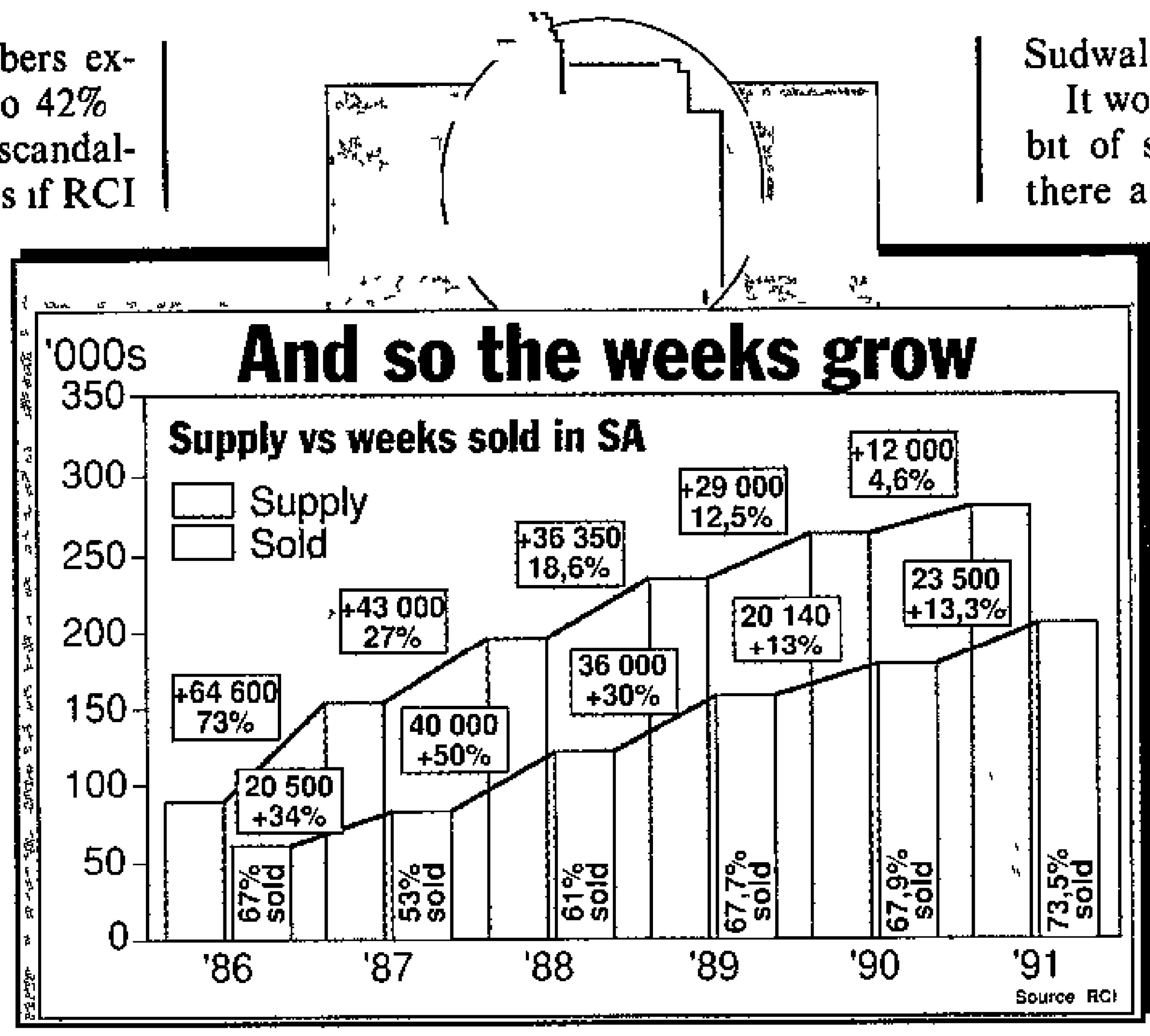
RCI SA, he notes, is the biggest tour operator in SA and RCI Inc is the third-largest in the world

It is the entry of major players into the timeshare industry that has given renewed credibility to the industry — not only worldwide, but in SA too

The Disney Organisation moved into timeshare in the US and UK in September, following the Hyatt Group's entry in early 1991 On the local market, in 1991, First National Bank endorsed an RCI Leisurecard And two years before, Southern Sun Timesharing launched "Sunswap," an exchange scheme for its own resorts, in conjunction with RCI

According to RCI SA MD Steve Griesel — currently doing a masters degree on consumer attitudes towards timeshare — Leisurecard and the introduction by RCI of a 15-year guarantee for affiliated resorts were responses to the spate of liquidations in 1991

He is defensive about the situation in general, arguing that "despite the liquidations, no-one has actually lost his rights The guarantee will provide that much more insurance, or reassurance, for timeshare purchasers "



Of the 14 schemes that have landed in trouble since the birth of timeshare in SA, Griesel says that all but one — The Hallyards — have been or are in the process of being rescued The Hallyards is the subject of a current court case and the crux of the problem appears to be that the developers did not register a 99-year lease, leaving owners rights for 10 years only To rectify the situation, RCI has apparently given the 140-odd buyers 15 years' worth of holidays

The big question is what more remains to be done to protect timeshare buyers? There is already a great deal of consumer protection available in the Property Timesharing Control Act of 1983, which primarily protects buyers when a scheme is not completed But with public image at risk and criticism from a variety of sources, the industry is clearly at pains to regulate itself

Tisa has introduced a certificate stating that all its registered resorts have been carefully scrutinised vis-à-vis their legal and financial structures and their ethical conduct The certificate will also set out in plain language the rights of the buyer — with the focus on important criteria such as the amount of the outstanding bond, if any, and levies It will certify that the documentation has been checked

In other words, the document provides at least some legal safeguards for the unwary In addition, an insurance scheme for timeshare buyers is being explored by Tisa, working with insurance broker Dewars Rand

Tisa is at pains to point out that of the 14 liquidations to date, only Mabula was registered with it

For its part, RCI says it is becoming more discriminating about which developers it admits to its privileged club Clearly, however, that was not always the case — especially when it was building itself up in the early Eighties Of the 11 developers who went into liquidation in 1991, only Bronnehof and Sudwala were not RCI members

It would be nice if that was all past now, a bit of self-regulation can do wonders, but there are many who would like to see the industry even further locked in statutory controls and regulation The *FM* believes this would be a bad idea — but the pressure is on from people who have lost out

RCI Europe's Haylock, for one, is not kidding himself about the ability of the industry to regulate itself This is particularly true in the UK — where no legislation exists to regulate timeshare "I thought it was possible until a few years ago, but it's not," he comments

"The European Commission plans to issue a timeshare-specific directive to all member governments to cover the following four points a definition of timeshare, the provision of a 'cooling off' period for the buyer, protection of client deposit monies, and a requirement that the legal structure of a resort will offer secure occupancy rights for the buyers Like all EC directives, this will give member governments between two and three years to translate the directive into national legislation "

Haylock concludes that timeshare-specific laws could be in place in the 12 member countries by 1994

Like SA, the UK has suffered its share of failures — among them the Walton Hall scheme in the Midlands which recently caused chills throughout the industry It was put into receivership in 1991 but eventually revived by new management And there were others

Why and how these schemes came unstuck is being studied right now

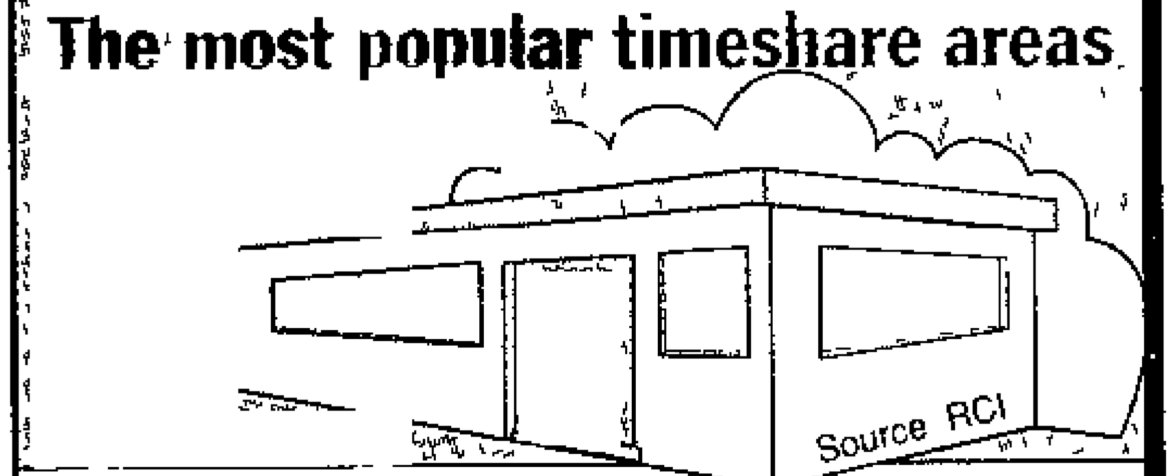
"The relevance of factors precipitating failure in the timeshare industry" is the subject of a proposed doctoral thesis being researched at the University of Stellenbosch by Cape Town-based Peter Muller, the former mayor of that city and a former chairman of Fedhasa Western Cape

Says Muller "There is nothing wrong with the concept of timeshare Nor is there any doubt that the industry is a vital part of the tourism industry However, 11 resorts experienced failure symptoms last year which further exacerbated the already poor image of the industry

"After the vigorous, initial growth phase of the last eight years, the industry is now at a watershed where it needs to improve its image and credibility, laying the foundations for further vibrant growth in the years ahead "

The answer to the question posed in the first sentence of this leader has to be no, you don't need your head read What you do need to read is the fine print — and it would help if that fine print was made bolder by the big names who are reclaiming the wreckage left by rats and mice But this is, evidently, happening ■

The most popular timeshare areas



RCI enrolments by area during 1991	To date	Geographic split	Compared to 1990
Durban	1374	6,5%	-38%
Natal north coast	3539	16,5%	+48%
Natal south coast	1379	6,5%	29%
Cape	8641	40%	+24,6%
Inland	6456	30%	-17,6%
Total	21389	100%	+17,6%

JSE DELISTINGS FM 7/2/92 (232)

Tough times for ducks

The number of listed companies continues to diminish at an increasing rate A total of 59 moved off the boards in 1991, a net loss of 43, as there were only 16 new listings This compares to 1990's net loss of only eight

At the end of last month the total number of companies on the JSE was 728, 30 fewer than at the end of the JSE's financial year in February 1991 (1990 777, 1989 784)

Many of the casualties seem to be a fallout from the yuppie investment and boom period of 1986-1988, when 265 companies came to the market Of last year's delistings, more than 60% listed betwen 1986 and 1987

Not all went to the wall — most were schemes of arrangement or takeovers — but liquidations were high and more will follow Delistings were spread across most boards but the DCM seemed the most prone

JSE Listings & Equity Markets division GM Richard Connellan notes a cyclical movement in the number of companies coming to the market and says the present situation is not unlike the boom-bust cycle of the late Sixties-early Seventies

"In 1967-1968 we had a lot of companies coming to the JSE Then share prices began getting out of hand, p e ratios kept going higher, and by 1970-1971 many of those same companies could not sustain listings."

FM 7/2/92 (232)

The present similar pattern suggests that the investing community did not learn the lesson of the early Seventies, Connellan says "It's the old brokers' adage when the ducks quack, feed them They don't realise it's not going to be that good forever "

Now the ducks are no longer being fed, Connellan feels that, with hindsight, criteria for getting on to the market should perhaps have been tightened up after the lesson of the early Seventies, to keep out some of the more frivolous companies

Bank of Lisbon economist Fred Costa e Silva agrees that, in common with stock exchanges internationally, there may have been an excess of listings on the JSE "Many came on in a period of euphoria, when a lot of money was chasing after stock and stagging profits were enormous Since then the gold price has dropped and we are into our fourth year of recession I see the high number of delistings as an obvious effect of the state of the business cycle "

Connellan doesn't believe delistings will do much harm to JSE liquidity But the trend does no good, either "Every time a company goes some shareholders walk away disgruntled with the concept of stock exchanges This concerns us — it erodes the image of investing in capitalism " *Shaun Harris*

I still back second tier

232
S/Times (Buss) 9/2/92

By DAVID COBBETT, director of Simpson McKie Inc

FOLLOWERS of the investment scene are familiar with the phenomenon of the two-tier market.

The first tier comprises shares favoured by the major institutions and the second (by far the majority) not so blessed because of smaller market capitalisation and restricted marketability.

In an article published in Business Times a year ago I waxed eloquent on the values to be found in this second tier and ventured to make some selections. Readers will not be slow to conclude that if I now return to the subject it is because I have a good story to tell.

Last year was surprisingly good for investors in industrial shares. From the date of my article to February 6 the JSE industrial index rose by no less than 56%.

The performance of my selections in that time is given in the first table.

Possibly fortune favoured my selections. But the fact that all six produced excellent results came as no surprise to those who studied their records.

Their relative obscurity resulted in all six being neglected by the market and they were patently undervalued. To a large extent this has been corrected and at least two (African Life and Santam) have now attained institutional recognition.

Although their prices have soared, each of the six to my mind still offers above-average value and I can certainly see no reason to sell any of them.

Table 1	Market Price 18 1 91	Market Price 6 2 92	Dividends Received	Return: Capital	Return: Income	Return: Total
African Life	135c	285c	14 2c*	111 1%	10 5%	121 6%
Currie Finance	370c	700c	43c	89 2%	11 6%	100 8%
Datakor	95c	170c	9 5c	79%	10 0%	89
Santam	215c	510c	33c	137 2%	15 3%	152 5%
Unihold	120c	175c	19 8c*	45 8%	16 5%	62 3%
WB Holdings	225c	370c	21c	64 4%	9 3%	73 7%
			Average	87 8%	12 2%	100%

* taking scrip alternative

Skilled

As we enter 1992 the two-tier market remains intact and bargains are still to be found. But all share prices are much higher than a year ago and with no light yet on the economic horizon only a genius or a gambler can hope to repeat 1991's performance.

In giving six selections for the coming year I limit my aim to demonstrating again that carefully chosen second-tier shares can offer better value and, in terms of market prices, better security than the high flying market leaders.

If I beat the JSE industrial index in the next 12 months I shall be content.

What that index will be is a very different question. My six selections are in the second table.

Table 2	Market price 6 2 92	Historic Yield
ABS Holdings	50c	9 0%
Autopage	135c	5 9%
Karos Hotels	150c	—
Omnia Holdings	430c	7 9%
Otis Elevator	270c	7%
Sable Holdings	1 025c	4 4%

ABS Holdings describes its business as "the adding of value to standard computer hardware by means of skilled staff and specialist software".

Vow

I am of a generation that has difficulty in grasping exactly what ABS sells, but I like the people who run it and the figures they produce. The recent annual report exudes optimism.

Autopage is controlled by Altech, which is a recommendation in itself. It leads the fast-growing radio paging business and is diversifying into financial information services.

Interim profits were 15% up and expected good results for the second half of the year virtually guarantee a higher dividend.

Karos has suffered with the rest of the hotel industry. But with its excellent chain of 14 hotels, it is superbly placed to benefit from the expected resurgence in international tourism.

Highly geared but with a strong asset base (most of the properties are owned), Karos undeniably has a speculative tinge. But with its market capitalisation equivalent to a derisory R30 000 a room the shares have big potential. The safe buy are the 12% convertible preference, but (like most good things) they are not easily obtainable.

Omnia Holdings holds a comfortable 25% of the fertiliser market and has diversified into explosives, seeds and farming.

The company has vowed to reward shareholders for their sufferings when the fertiliser market was a jungle and the recent 50% jump in the interim is an earnest of this intent.

Otis Elevator's recent purchase of Melcor, its main competitor, adds glamour to this company. Still under the control of its US parent, Otis is confident that, after a rough patch two years ago, its profits, unlike its products, will only go up.

The chairman tells shareholders that they "can look forward to increased dividends in the years ahead".

Yielding 7,5% on last year's payment and with the Melcor acquisition still to make an impact, the share has all the potential of being a real winner. The forthcoming rights issue should provide a good buying opportunity.

Sable Holdings, having sold its Steiner Service business to Bid Corporation, is sitting on more cash than the company's market capitalisation. It also has a sound property portfolio worth probably R5 a share.

Warning

John Nash has yet to decide what to do with the money, but with the family owning 80% of the shares he is not likely to do anything foolish. A long shot is that he may elect to buy out minority shareholders.

A word of warning. This year's selection is more adventurous than the previous one and the market in some shares is limited. Buy them by all means (if you can), but my first choice for solidity and growth remains the 1991 list.

R60m for clean-up

S/Times (Buss) 9/2/92

WORK is progressing at one of the world's largest waste-water purification works north of Sandton.

The R60-million contract has been won by Gillis Mason Construction and the project at the northern wastewater purification works is expected to be completed by April next year. There will, however, be a phased hand-over of some sections before then.

The contract includes 26 circular concrete tanks 25m to 35m in diameter and 5m to 6m deep, four rectangular biological reactors, a 40 000m³ balancing tank and a chlorine maze and aeration one.

All about Africa

S/Times (Buss) 9/2/92

CSIR Information Services has launched the Africa Information Unit to capitalise on opportunities in Africa.

The unit will provide South Africans with information about Africa from databanks, journals, newspapers and specialist reports.

It is also in contact with national and international institutions and research organisations involved in Africa.

The unit's range of specialised services include a business network database which provides business and government contacts in specific countries.

WEEK IN BRIEF.

A SUMMARY of the week's corporate announcements.

MONDAY Dorbyl warns. Penpin delists. Mediclinic warns. Unicon, Unidev warn. M-Net's rights offer 106% subscribed.

TUESDAY Venter Leisure and Commercial Trailers (Ventel) to list. It will raise R25-million through a private placing of 13-million and a public offer of 4-million shares at 150c. Offer opens 6/2, closes 26/2.

Voortrekker Pers to raise R6,3-million through the issue of 78 shares for 100 held at R15, last day to register 7/2. Absa retains Central as registrars.

WEDNESDAY Sasol to issue 10 8,5% convertible debentures for every 100 ordinaries held at R18,50, last day to register 14/2. CG Smith Sugar prospectus issued. Quagga warns of a possible change of control. PGSI to buy Pilkington's 48,4% of Glass SA for R525-million with effect from 31/3.

THURSDAY Fedsure members may exchange 100 Fedsure for 40,3 Investec Bank shares. Offer opens 10/2, closes 28/2. Ventel prospectus appears.

FSG, FSI, Waicor, W&A warn of negotiations. Otis to raise R7-million, issuing 20 shares for 100 at 220c.

FRIDAY Eureka buys Computermatic subsidiaries for R5,1 million, sells controlling stake in C-Matic. Dates of offer to Dukel minority to be revised. Masterbore chairman gives his version of the company's liquidation.

Public service wants 21% rise

S/Times (Buss) 9/4/92

By ADRIAN HERSCH

PUBLIC service unions demand a 21% pay increase this year.

They also want a minimum wage of R1 000 a month.

Eleven unions and staff associations — with widely differing ideologies — formed a common bargaining forum and submitted joint demands to the Commission for Administration (CFA).

The pay talks will be watched with interest in the light of government promises — for the 10th year — to cut State spending.

The salary bill for the public service — not to be confused with the entire public section — is R26,2-billion.

A CFA spokesman will not say what the State will offer. The talks begin on February 17.

A union spokesman says although the CFA was asked to submit counter proposals it had not yet done so. This is "somewhat unusual", he says.

Other demands include:

- The house owners' allowance scheme be increased to R100 000 and married women should benefit from it.
- All pay allowances to be made pensionable.
- Rates of overtime be increased to 'market related' levels and that the maximum for overtime payment be removed.
- The position of supervisors be protected in any revised dispensation.
- Maternity leave of six months.

The forum includes two Cosatu unions — the National Education Health and Allied Workers Union (Nehawu) and the Health Workers Union (HWU).

Other unions included are the Public Servants Association, the Public Servants League, the Public Servants Union, the SA Nursing Association and the Natal Provincial Staff Association.

Anglo-jam on

S/Times (Buss)

ANGLO-ALPHA's results do not seem exciting at first sight. But they are interesting on closer examination.

Financial director Trevor Wagner has given his comments on a particularly difficult year and why he expects 1992 to be better.

PITAL

PANDING

MPANIES

finance to entrepreneurs and industrialists starting or

3,0 million, is available to applicants who

national market potential,

yet been completely developed but applicants must

percentage shareholding will depend on the amount to be

ocial expertise. Technifin's team will assist in evaluating

SA bulls running against general international grain

STAR 10/2/92

By Jacques Magliolo

MAGLIOLO 232 on the MARKET

Irrational movements in international markets last week have cast doubt on claims that the JSE is in a bull run

The first odd movement came on Wednesday, when the Dow Jones fell by 15 points and the Dow Transport index rose by the same amount

This is a divergence of the Dow theory, which states that one index should follow the other

The movement in opposite directions raises the question of which index is leading and what is the true state of Wall Street — is the US in a bull or a bear market?

One answer lies in analysing other indices US financial institutions believe the Standard & Poor index (S&P) is more representative of market conditions This index is falling

In addition, share prices have been declining in the UK, with the FTSE 100 dropping to 2 534 on Thursday from Tuesday's level of 2 559 Contrary to the S&P and the FTSE 100 index, the JSE overall index gained 50 points last week

While most analysts agree that the US is unlikely to have a recovery in the short term, they disagree that this could affect SA

Says one analyst "I expect the US to go into a

International markets are not expected to change significantly in the next week and merit closer attention

double-dip recession and that any short-term rise in the Dow will be due to election year promises" He adds that this would not affect the JSE

He is among a number of analysts and dealers who say that our market is in a bull trend and immune to price fluctuations from either Wall Street or London.

They base their assumption on the substantial amount of institutional buying taking place on the JSE, which should lift private investor confidence

This, they say, is borne out by the past week's company results

"Even the smaller companies are showing good returns," they say, citing Q Data's 26 percent rise in EPS and 20 percent climb in dividends, and Venter's application for a listing on February 26

The company has come onto the market with a compounded five-year taxed profit growth of 64 percent and offers investors a 6,1 percent dividend yield and an offer price of 150c a share

Another analyst disagrees "I expect to wake up one morning and find that the Dow has fallen by 300 points, with our market in line"

There are, however, many bears in the market who are advocating, after last week's market movements, that investors should hedge their investments with bear options and futures or government stock

The most popular gilt at present is the TB 12, Elfi-Bear tranche

The TB 12 is linked to the overall index and offers a perfect opportunity for investors who are bearish

At a price of 82c it is trading at an 18 percent discount and offer yields of 30 percent and potential capital growth of 20 percent

Sharp rise in company liquidations

GERALD REILLY

PRETORIA — Last year liquidations of companies and close corporations increased by 18,3% compared with 1990, latest Central Statistical Service figures show

BI Day 11/2/92 (232)

Companies most affected were in the wholesale and retail, catering and accommodation sectors

Construction liquidations were up from 153 to 214 — manufacturing 25 to 46 and mining and quarrying from 14 to 34.

For the first 11 months of last year insolvencies of private individuals and partnerships increased by 23% compared with January to November 1990

According to CSS, in the last quarter last year liquidations increased by 31,3% to 466 compared with the same quarter in 1990

In the three months to end-November, insolvencies increased by 23,3% to 1 084.

However liquidations decreased by 12,7% to 466 in the last quarter of last year compared with the third quarter their leader, while 85% of blacks chose Mandela and 9% De Klerk.

by including rural areas Inkatha could come up with about 15% of the vote

help," De Beer said

BDay 12/2/92

Opposition to housing for immigrants in Irene

PRETORIA — The Irene Vigilance Association has opposed a development project that will apparently house 550 families, mainly from Hong Kong, at Verwoerdburg near Pretoria.

Association chairman Rowan Haarhoff confirmed yesterday the association had notified the Verwoerdburg council that it opposed the development on town planning principles

The stands in Irene were large single stands and luxury townhouses on Irene's borders would not constitute suitable town planning, Haarhoff said

A municipal townships advisory committee overruled the association's objections However, a further hearing before the Transvaal Provincial Administration's townships board would be held soon, Haarhoff said

On the other hand, he believed the immigrants would be businessmen who would bring capital and skills into the country — Sapa

Privatisation 'has not stalled'

Business Day Reporters

PRETORIA — Government's privatisation programme, as part of an overall economic restructuring plan, had not stalled (232)

It would be promoted "in no uncertain terms" at the proposed multiparty economic forum, a Privatisation Commission spokesman said yesterday. BDay 12/2/92

Earlier yesterday Parliament passed legislation providing for the incorporation of the Tweefontein Timber Company and the Alexander Bay Development Corporation into public companies

The Tweefontein Timber Company Act said the conversion would enable the company "to be managed in modern, independent manner"

In terms of the Alexcor Act, the Public Enterprises Minister may sell up to 25% of its shares to employees. Alexcor will have a share capital of R50m

The Privatisation Commission spokesman said yesterday there was a general expectation after Iscor and Sasol were privatised that many more public utilities would follow suit

However, these two were among a few entities which had business records and results sound enough to enable them to be prepared easily for privatisation

Preparatory work was necessary to give government and future shareholders a clear picture of business records and performances

The privatisation of the Abattoir Corporation would also come before Parliament this session

However, DP trade and industry spokesman Brian Goodall said if the programme had not stalled it was crawling along at a snail's pace

Privatisation should be placed on the Codesa agenda as a matter of great urgency Expanding the privatisation process was seen as vital by the IMF and the World Bank, he added

Global recession erodes Iscor shares

MATTHEW CURTIN

ISCOR shares slipped 3% on the JSE yesterday to close at 175c, their lowest level since December 1990, and 25c below their 1989 listing price.

Markets sources said the steady fall in the stock this year reflected the depth of the recession in local and international steel markets Iscor, which reports interim results at the end of the month, was unlikely to escape the effects of the recession.

Frankel Kruger Max Pollak analyst Kevin Kartun said that following drops in earnings of up to 60% at steel-makers such as Australia's Broken Hill Proprietary and Germany's Thyssen, Iscor would also suffer poor results. B|Day 12|2|92

Demand and supply of carbon steel has dropped 5% in 1991, and has led to severe cutbacks by SA's main ferro-alloy producers, Samancor and Highveld Steel & Vanadium

Kartun said Iscor's changing sales mix would affect its results, as the group's dependence on low-margin export markets was increasing. Given Iscor's policy of maintaining a dividend cover of three times, shareholders could expect a lower dividend payout in the interim 232

Iscor declared a total dividend of 11c a share in 1991 on earnings of 33c a share, compared with 17,6c and 55c in 1990.

Most divisions serve Bidvest Group well

BIDay 12/2/92 (232)

MARCIA KLEIN

GOOD performances in most of its divisions saw the Bidvest Group show real earnings growth in the half year to end-December.

Results for the current period include those of the recently acquired Steiner Services, so the previous year's results are not comparable.

The group, which has interests in Afcom, Steiner Services, Cater Plus, Crown Foods and Justine cosmetics, increased its attributable profit by 91% to R13,3m and its earnings by 18,3% to 203,1c a share. On a diluted basis, earnings grew 6,6% to 148,8c (139,6c) a share

Turnover was 41,8% higher at R279,6m. Chairman Brian Joffe said turnover excluding Steiner would have been 16% higher.

Operating income amost doubled to R30m on an improved operating margin of 10,7% (7,9%). The group declared a 60% higher interim dividend of 80c (50c) a share

Afcom increased earnings by 23%, and would focus on increasing local and export sales

Steiner, which rents and launders hotel and industrial linen, gained market share. Some of Steiner's hotel-related activities were rationalised into Cater Plus which experienced pressure on margins

The 50%-owned direct selling cosmetic company Justine returned to profitability

Bid Corporation, which holds 54% of Bidvest, declared an interim dividend of 40c (25c) a share It increased its attributable earnings by 69,7% to R10,6m (R6,3m) and its earnings by 69,2% to 108,1c (63,9c) a share, or by 67,1% to 78,7c (47,1c) a share on a diluted basis

Privatisation 'has not stalled'

Business Day Reporters

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More businesses declared insolvent

Sowetan 13/2/92

AT least 23 percent more individual's one-man businesses and partnerships were declared insolvent in the first 11 months of 1991 than over the same period in 1990

The Central Statistical Service in Pretoria this week said it had recorded 3 542 insolvencies last year, an increase of 662 compared to 1990

The number of companies and close corporations liquidated last year had increased by 18 percent (232)

A total of 688 large and small businesses, as well as caterers and accommodation services, were liquidated, compared to 583 in 1990, Sacob said.

- Sapa

Majority of Masterbond investors still in the dark

BID av 13/2/92 (232)

LINDA ENSOR

CAPE TOWN — Little light was shed by the Masterbond provisional curators' report submitted to the Cape Town Supreme Court yesterday on the prospects of the majority of the 20 000 Masterbond investors receiving a repayment of the R595m they invested in the collapsed empire.

While the full capital amount and most of the interest on the R26,9m, solvent money market business was paid out to 5 893 investors on January 23, the bulk of Masterbond investors will be no clearer today on the ultimate fate of their investments than they were yesterday.

The curators — Willem Wilken, Arnold Galombik and Jozua Malherbe — recommended against liquidation of any of the Masterbond companies and said final curatorship would be in the best interests of investors.

But they said in their report that discussing the viability or problems of specific development projects would result in the certain failure of the projects as end-purchasers or users would lose confidence in them.

About 70% of all the bonds — the 53 participation bond investments worth R70,8m made by 2 451 investors and the 54 debenture bonds of R400,5m involving 10 026 investors — were made in Club Mykonos, Fancourt, Marina Martinique, Phinda and Silverhurst, where development is still in progress. The curators investigated the viability of these schemes and said their immediate liquidation would prejudice investors

Recovery

The curators said to call up a a bond too early or reach a premature settlement might result in purchasers buying the scheme at too low a price However, if the developer were allowed to complete the project, there was a fair chance of full recovery by the investors

The report said in certain cases the curators were negotiating with debtors to give investors in these projects the option of being paid a reduced amount immediately rather than to wait indefinitely for repayment in full

Since their appointment in October last year, the curators have spent much of their time reconciling the investors of the short-term bonds, obtaining legal advice and determining the extent and nature of the group's investments. The Masterbond group consisted of 81 companies utilising 85 different banking accounts and had a direct and indirect interest in about 50 projects.

The curators said the payment of interest to 1 484 participation bond investors for October 1991 would be made as soon as it had been reconciled and for January as soon as it had been received. A total of 182 investors had received R3m for amounts received by Masterbond Participation Bond Trust Nominees and Masterbond Trust Investment Nominees, but not yet placed in any of the schemes Other small amounts have been paid out

The curators attributed their lack of communication with investors to the fact that two months prior to their appointment, records had not been properly kept and it had not been possible to identify all investments

"We found that at the time of liquidation of Masterbond Participation Bond Trust Managers (MPBTM) prior to it being placed under curatorship, allocations to individual investors in participation bonds to the value of R16,3m and debenture bonds to the value of R139m had not been made This despite the fact that the funds had been paid out to borrowers The practice was that allocations would be made *ex post facto* in batches to various bonds as required."

The curators have decided to deal with these investments as a whole by making pro rata allocations to all bonds where allocations have not been made or not fully made This would ensure that investors participated in all such bonds and were not unfairly allocated

The curators noted that each participation bond in MTPBM would have to be separately dealt with, and that the fortunes of each investor would depend on the security offered by the bond in which he was allocated

Legal counsel had advised the curators that they were not able to pool all debentures and bonds and pay out debenture investors pro rata. Each debenture holder had to be treated separately.

The curators have decided that the investors in the 17 property syndications will be treated separately from other investors, but did not indicate in what manner A total of 2 403 investors invested R96,9m in the property participations

The curators found that Masterbond's short term debenture bond business did not comply with the Companies Act in all respects. The business operated on the basis of investments being lent to debtor companies and secured by mortgage bonds

However, the curators were advised that the formal deficiencies do not invalidate the debenture certificates and the debtor companies were, notwithstanding the irregularities, indebted to the debenture holders

Finanzhaus and Spectravest, used to finance end-buyers in Masterbond projects, were found to be viable companies

While Mr Justice P H Tebbutt praised the curators in court yesterday for protecting the interests of investors, for those with money tied up in the group it is likely to be a long wait

Court extends Masterbond's curatorship

BDay 13/2/92.

LINDA ENSOR

CAPE TOWN — The intervention of Masterbond creditors saw the application for a final curatorship order being quashed in the Cape Town Supreme Court yesterday in favour of an extension of the provisional curatorship until August 12

The court decided that the liquidation of Masterbond's mostly incomplete projects would result in investors receiving a poor return and would not be in their interests The extension of the provisional curatorship order would place the court in a better position to make a final decision.

The intervening creditor, Donald McKenzie — acting on behalf of investors — said in an affidavit the curators had been incompetent in not fully carrying out the court's orders

At a news briefing after the hearing, Japie Jacobs, special advisor to Finance Minister Barend du Plessis, said the Cape Attorney-General was evaluating information to determine whether any transgressions or offences had been committed in the management of Masterbond's affairs

He said steps would be taken to propose legislative changes to limit the possibility of another Masterbond-type affair

Curator Arnold Galombik said there was no doubt Masterbond investors would ultimately suffer losses

The provisional curators were ordered to submit an interim report to the court by May 31 to enable investors to assess progress made in the five major Masterbond projects — Club Mykonos, Fancourt, Silverhurst, Phinda and Marina Martinique — in which R339m is tied up

The provisional liquidations of six companies in the group were extended until February 26 (232

On each of the five major projects the curators reported that

- ☐ A proposal which could lead to the completion of Club Mykonos development was under investigation,
- ☐ An agreement had been entered into with Group Five for the completion of the Fancourt development,
- ☐ The application for the liquidation of Marina Martinique had been postponed until April 30 so an alternative source of finance could be found,
- ☐ An agreement was under negotiation to extend the loans for Phinda on the basis that interest could be paid at a reduced rate and the shortfall capitalised,
- ☐ No interest was being paid on Silverhurst Capital repayments would be made as transfers proceeded

● See Page 6

Sowetan 13/2/92

Abattoir Corp to be privatised

232

Finance Staff

The Cabinet has given the go-ahead for the privatisation of the Abattoir Corporation (Abacor) Enabling legislation is being urgently drafted.

Abacor manages 11 abattoirs nationwide, with all shares held by the state

Share issues could be finalised as early as June 30 if legal provisions are approved by Parliament by April 30

Dr Kraai van Niekerk, the Minister of Agricultural Development, says the decision is in line with the deregulation of the red meat industry

The Red Meat Producers' Organisation of the Agricultural Union has welcomed the move.

Govt plan to sell off plantations condemned

STAR 13/2/92

(232)

By Peter Wellman

The Government is determined — and in a hurry — to sell off State forests which would mean the end of cheap housing timber, saw milling sources said yesterday

New Zealand is the only other government in the world that has tried to privatise its plantations — but it scrapped plans after 40 mills closed down

Middle and lower-range housing would be most affected because it is the building industry's staple homes-market, said Solly Tucker, chairman of York Timber Organisation Ltd.

The Government plans a State-owned National Forestry Corporation which would later be privatised

This concept has horrified millers, who regard the forests as a national resource no one should tamper with.

Yesterday the SA Communist Party raised the issue at a Codesa Working Group 1 meeting in Kempton Park.

The privatisation would be in defiance of an ANC/SACP/Cosatu demand for a moratorium on restructuring the economy, said Essop Pahad, SACP member of the working group

He expected Magnus Malan, Minister of Water Affairs and Forestry, to present the plan to next week's Cabinet meeting.

It was originally scheduled for this week.

Milling sources contacted by The Star also said they expected legislation by next month

They did not wish to be identified because they feared repercussions when they negotiate new log contracts with forestry officials.

Mr Tucker said "Uncertainty has shaken the confidence of long-term contractors in the Department of Forestry and its plans for their future

"Privatisation is no more

● To Page 3

Plan to sell off State forests condemned

STAR 13/2/92

(232)

● From Page 1

than a cover for expropriation without compensation, and the handing over of the driver's seat of a strategic industry to a money-making monopoly," he said.

The Star faxed questions on the privatisation issue to General Malan yesterday.

A spokesman said the minister would reply before the end of the week.

Andries Swart, executive director of the South African Lumber Millers Association, said Salma did not seek a public confrontation with the Government

"But now that the matter has been brought into the public arena, I have to say that selling the plantations to profit-driven private buyers would mean

- "Rough log prices to sawmills would jump
- "Sawn timber prices would have to follow
- "Wood for home-building would be much more expensive for the average citizen"

If saw-log prices rose annually by 20 percent, production costs for sawn timber would double in the next 3½ years

The State's 263 000 ha of timber plantations provide 55 percent of the logs cut at the country's 114 mills each year.

Salma's last annual report said "The log price has risen by an average of 16,5 percent a year over the past five years and sawn timber has increased by 10,5 percent a year"

Mr Swart said Salma had big plans for helping to solve South Africa's informal housing crisis, with at least 7 million people in need of homes

Less room for private investors

STAR 14/2/92.

By Jacques Magliolo

Private investors are being edged out of the JSE and their absence could give financial institutions virtual control over the stock market

Recent statistics show that since the 1987 crash individual shareholders have been opting for unit trusts

The exodus from the market is not slowing down — 1991 showed a record 27,5 percent increase in new unit trust investors, bringing the total number to just under one million

According to the JSE Monthly Bulletin for December, there are 41 registered unit trusts with funds worth R11,4 billion

Distorted

While these figures may depict bullish sentiment on the stock market, they distort the significance of a reduction in direct involvment with the JSE

Institutions already own more than R350 billion in equity — out of the total market value of about R445 billion — and the departure of the small investor increases the institutions' control over supply and demand factors

Dr Danny Velthuysen, a director at a Cape-based equity management firm, says "Private investors hold only four to five percent of the total market capitalisiation of the JSE, which leaves the rest in the hands of a few financial institutions"

MAGLIOLO 232 on the MARKET

Teigue Payne, industrial analyst at Frankel Max Pollok Vinderine, agrees

"If one includes the large mining houses, pension funds, insurance companies, nominee and corporate bodies and directors who own shares, their control of the market is at the very least 90 percent," he says

At five percent, private investors own about R22,3 billion, but half this is in unit trusts, which leaves only about 2,5 percent direct ownership by individuals

One stockbroker, confirming that such a vast discrepancy between institutional and private shareholders must have a major impact on share prices, asserts that it is in the interest of institutional buyers to keep A-grade share prices high because portfolio performances are monitored every quarter

Surely the ability to push up or reduce prices can be construed as market manipulation?

For instance, Dr Velthuysen cites Barlow Rand as an example of how financial institutions can affect share prices

He says that when Barlow's issued its end-September 1991 results, instead of the share price falling on the back of a 16 percent drop in EPS, the price climbed to 5100c from 4800c

Poor results

However, analysts differ on this issue Ed Hern Rudolph industrial analyst Sid Vianello says "Share prices are moved by investor perception and not by who controls the market"

While Mr Vianello agrees that institutions own at least 80 percent of all shares, he says it is not unusual for some companies to show an increase in share prices — even after poor results

Mr Payne points out that institutions are mainly interested in blue-chip stocks and, therefore, the private investor does have an effect on supply and demand factors

However, there are two main factors which directly highlight the extent to which finanical institutions control the market

Firstly, blue chips are used to calculate the indices and, thus, institutional buy-sell decisions affect market perceptions and are reflected in overall market sentiment

Secondly, their shareholding provides them with about R35 billion in annual cash inflows

While these funds are not necessarily invested in equities, analysts point out that at least 50 percent of these funds will be used to buy shares

In essence, if institutions used 50 percent of cash flows to buy shares in 1991, they would have been responsible for nearly 80 percent of all shares traded — total value of shares traded in 1991 was, according to the JSE Bulletin, R22,2 billion

This brings to mind an excerpt from former JSE president Tony Norton's 1991 presidential address "It must be the overriding aim of any stock exchange to provide an environment that is fair to all participants at all times"

Fair for whom?

COMPANIES

Saficon to increase stake in Boumat

BDay 14/2/92

SEAN VAN ZYL

MOTOR retail group Saficon Investments plans to increase its stake in building material supplier and manufacturer Boumat to 51% from its existing holding of 32%, chairman Sidney Borsook said last night.

In an announcement to shareholders, Saficon said it had acquired 1,3-million Boumat shares from Sanlam in exchange for 12 new ordinary Saficon shares and 6 new Saker's Finance and Investment Corporation (Saker's) shares for every 27 Boumat shares. Saker's forms the investment holding company for the Saficon group.

The 5% stake in Boumat acquired from Sanlam is equivalent to 27% of the assurer's total holding in the building supplier. As a result, Borsook said a similar offer would be extended to Boumat's minority shareholders for 27% of their holdings.

Although Saficon has extended its offer, on a tender basis, to minorities for holdings above the 27% level, Borsook noted the group would not be obliged to accept shares above the agreed terms. The proposed deal has been approved by the JSE and the Security Regulations Panel.

The proposed offer requires that Saficon increases its stake by no more than 51% or a minimum of 47%. (232)

Borsook said Saficon planned to adopt a more active role in the day-to-day management of Boumat, "which holds a lot of potential". Borsook replaces Irvine Brittan, who has indicated his intention to retire, as Boumat chairman at end-March.

Saficon also has reached agreement with Sanlam to purchase its remaining holding of 3,4-million shares in Boumat, based on the same purchase terms. Sanlam holds a 15% stake in Boumat.

The deal would require the issuing of 4,7-million new Saficon shares, boosting the company's share base by 16% to 34-million shares in issue. The dilution would not materially affect Saficon's control structure. Saker's would issue about 1,3-million new ordinary shares, Borsook said.

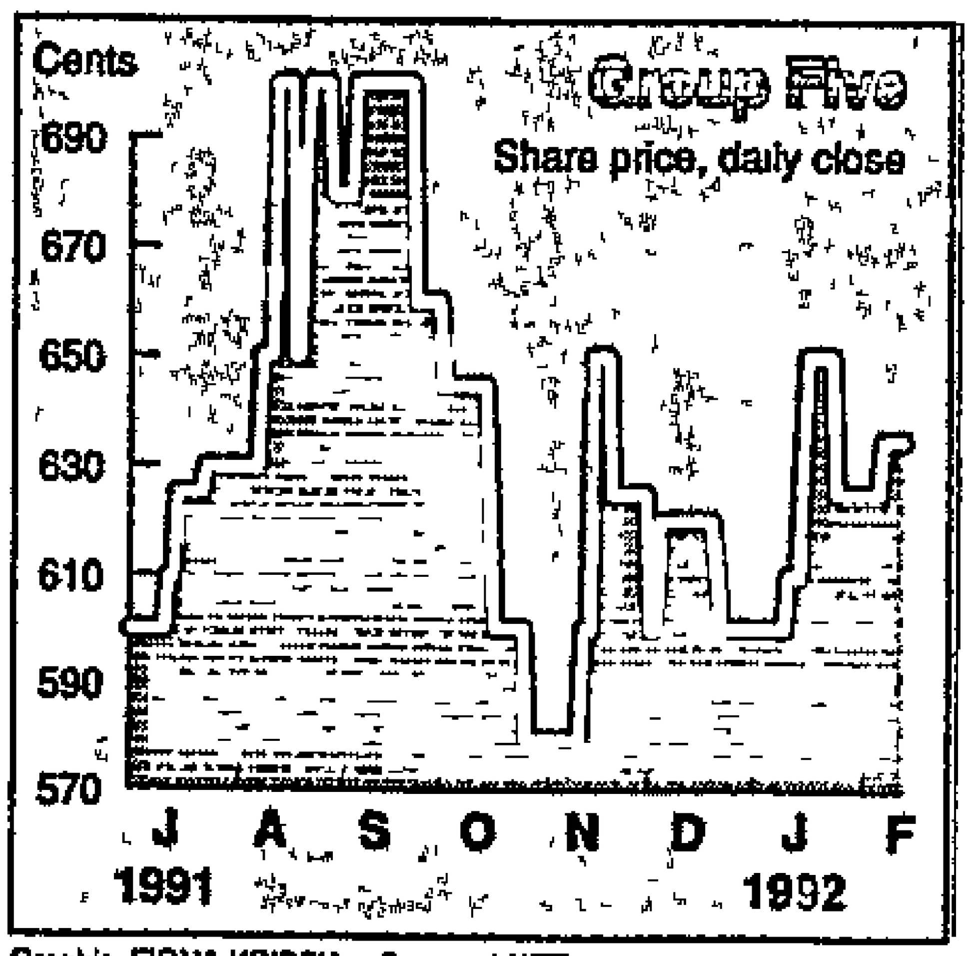
Building business will decline — Group Five

BDay 14/2/92

THE low level of business activity in the building and construction sector was getting worse and was expected to remain so for at least another 18 months, said Group Five MD Peter Clogg, commenting on the release of the company's results for the six months to December 1991.

A 21% drop in turnover to R533m and increased tax bill saw the group declare an 11% drop in earnings to 90c a share compared to the corresponding period last year.

Clogg expects results for the remainder of the year to be similar to the first six months due to the long-term nature of construction contracts.



Graphic FIONA KRISCH Source I-NET

Gross profit margins increased from 2,96% to 3,6% in spite of the drop in turnover. As a result, pre-tax profits were only 2,9% down at R19,3m. However, a 28% increase in tax to R4,4m further reduced the company's earnings. Taxed profits fell 9,3% to R14,9m while dividends remained unchanged at 27c a share. Cash on hand amounted to R47,9m.

Clogg said about 20% of turnover was derived from cross-border operations in southern Africa. These operations include housing, civil engineering and road building contracts in Botswana, Namibia, Malawi, Lesotho and Zimbabwe. The company is also investigating opportunities in eastern Europe and what weas the former Soviet Union.

He said construction and civil engineering activity in SA was quiet and there was less and less activity in the low-cost housing sector. Group Five would benefit particularly from new initiatives in the low-cost housing sector following its acquisition of Everite for R86,7m.

Group Five Holdings, which derives all its income from a 53,8% stake in Group Five Limited, declared unchanged dividends of 26c a share. Earnings a share fell 11% to 88c.

SM Goldstein declared unchanged dividends of 10c a share. SM Goldstein derives its income from a 45% interest in Group Five Holdings.

INVESTOR CONFIDENCE FM 14|2|92 (232)

What spooked the financial rand

The recent decline in the value of the financial rand is partly due to the speed with which political negotiations are progressing

In the past, breakdowns in the process unsettled foreign investors Now they are nervous because the Codesa talks are speedily disposing of contentious political points (see *Current Affairs*) but there have been no parallel advances on the question of future economic policy.

Ebbs and flows of confidence are clearly traced by the strength of the investment currency After improving steadily for months, as SA moved closer towards the international financial community, and sharply in October after Japan lifted sanctions and the Commonwealth removed people-to-people sanctions, the investment unit has tumbled It has dropped from about US32c at the end of November to under US29c this week, while the discount between the investment and the commercial unit has risen from around 8% to more than 20% in the period.

There are several reasons for the deterioration in the value of the currency

- ☐ A number of local companies has been allowed by the Reserve Bank to acquire interests in overseas enterprises, says UAL GM treasury Lionel Pereira "This adds immediately to the supply of rands in the spot financial rand market and also to the total pool of financial rands;
- ☐ Some disinvestments, including the sale of Glass SA shares by UK-based Pilkington in December to Plate Glass & Shatterprufe Industries,
- ☐ The realisation by nonresident investors towards the end of last month that interest paid on finrand cash balances is not tax-exempt, and
- ☐ Contradictory statements from key ANC office holders last week that created a confusing picture of the organisation's intentions on economic policy

But this is only part of the story. The proceeds of the disinvestment would have been fed carefully into the market so as not to destabilise the unit Concerns over tax, though they triggered the most recent slide, should not have done so much damage, say analysts And the contradictory statements from the ANC have been common occurrences since the organisation was unbanned in February 1990

That the events came within weeks of each other would have compounded the effect — the sum being greater than the parts But Rob Wade, FNB assistant treasurer, foreign exchange, believes that the market — which is always thin — is vulnerable because investors perceive a new dispensation rapidly approaching.

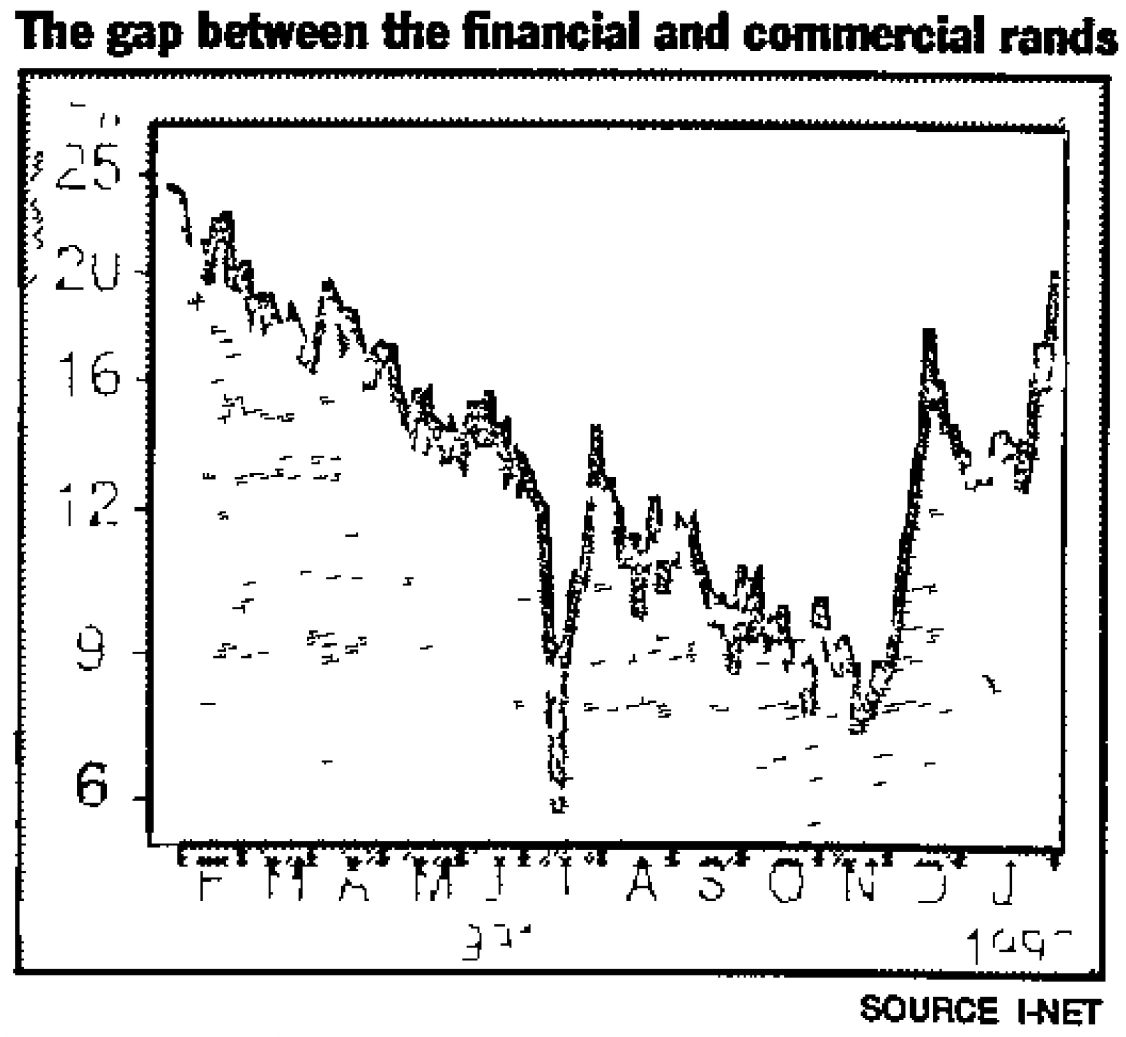
The evidence is of course inconclusive

There is a widely held view in the market that the cash that has taken flight in past weeks has been coming into the country from the Far East over the past six months. It has been largely speculative and has therefore been placed in money market deposits. Yields in the money market have slipped from about 17,5% six months ago to about 16,75% now, but have been consistently higher than those on gilts As an example, a short-dated parastatal security, with around two years to maturity, regarded as "reasonably liquid," has been trading at around 15,8%-16,10%, says Standard Merchant Bank's Chris Kenny

Kenny says substantial sell orders from Far East investors continued this week He says it appears they are determined to liquidate all local deposits. And because they still hold substantial finrand balances, this means further downside potential for the currency

Widening again

The gap between the financial and commercial rands



SOURCE I-NET

Gilt and equity transactions through the JSE have not responded in the same way as the more mobile cash balances. One large US investor, for instance, who came aggressively into the market towards the end of last year to buy gilts, has not pulled out the funds, says a market observer. And statistics on gilt and equity transactions routed via the JSE show no signs of retreat. The recent trend has been a reduction in net sales from R86,2m in the week ending January 17 to R64,2m and R15,4m in the following weeks. Presumably, sales were countered by the rise in the finrand discount, which attracted further investment because it pushed yields to more attractive levels

This would confirm that tax on interest income derived from investments other than gilts has played an important role in the decisions of nonresidents

On the other hand, investors who prefer to hold cash balances have shorter-term objectives

Those who invest in securities may well hold medium-to-longer-term views and be prepared to sit out the immediate uncertainties

The volatility of the financial rand clearly illustrates the frailty of investor confidence. Institutions are not prepared to wait for points of policy to be debated endlessly, interpreted and reinterpreted and finally clarified The longer they wait for agreement on what type of economy SA will have in the future, the more opportunities to attract funds are lost to SA ■

CLOSE CORPORATIONS FM 14|2|92

The axe falls

Inland Revenue is putting into effect 1990 Income Tax Act amendments that make employers deduct Paye tax from payments to close corporations (CC) defined as "labour brokers "

Application forms for exemption will be available from May 1 and Paye must be deducted from July 1.

The amendments, explains John Hanssen of the office of the Commissioner for Inland Revenue, were intended to create uniform tax treatment in the labour broking business and will prevent CCs being used as a means of evading or postponing tax.

If a member of the CC provides a personal service to a client, the CC will now be regarded as a labour broker

Tax has been evaded, for example, when specialist employees, such as engineering draftsmen, came to SA to perform work on an expatriate basis and left after their contracts expired As the law stood, the ultimate employer/client was not required to deduct Paye from fees paid to the CC So the CC assumed the contract to provide personal services, passing on payment to the member who frequently evaded the tax simply through non-disclosure

The interposition of the CC also allowed tax payments to be postponed because it had to pay only provisional tax, not monthly Paye tax

The definition of labour broker in the amendments to the Act corresponds with the definition found in labour legislation It is so broad a definition that — unqualified — it

Continue ->

Tempers rise over Dorbyl Usko offer

S Times (Buss) 232 16/2/92

By JULIE WALKER

USKO minorities are poised to strike back if a deal between Dorbyl and Usko is accepted ahead of a potentially more favourable offer from Powertech's Aberdare.

Usko, which until last year had interests in iron, steel, vanadium and cabling, is in financial difficulties. Its bank borrowings top R150-million and it is trading in an insolvent state with negative shareholders' funds of more than R90-million

Late last year, Berzack made a bid for the group because of its complementary holdings in cables, but later walked away from it.

Terms

Aberdare was believed to have been competing with Berzack for Usko Aberdare said on Wednesday this week that it would bid for Usko.

The next day, it was announced that Usko and controlling shareholder Metkor had received offers and one had been conditionally accepted

In terms of the accepted offer, Usko and Metkor are contractually bound not to embark on negotiations with any other party for the disposal of any of its shares or part of its businesses

It is believed that the offer has been made by Dorbyl, which warned its shareholders on February 3 that negotiations were under way.

Usko, Dorbyl and Metkor have as chairman Floors Kotzee

Issy Goldberg of the Shareholders Association of SA, says he is aghast at the way Usko appears to have accepted an offer without having told the minority of the terms

Mr Goldberg urges Usko members to write to him at Box 3778, Cape Town. He pledges to fight for the best deal on their behalf

"Usko's management has run this group down from a mild-blue chip to dross," says Mr Goldberg

Par

According to one Usko shareholder, the proposal amounts to a closed-shop incestuous deal where the chairman merely switches his Dorbyl bidding hat for his Usko acceptance hat. The potential for conflict of interest is plain, he says

No fewer than five Usko directors are on the Dorbyl board

Usko traded at nearly 100c for several years before the 1990 venture in vanadium with Rhovan pushed the share price almost to R6 The price is now 40c

Usko sold off its steel interests, valued at R125-million, to Iscor for R50-million last year, its steel trading operations for R5-million and its failed vanadium venture assets to Rhovan for R1.

Mr Kotzee is also the

□ To Page 2

Usko anger

232 □ From Page 1

S Times (Buss) 16/2/92

Rhovan chairman

Given its record of disposing of assets at below par, Usko might sell its remaining cabling operations at a giveaway price. Minority shareholders might be obliged to consider an offer below the current market price, ignorant of the Aberdare terms

Neither Usko nor Dorbyl will comment Aberdare refers questioners to its Wednesday announcement.

Fireworks can be expected if Usko members are yet again disadvantaged There appear to be significant breaches of the rules and principles of the Securities Regulation Panel

Unit trust fees drop in ocean

(88) (232)

S/Times (Buss) 16/2/92.

By ROBIN PEGLER

MANY small investors are complaining about the increase in the maximum annual service charge levied on the market value of a unit trust's assets.

It has been raised from 0,5% to 0,75%.

But the cost to an investor is minimal.

In spite of this, it seems that several unit trust management companies have not controlled costs as well as they should have.

Separate

Clive Turner, chairman of the Association of Unit Trusts, says the increase is the first in the industry's 26-year history The charges remain low compared with those in other countries

Two separate charges are levied

- The 0,75% fee covers portfolio management and administration costs
- The difference between buying and selling prices as quoted in the newspapers amounts to about 6,5% This is to cover marketing costs, including brokerage and marketable securities tax

The impact of the increased annual service fee is low for investors regarding both capital value and income If one had R1 000 in a general unit trust for one year, one would receive about R2,50 less in annual income

Mr Turner says the fee of 0,5% deterred newcomers to the industry Although there are now no fewer than 41 unit trusts, the more the competition, the more efficient they will be

Unit trusts have by far outperformed inflation both in capital value and income for 20 years Capital values may have been inflated by the excess of demand over supply of good-quality scrip, thus enhancing the performance of the unit trusts with little effort But that is a fact of life in SA's economy

Mr Turner says administrative costs have increased sharply, particularly because the number of accounts has risen to nearly a million

Unit trusts are run by large institutions In many cases their staff also administer life-assurance and pension funds, so a relatively small part of their time is spent on unit trusts

However, recently established funds have not had time to build a large base of funds under administration

Table 1 gives a few samples of these and shows that even the higher fees will not go far in covering costs Administration and research are done at a loss

Another objection to the higher service charge is based on the argument that the increase in a fund's asset value should have taken care of rising costs This is shown in Table 2

Mr Turner counters this argument by saying that in the early 1980s systems could not cope with the enormous amount of new business They had to be replaced by advanced technology

He says unit trusts should have lifted service charges years ago In the UK, a conservative estimate of the average charge is 1,25% a year — and can be 3%

It appears from Mr Turner's remarks that the cost of computer hardware and software is much greater than that of salaries One must hope that the electronic infrastructure is now sufficient to cope with the high level of business and that cost increases will be lower

Leader

Even so, the income from fees shown in Table 2 shows a rapid increase On the old scale of 0,5% income was over four times what it was five years earlier On the new scale income will be more than six times higher This rate of increase is far more than SA's inflation rate

It looks as if in many cases the unit trusts have been used as a loss leader

Their performance is reported regularly and they advertise the expertise of their supporting institution as a whole The loss on administration fees probably gives better value for money than the equivalent amount spent on advertising

It is preferable to see investors paying less in fees than to have money go into the pockets of the advertising agencies Nevertheless, the larger funds at least have little incentive to contain costs It would be better if they did

TABLE 1

Unit Trust	Funds under Administration R000	Fee receivable 0,5% R000	Fee receivable 0,75% R000
METFUND	27,9	140	209
VOLKSKAS	28,4	142	213
METLIFE	13,6	68	102
SENBANK	3,7	18	28

TABLE 2

	31 Dec '81	31 Dec '86	31 Dec '91
Unit Trust Industry			
Total assets Rm	719	2 723	1 1397
0,5% fee on above Rm	3,6	13,6	57,0
No of funds	12	14	41
Capital index*	44,8	100,0	206,7

* This means that hypothetically, if an investor had bought a basket of all unit trusts at 31 December 1986 his money would have more than doubled five years later

CLIVE TURNER First service charge increase in 26 years

Solutions for keeping family business going

S Times (Buss) (232)

16/2/92

CONTRARY to the view that the JSE is dominated by conglomerates and power bases, South African families control more than 70% of listed companies and many of those not quoted.

But only one in four family businesses survives into the second generation, and only one in 10 reaches the third

Malcolm Segal, managing partner of auditing and consulting firm Kessel Feinstein, made a study of the problems faced by family businesses He hopes to offer an objective service to customers

Mr Segal says "The usual trust set up by an entrepreneur entails a usufruct for his spouse on his death She collects the income from the business until she dies, when the estate is divided equally among the offspring

"Trusts are established almost exclusively to save tax with little regard for the other consequences

"But in most cases, this is a recipe for disaster because it makes no differentiation between blood equity and sweat equity — the amount of effort put into the business by the heirs "

Mr Segal gives the example of a family with two sons and a daughter One son becomes a doctor and emigrates, the other takes over the running of the business and the daughter is married and not involved

The emigrant wants his capital out of SA, the daughter wants dividends — and the new managing director is battling to keep the business going and trying to keep everybody happy

He might want to buy out the other two, but cannot raise the money

Another example is where all the sons want to get into the business, but no successor is apparent The widowed matriarch has to prefer one above the others

Such matters are complicated if there is a capable and willing daughter, or son-in-law, or non-family member who deserves consideration

By the next generation, when each child has children of his or her own, the risk of the family's losing control is even higher

"In a normal situation, the overlap between the family system and the business system is manageable But where the overlap is excessive, destructive conflict can arise," says Mr Segal

Neither a purely business, nor a purely emotional approach, will provide the solution Both aspects have to be tackled simultaneously

Mr Segal says that an outside independent acts as a facilitator on family business issues by getting members to anticipate problems such as succession, retirement and estate planning

Other factors include financing, remuneration and performance criteria, opportunities for non-family members and personal and company tax planning

Family members not involved in the business should also be accommodated, perhaps through preference shares

Mr Segal believes that the bringing together of four criteria — financial, technical, managerial and psychological — among the players in a family business by an independent specialist can restore both profit and harmony

"We have seen that consulting often becomes counselling It is often painful to face sensitive business issues The patriarch often defers taking remedial action even if he has seen the problem

"Kessel Feinstein's team includes a consulting psychologist to help with the emotional side in the case of complex family relationships "

MALCOLM SEGAL Psychological help in sensitive issues

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... Entertainment World, at Babelegi, opened on ... 1991 and has traded well since that date

effective rate of taxation arose as a result of the tax attributable to the substantial capital expenditure presently being undertaken by the company

... earnings increased by 19% from R89 million last year to ... whilst earnings per share grew by 17% recognising the shares in issue during the year

recorded an average occupancy of 78% for the six months in line with last year, but substantially higher than hotel chains in southern Africa

and rights issue

...nced in the press on 9 January 1992 that the directors to proceed simultaneously with a rights offer of new

Dividend per ordinary share (cents)

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S|Times [Buss] (232) 16/2/92

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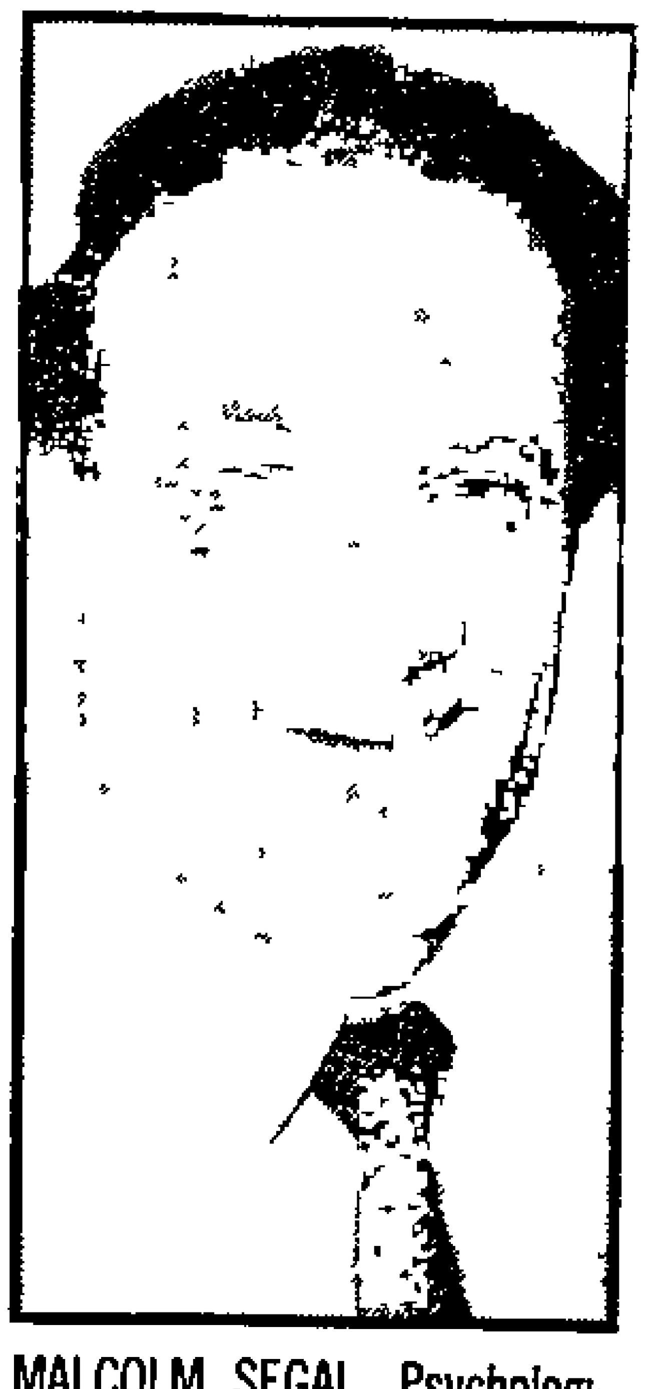

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Stockbrokers also hit by 'worst drought'

BiDay 17/2/92 (232)

MERVYN HARRIS

WHO will be the first to give up their Mercedes-Benzes and BMWs — the farmers or the stockbrokers?

That is the question being asked in financial circles as both groups struggle for survival amid the worst droughts in their respective industries in the past decade

"We may not be making the same headlines as farmers, but abysmal trading volumes on the market are just as serious for us," said a dealer

The crisis is mounting as the JSE and ~~stockbrokers approach the financial year-~~ en[illegible]

Key Market Movements Feb 13 to Feb 14

investors, have tended to mask an underlying decline in volumes

While the total value of shares traded has risen on a monthly basis from R1,16bn in January 1989 to R1,8bn in January 1992, volumes have slumped from 195,1-million shares in January 1989 to 155,6-million in January 1992

The situation is worsened by the plethora of rights issues, as no brokerage fees ~~are charged on investors taking up rights.~~

At least [illegible] of the [illegible] firms on the

JSE are one to three-man operations. Such firms have managed to get through tough times by jobbing — trading on their own account — at a time when share prices are moving up But larger firms needactive participation of investors and speculators.

The JSE is notorious for its lack of liquidity, with only about 5% of market capitalisation traded each year Another way of looking at the matter could be seen last Thursday, when 230,2-million shares were traded on Wall Street It was a relatively ~~good trading session on the JSE with turn-~~ over rising to [illegible]-million shares

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COMPANIES

Drop in exports has little effect on Cafca

EDWARD WEST

CENTRAL African Cables (Cafca), the Zimbabwean low-cost producer of electrical cables which is listed on the JSE's electronics sector, has increased profits for the fifth year despite a drop in exports.

Cafca's attributable profits increased 46% to Z$19,3m in the year to December 1991, from $13,2 last year Turnover increased 30% to $121,4m from $93m

Domestic sales accounted for $107,4m. Export turnover was down 10% at $13,9m.

Pre-tax profit increased 26% to $30,6m while taxation of $11,2m remained at the same levels due to capital allowances on a new plant.

Offshore financing for the new plant is represented by loans worth $777 000

Stocks increased 28,2% to $22,8m because of higher prices for raw materials and reduced demand by a major customer. The company believes 1992 will be a difficult year due to world recession, but is confident of high performance through increased exports Cafca believes it is well positioned for the start of 1992 with $62m already on its order books.

It intends continuing to search for new markets and has strategies in place to give it world class manufacturing status. These include accreditation by the International Standards Organisation and the Standards Association of Zimbabwe. Two new product ranges will be launched.

There are 300 000 tightly held Cafca shares on the SA register of a total 30,6-million in issue

25/2/92

232 862

McGregor predicts move to unbundling

232 ... 1660 ... BDay 19/2/92

WILLIAM GILFILLAN

ABOUT 42% of SA's gross domestic product (GDP) is generated by the 810 JSE listed companies and their subsidiaries — which number over 20 000 — according to the 1992 edition of McGregor's Who Owns Whom.

The remaining 200 000 SA registered companies generated around 26% of GDP.

McGregor chairman Robin McGregor said after the launch of the 12th edition of the book that he believed there was a move towards unbundling by conglomerates.

The four largest SA groups are Anglo American, the Rembrandt group, Sanlam and SA Mutual (in that order).

"The conglomerates are beginning to realise that bureaucratic management is not necessarily efficient," McGregor said.

He cited the example of Barlows which had recently sold off a number of major assets, including Middleburg Steel & Alloys

"Barlows is now a leaner, more efficient organisation" But McGregor agreed the conglomerates had a vital role to play in the new SA.

"There is no question that to be big has enormous advantages. The route conglomerates should take are projects like Columbus — that is those projects in which large sums of capital are required and where the conglomerates have the expertise."

However, he believed they should disinvest from the many smaller investments in areas which fell outside their expertise.

"Management of these smaller investments is difficult because of the many layers in management structures."

He said his "gut feel" told him Barlows' lead would be followed — especially by the Gencor group

"One will see some follow through related to Keys' unbundling overtures." He felt this would be the case even though Keys was no longer at Gencor's helm.

According to McGregor, control of the JSE listed companies by the four largest groups had, if anything, increased over the past year or so. Using September 1991 as the yardstick he maintained that — in terms of market capitalisation — Anglo controlled 43,6% of the JSE listed companies. This was slightly down from the 44,2% in September 1990.

Control by the Rembrandt group increased to 14,3% (13,6%), Sanlam's rose to 13,9% (13,2%) but control by SA Mutual dropped to 9,2% (10,2%)

Is the JSE really little more than a gambling room?

B/pay 19/2/92 (232)

GRAHAM BELL

IS THE JSE nothing more than a paper chase? Accusations to that effect centre on the perception that the JSE is like a casino where investors are involved in a gamble, some winning and some losing, without any material benefit accruing to society.

There is a strong sense that this is due to a decline in new private sector investment projects It is claimed that this results in institutional investors, for lack of other avenues, bidding up the prices of existing listed shares to levels well above their underlying worth.

If the JSE were overvalued, it should be demonstrably so in terms of its history The usual way of assessing this is to calculate the price-earnings multiple for the overall market index, the all share index The higher this multiple, the more expensive are share prices relative to the underlying earnings of JSE-listed companies

The graph shows that only in 1987 and again very recently has the price-earnings multiple risen markedly above its average of the past 23 years Furthermore, if the JSE price-earnings multiple is measured against other stock exchanges, it does not appear especially high Against the US Standard and Poor 400 Index, SA shares are currently on a rating of less than 0,5 Against the Financial Times 30 Index in Britain, the SA market is currently rated at about 0,95

Compared with "emerging" markets, in 1990 (when the SA market was around its long-term average), its price-earnings multiple was lower than those of Colombia, Greece, India, Indonesia, Korea, Malaysia, Mexico, Portugal, Taiwan, Turkey and Venezuela

It may be argued that because the JSE dividend yield has been well below its average over the past five years, the SA market has been expensive on this basis Closer analysis, however, shows this is because a smaller share of earnings has been distributed to shareholders, a trend evident since the early 1970s. This is a result of high inflation which creates "illusory earnings" because companies have to allocate a relatively high portion of their earnings simply to replace ageing plant and equipment at much higher prices.

A 14% decline in the ratio of earnings of JSE-listed companies to total labour remuneration between 1982 and 1990 has placed an additional restraint on companies' ability to invest

Taking all these considerations into account, JSE prices cannot be said to be unduly high

A related criticism of the JSE is its lack of liquidity Its turnover against total share value is exceptionally low, averaging about 5% against between 20% and 100% in developing and developed markets.

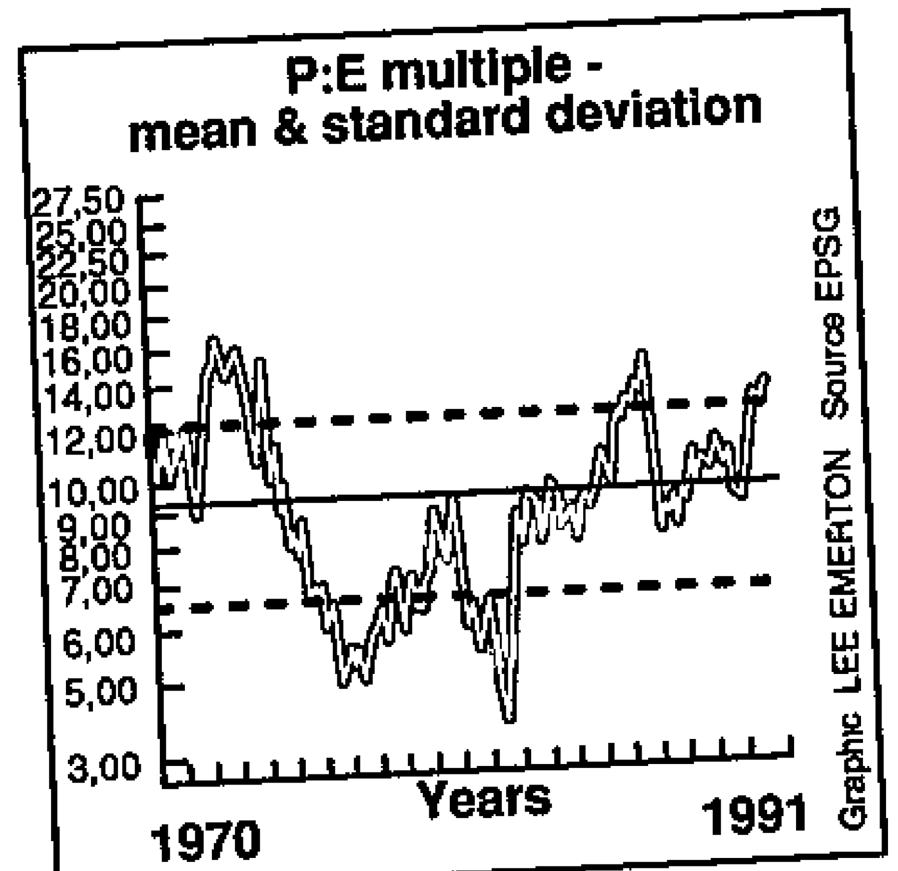
There are many reasons for this low turnover They include high personal and company tax rates, which discourage selling; foreign exchange controls, which cause a build-up of holdings in local shares by institutional investors, and the concentration of corporate shareholding

As to the last, there have been calls for nationalisation or for the "unbundling" of corporate holding structures Concentration of ownership has accelerated in recent years as the economy has increasingly focused inwards A combination of disinvestment by multinational companies, resistance to privatisation and high tariff protection from imports have made much of the economy uncompetitive

The sheer size of some SA corporations, however, raises its own problem that of how any changed shareholding structure could result in a wider distribution of ownership. Unbundling by means of government coercion is likely to cause more harm than good to general economic welfare. It would be far better to improve the environment in which efficient businesses can succeed, by, for example, reducing tax rates and import tariffs, removing exchange controls and stepping up privatisation Such policies are being pursued with great success in the emerging Latin American democracies, among others

At the core of the "paper chase" accusation is the sense of frustration that the SA economy has failed to generate the new investment needed to absorb rapid increases in the labour force

It is, however, quite wrong to blame the JSE for the problem Like any market, its function is to smooth the flow of information between buyers and sellers, investors and savers concerning the relative value of listed securities For this reason, trading activity is more than a zero-sum game Marketplaces increase efficiency.



For example, without central vegetable markets in all the major cities, farmers would find it much more difficult to find buyers for their produce They would have to spend more time on the telephone or on the road seeking potential buyers than in attending to their crops

Similarly, stock exchanges lower the cost of capital for the whole economy Prices on the JSE offer investors a rapid and continuous means of evaluating the expected returns on their investments, not only between companies listed on the JSE but also against all other investments The absence of a conviction that the return on investment in a new business venture will exceed the return on other forms of investment is the stumbling block for economic development

The allocation of the cash flows of institutional investors has received specific criticism These institutions tend to be highly risk-averse While they do control big cash flows, they do not see it as their task (with the notable exception of property development) to deploy those funds in large new projects of their own These institutions have traditionally placed a large portion of cash flow in JSE-listed equities.

Statistics for 1990 offer an example of the source of sales During that year, the net cash flow of institutional investors was estimated to have been R25bn About half of this, say R12bn, was used to buy shares and R6,1bn of this amount was absorbed by new equity and rights issues on the JSE A further R4,5bn was provided by net sales of SA equities by foreigners Only a relatively small amount of about R1,5bn was therefore available for any "paper chase"

It is also wrong to conclude that, because these funds are used to purchase existing equities or new listings, they end up in some bottomless pit The seller of equities receives cash which is always part of the banking system Furthermore, although a new listing of equity is one way for a company to raise capital, it is not the only, or even the major, way The dominant method is self-financing from a company's retained profits Other forms are by way of supplier credits from abroad, bank loans and corporate bonds, the latter being moribund in SA

By and large, this spectrum of financing alternatives has been available to companies throughout the period of declining fixed investment in the 1980s and before, so the lack of fixed investment has not been caused by the risk-averse nature of institutional investors Rather it is due to obstacles facing traditional risk-takers such as mining houses, industrial conglomerates and small businesses

Any coercion of institutional investors designed to channel the flow of funds into designated areas will not solve the problem Likewise, any measures which reduce the ability of the JSE to act as a market place would only reduce the efficiency of capital allocation and jeopardise the possibility of broader ownership of the means of wealth creation

This argument is not intended as a plea for the retention of the status quo The real problem stems from the increasingly uncertain socio-economic outlook following the crumbling of the apartheid system and has been aggravated since 1985 by international financial sanctions. The perceived shortcomings of the JSE are symptomatic of the degeneration of economic opportunity

In a more positive socio-economic climate, institutions such as the JSE, long-term insurers and private pension funds would be well placed to help with restructuring SA's capital base

□ **Bell is economics director with Ivor Jones Roy & Co Inc. This is an edited version of a paper published by the Economic Policy Study Group.**

Nigel Bruce responds to criticism that South Africa's media ownership is concentrated in too few hands

We need only fear monopolies licensed by government

STAR 20/2/92

(232)

ON January 23, The Star carried a column by Allister Sparks in which he observed that the Financial Mail had cut across the free market principles it propagates It did so, Sparks said, by referring to one of the advantages of a concentration of newspaper ownership

There is, in fact, more than one advantage, but the main one is that the fewer the owners, the more their minds are concentrated on being successful

Sparks felt this deserved an award for novelty from some business school

The recipient should more properly be the Cape Town University Business School because it is a view expressed in more general terms at a Cape Times function in December by Professor Brian Kantor of that establishment

Our statement does not contradict the FM's view on monopolies, which is simply that monopolies licensed by government impair competition and are an impediment to economic growth

A monopoly that is a result of market forces or superior business ability, where there is no artificially high barrier to entry by competitors, is another matter

Economically, it is usually benign and vulnerable to competition from smaller, more efficient enterprises

In time, competition will inevitably erode its dominance and correct the market balance

But the ownership of large newspapers here is not a monopoly There are more than four highly competitive companies involved Even if, by some stretch of the imagination, they were considered a monopoly, the absence of any significant barriers to entry by potential competitors suggest that they are at worst economically benign and at best rather efficient

Sparks suggests, too, that a fractured ownership of the media is so fundamental to the democratic system that in the United States there is a law prohibiting a concentration of media ownership on any part of the country

The fact is that there is no law in the US that limits in any way a company or individual owning any number of newspapers

There is, however, a federal law that prohibits ownership of both a television station and a newspaper in the same city or community It is by no means a blanket ban

Gannett, publisher of USA Today and based in Rosslyn, just across the river from Washington, owns the Washington CBS affiliate, WUSA

There are also instances where ownership of television stations by newspapers that predates the enactment of this law have been allowed to continue

The US Justice Department does, however, require assurance, in terms of anti-trust laws, that joint operating agreements among newspapers are not intended to reduce competition or corner the market Government policy has been to encourage joint operating agreements to promote or preserve competition

Clearly, Sparks cast another aspersion that does not stand scrutiny

It might be worth his remembering, too, that the National Party came into power in this country despite the majority of circulating newspapers being in what it regarded as alien hands Why should it be any different for the ANC?

Sparks decries the FM's reference to the existence of the alternative press as an indication that the elements exist for the growth in the future of community newspapers

Neither the technological advances nor the economies of the newspaper industry are as forbidding as Sparks tries to imply But then business was never his strong point

The industry is much less capital intensive than it was even 10 years ago and only geriatrics are today intimidated by computers

The small alternative publications have a combined circulation of only 167 000 a week (assuming his figure is correct) because they serve their markets inadequately and not as a result of market failure They have certainly not been short of capital, if that be considered a barrier to entry

Ask Achmat Dangor, head of the Kagiso Trust

In South of January 16-22, he is quoted as saying that the alternative press is "failing to serve (its) customers"

Dangor calculated that "since 1986, an average of R 1million per year in aid has gone into (alternative) publications"

The sum in 1991 amounted to R3 million

It now needed to be asked, he said, what impact these publications were having — did they improve the quality of life of ordinary South Africans?

The concentration of ownership of newspapers here will not last indefinitely

It happened for political reasons that are disappearing, if they have not already done so

Indeed, the longer it remains, the more vulnerable the various publications will become to smart competitors

It is a process, however, the pace of which would be forced by government at great peril, for fundamental civil liberties are at stake

The information and ideas spread by newspapers make it easier for ordinary people to make rational political and economic decisions

Obviously the more diverse they are, the better

But to argue that people are irrational without newspapers — or that a political party cannot win an election without a captive newspaper — is to elevate journalistic self-esteem into a philosophical verity

Robert Mugabe nationalised SA-owned newspapers, most of which opposed Ian Smith, on Zimbabwean independence for one reason only to avoid having to face reality each day

He has continued to do so with remarkable dexterity and diminishing economic gain

If he is in any way a model for the ANC, we will all face ruin

The test for any enterprise must be whether it satisfies its market sufficiently to survive Newspapers are no exception

To believe otherwise is to subscribe to the doctrine of justification by faith alone Not even the Anglican Church does that any more □

● **Nigel Bruce is editor of the Financial Mail**

FM 21/2/92 (232)

THE JSE

Telling us what, exactly?

When JSE share prices began climbing early in 1990, the bullish market was glaringly out of step with the economy Nothing wrong with that, said the market pundits, who rightly pointed out that stock markets tend to discount the future — generally by a year or more

But how far ahead was the market really looking? And were the bulls correct in their assumptions about the economic and political scenario for this year? Little more than six months ago, it was being argued that the economy had bottomed and an upturn in corporate profits was in store for 1992.

Halfway through the first quarter of the year, there has been little or no talk of any signs of recovery from managers of industrial and financial companies. In many cases, results for the second half of 1991 suggest the opposite.

When profits are crumbling, it is tempting to blame the economy, or the Reserve Bank, or imports, or, perhaps, the weather Some hyperbole on the part of red-faced management is understandable. But consider some of the latest results and comments from large companies.

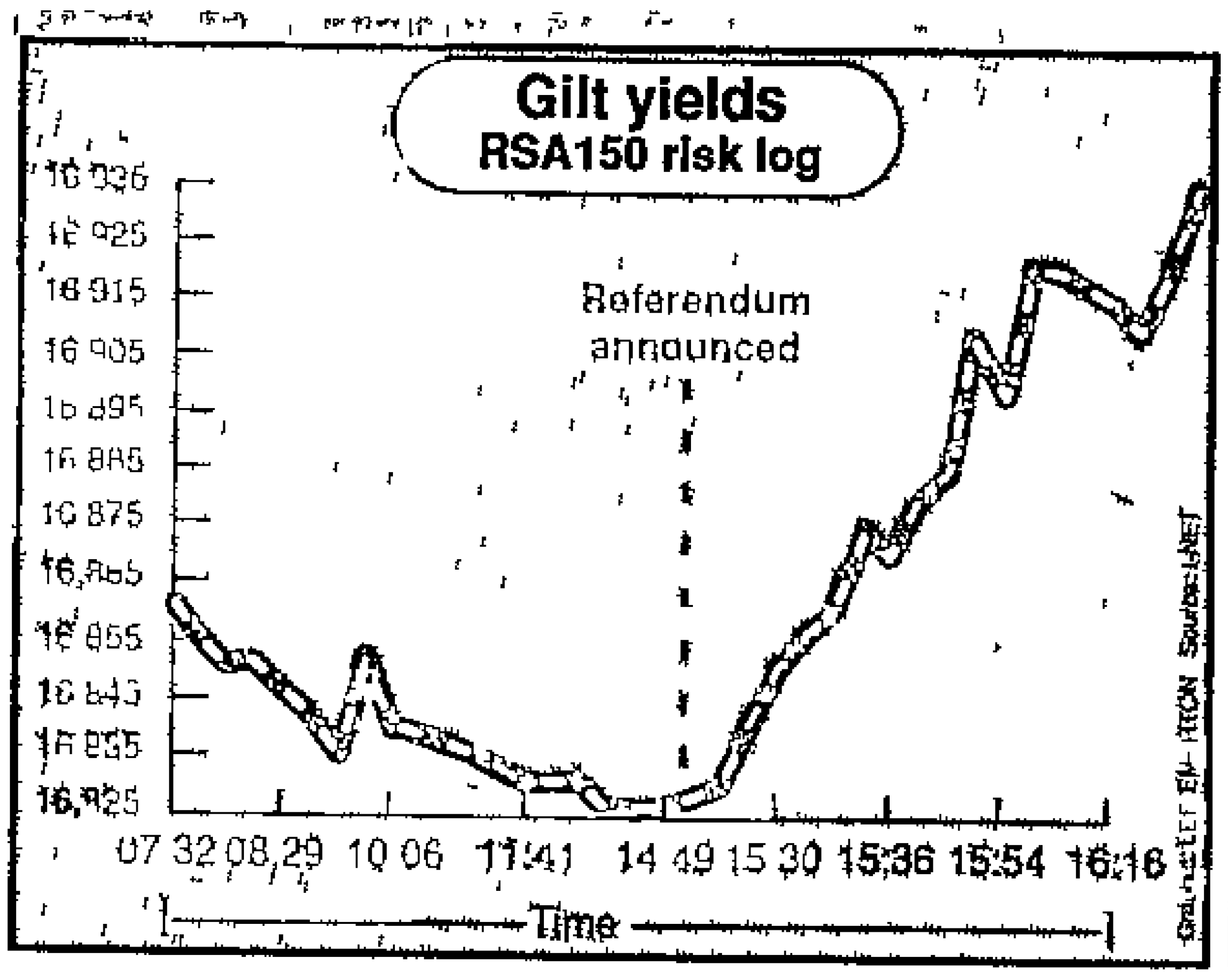
Blue-chip consumer group Wooltru reported earnings down by 28% for the six months to December Engineering group Haggie, usually a solid performer, reported the year's earnings down 19%, with demand sharply weaker in the second half Furniture retailer Morkels reported after-tax profit for the nine months to December down 77%, after "one of the worst Christmas trading periods ever experienced by retailers " Standard Bank Investment Corp noted that demand for credit had grown at a progressively lower rate during last year; its assets grew only 3,8% in the second half, against 7,6% in the first half — and it sees no more than a modest improvement in the economy this year.

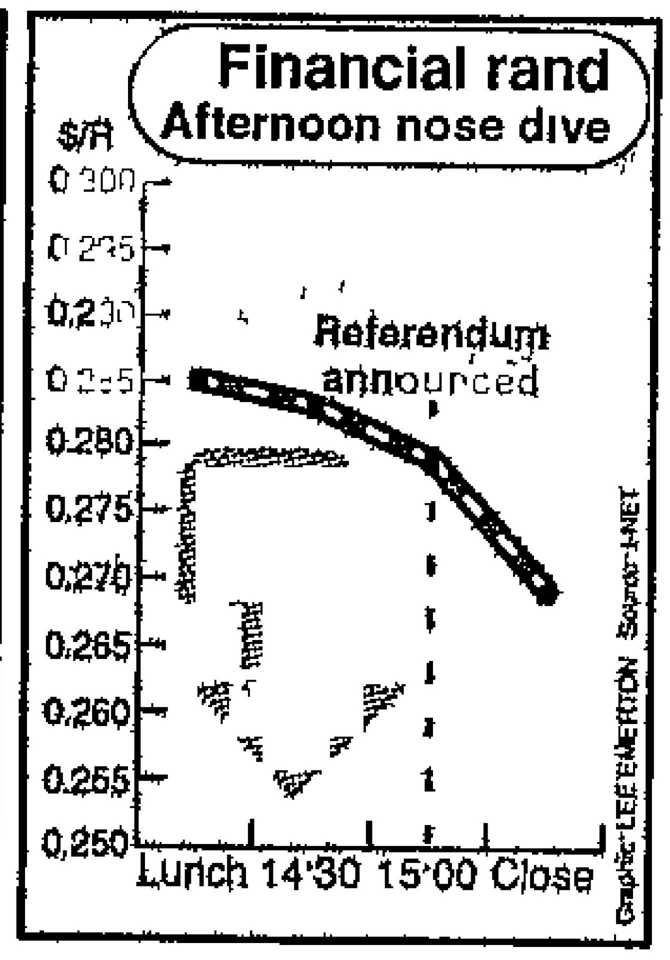
There has still been no material drop in interest rates, no upturn in commodity prices, no recovery in leading industrial economies and little reason for improvement in local consumer or business confidence. And now there are growing fears that drought will further extend the recession Many have apparently forgotten the grim economic effects of the last drought in the early Eighties.

On the political front, utterances from the ANC remain confusing and prone to startle foreign investors, nor are some of the moves by government particularly reassuring

Share prices, on the other hand, have generally remained buoyant The JSE actuaries All Share index and the Industrial index both stand close to all-time highs. But there are also signs that reality may be creeping in. For example, De Beers, often a leading indicator on the JSE, had slipped this week to 8 850c, well off the November high of R101.

There will always be pockets of value in the market, and institutional cash flows, now being swelled by State pension funds, should cushion effects of any renewed loss of confidence But it would probably be wise to expect some consolidation, if not a retreat, in share prices for a while There seems no point in rushing in with buy orders now. ■





Shock waves send JSE prices diving

BDay 21/2/92 (232)

MERVYN HARRIS

REFERENDUM shock waves hit the stock market yesterday with leading industrials taking the brunt of the sell-off as stunned investors offloaded shares

But as industrials tumbled, mining shares were cushioned by a simultaneous crack in the financial rand. Foreign investors took fright at the afternoon's news, leading to a cut in the finrand's worth to R3,63 to the dollar from R3,55 after it had held steady for most of the morning

Capital market dealers said rates "shot through the roof" shortly after the statement was made, sending the benchmark Eskom 168 to 16,48% from earlier levels of around 16,34% Government's R150 stock went from 16,825% to a late 16,97% Dealers said the announcement caused uncertainty and scared off overseas investors

The dramatic developments came in mid-afternoon after the market had discounted the CP victory over the NP in the Potchefstroom by-election and sent share prices higher across most sectors

Sharp losses earlier in the week were stemmed as buyers came into the market in a lively session of two-way trade The rally lifted the JSE industrial index 35 points until, at 3pm, news of the referendum reached the market. Shares started tumbling almost immediately and by the close of trading an hour later, all gains had been wiped out, for the industrial index to close three points off at 4 325

"The market is worried that President (F W) de Klerk might lose the referendum and his government will then resign and call elections We could have months of uncertainty ahead of us, which is not good for markets," a dealer said

The JSE overall index gave up most of its 30-point gain to end three points up at 3 541, which prompted a dealer to remark; "This must have created another buying opportunity as F W would not have announced a referendum if he did not have something up his sleeve"

Nervousness and uncertainty were apparent on the market in contrast to the reaction to the Potchefstroom election result, which hardly caused a ripple. "Anticipation was greater than the event, but this has now been reversed with a vengeance," a trader said

Meades de Klerk's David Meades said genuine investors would come back only to what they perceived to be a stable SA. "Long-term investors believe De Klerk is more likely to provide such stability, and they would therefore not welcome a CP, or for that matter an ANC, government

□ To Page 2

Shock waves

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□ From Page 1

"But short-term or speculative investors, who are interested only in making a quick buck, were getting worried about the ANC playing a dominant role in an interim government, which they saw happening sooner rather than later"

Meades said. "The CP win at Potch could be a blessing in disguise"

JOHN CAVILL reports from London that analysts said the referendum would be SA's D-day for foreign investors.

At James Capel, analyst Jon Bergthell said. "The markets are going to be very nervous about SA until the air is cleared by referendum Investors realise that this the deciding point.

"The Potchefstroom by-election result was not a big surprise. But the referendum will mean people will have to think about the next 20 years and beyond, and do they want to lose what has been gained in the past two years. We would expect De Klerk to win the referendum, but obviously there will be uncertainty until it is over," he said.

Vincent Tattersall of Williams de Broe said. "We feel De Klerk has made a clever move and that he will get the white mandate in the referendum Obviously, however, investment sentiment towards SA is going to be unsettled and that will be negative for the financial rand while we wait for the result."

Berzack to take over Elgro in R145m swap

232

MARCIA KLEIN

BERZACK Brothers is to acquire control of Elcentre Group (Elgro) in a share swap valued at around R145m between the Mowszowski family and the Berzack group. B/Day 21/2/92

An announcment issued today said Berzack has acquired 59,3-million shares in Elgro, constituting 86,4% of Elgro's issued share capital, in exchange for 107,2-million shares held by Berzack in Voltex. The deal would see the Mowszowski family lose control of Elgro subsidiary Elcentre and Elgro disappear.

The JSE had said that the multiple pyramid structure resulting from the Elgro acquisition conflicted with its requirements. In this light, Berzack will make an offer to Elgro minorities, and will make a proposal which will result in the elimination or declassification of one of the remaining pyramid companies in addition to the elimination of Elgro.

Elgro minorities will exchange their shares in Elgro for shares in Voltex or for cash.

Elgro currently holds 54% of Elcentre, which holds 51,6% of Voltex and 82% of Sanlic Hardware Holdings. Berzack currently holds 39,7% of Voltex.

Conclusion of all transactions will see Berzack with a 54% holding in Elcentre, which in turn will hold 51,6% of Voltex and 82,0% of Sanlic. Berzack will also have a 10,3% direct holding in Voltex, and its holding in Voltex also will be reduced by 4%.

Berzack joint MD Myron Berzack said last night joint control between Elgro and Berzack in terms of Voltex had its pros and cons, and this deal would see Voltex fall under Berzack control through Elcentre.

He said there could also have been family considerations on the part of the Mowszowskis which could have prompted the deal.

One of the results of the deal was that Berzack would take control of the non-performing Sanlic. Berzack said his group would look at the company and would try to do something with it.

SAB/PLATE GLASS (232)

More equity

FM 21/2/92

It was made plain by SA Breweries (SAB) that the acquisition of control of Placor was just the first step in the takeover of Plate Glass & Shatterprufe Industries (PGSI). It's now clear why a group the size of SAB was brought into the deal — PGSI needed about R900m of additional equity

As expected, SAB plans to buy out minorities in pyramid Placor and has announced a rights issue for PGSI In a somewhat unexpected development, however, SAB has announced its subsidiary Afcol will sell its effective 24% shareholding in board manufacturer PG Bison to PGSI Market speculation was that Afcol would buy PGSI's half of PG Bison, allowing it to focus on glass

SAB argues that PG Bison is a non-managed, equity accounted investment for Afcol and the sale of the stake, which will realise R95m, will enable it to strengthen its managed furniture manufacturing business.

Placor no longer serves any purpose as it was simply a mechanism which allowed the Lubner and Brodie families to maintain joint control of PGSI with Liberty Life Under a

Continue →

FM 21/2/92 (232)

scheme of arrangement, SAB will offer one convertible preference share for every two Placor shares held by minorities SAB's announcement points out the shares are being swapped at almost identical market value but the convertibles would have offered 45% more dividend income than two Placor ordinaries

As announced two weeks ago, SAB is also issuing convertible shares worth R525m to finance the takeover of Pilkington Plc's 48,4% interest in Glass SA When the exercise is completed, about 20m SAB convertibles, which will be traded on the JSE, will be issued with an expected market value of about R1bn

It does not stop there In a rights offer, PGSI plans to raise R354m Of this, R210m has been earmarked for overseas operations, the rest is to repay debt PGSI is issuing new shares at R43 apiece, a 20% discount on the market price of R54,50. SAB will follow its rights, adding a further R200m to its bill for the exercise It will then hold an effective 67% of PGSI

PGSI is issuing its own convertibles to Afcol for its share of PG Bison Standard Merchant Bank has placed these with institutions PGSI will then have a 72% interest in PG Bison, Mondi still holds 24%

The deals would have increased PGSI's EPS in the 12 months to September 1991 by 10,5% to 409c a share and Afcol's by 5,1% to 124c. They would have increased PGSI's NAV just 2,2% to R18,72 but Afcol's by 22,2% to R12,59. Shareholders are assured the transactions will have "beneficial financial effects" on SAB But PGSI's results for the year to March are expected to be well down It will take more than SAB's financial muscle to put them back on a growth path

Stephen Cranston

FM 21/2/92

USKO/DORBYL

Unfair play?

(232)

When two companies are locked in takeover talks, is it possible for directors who sit on the boards of both organisations to work in the best interests of two separate sets of shareholders?

This question is at the heart of the furore surrounding the possible disposal of the remaining businesses of ailing engineering group Usko Management at Usko told shareholders last week that a restructuring proposal, which had the backing of the Usko board, had been accepted subject to conditions precedent Though details are only expected at the end of the week, the proposal apparently came from Dorbyl Usko's major shareholders are Iscor, and Dorbyl parent, Metkor Between them, they hold about 58% of Usko Five Dorbyl directors are on the Usko board, including Flores Kotzee, who is chairman of both groups as well as Metkor

Usko minorities are concerned that a deal between the two could favour Dorbyl shareholders Though there is no evidence that Usko minorities will be disadvantaged, their apprehension is understandable It is rumoured that if the deal goes ahead, then Usko minorities will be offered about 12c a share by way of a share swap The quoted price is 32c and the share traded at above 180c less than a year ago

A few years back, the counter was trading at more than 500c Since then the group has slid into technical insolvency — shareholders' funds are estimated at a negative R90m — and has sold its steel and vanadium operations at well below book value Remaining non-ferrous operations, that mainly comprise four cabling plants, are thought to be operating profitably but are saddled with bank borrowings exceeding R150m

Minorities are particularly concerned by Usko's disclosure that management and controlling shareholders are contractually bound not to negotiate with any other party about the disposal of the group's shares or parts of its businesses Though this unusual condition presumably falls away if these negotiations are unsuccessful, Dorbyl (which has no cable interests) is not the only group interested in Usko's remaining assets Kotzee confirms that two other organisations put in offers Management considered all three proposals

Shareholders' Association chairman Issy Goldberg describes the apparent exclusion of other bidders as abhorrent and unacceptable He suggests Usko suspend negotiations with Dorbyl, and allow other potential buyers to examine the accounts and possibly present more favourable offers He says his association will, if necessary, consider legal action to protect Usko minorities

Kotzee declines to say why it was necessary for Usko management and directors to agree with one party to refrain from further negotiations with other potential buyers He sees no conflict in representing more than one set of shareholders "I think I could represent nine (different groups of shareholders) if necessary When I go into a meeting I represent the interests of one company," says Kotzee

Usko was close to being acquired by cable maker Voltex late last year Voltex withdrew in November Voltex's Myron Berzack says his group was, among other reasons, deterred by the amount of debt it would have to take on if it took control of Usko Voltex may make another bid if current negotiations fall through

On February 12, the day before Usko management announced it had provisionally accepted a proposal, cable manufacturer Aberdare announced it intended to bid for Usko Aberdare executive chairman Peter Watt won't comment However, it's clear that Aberdare — a subsidiary of Altron's Powertech — was none too pleased at the way it has been shut out

Though details of the three bids for Usko, including that provisionally accepted by management, have not been made public, the Securities Regulation Panel (SRP) says it is satisfied, based on information provided by Usko's board, that Takeover Code requirements have been met SRP officials met with Usko management and its merchant bankers, Absa Merchant Bank, early this week

SRP deputy executive director Hermie Engelbrecht says interests of Usko minorities will not be forgotten Minorities will be able to assess the situation at the end of this week when details are expected to be revealed Meanwhile, Usko shareholders deserve an explanation of why the Usko board would consider a provisional offer which excludes any higher bids *Simon Cashmore*

Bush's nod on exports to SA 'a positive step'

B/Day 21/2/92.

SEAN VAN ZYL

US PRESIDENT George Bush's announcement earlier this week freeing the Export-Import Bank (Eximbank) to underwrite US exports to SA was regarded by the local business community as a positive step towards re-establishing trade relations between the two countries

SA Chamber of Business (Sacob) economist Bill Lacey said Bush's announcement served as a signal to American businesses that SA was once again an acceptable market in the international trading arena

However, Lacey did not expect the Eximbank's financial participation in US export trade to SA would result in a flood of imports "With the present position of the SA economy, local business is unlikley to start building up inventories"

The Evans Amendment, introduced to US legislation in 1978, barred the Eximbank from participating in export deals to the SA government or its parastatals until the US President certified to Congress that "significant progress towards the elimination of apartheid has been made"

Safto senior manager, international division, Mike Veysie said increased imports to SA would be determined also by the country's needs and its being able to afford imported goods Furthermore, Bush's authorisation of the Eximbank's participation mostly benefited US firms as the bank's financial guarantee applied only to one-way trade from the US to SA As a result, US firms would not able to rely on the Eximbank for financial guarantees on goods imported from SA

However, SA's indirect benefit from Bush's decision would be cheaper access to imported capital goods, aircraft and machinery

Although the Eximbank's participation in US-SA trade was unlikely to significantly boost trade volumes, Veysie said, it was "a positive step" which could in the long run promote increased two-way trade between the two countries

American Chamber of Business of SA executive director Michelle Cohen said the move would also allow SA greater access to new technology previously denied by sanctions

CCB's financial situation stays under wraps

LINDEN BIRNS

AUDITOR-General Peter Wronsley declined yesterday to detail the financial situation of the Civil Co-operation Bureau (CCB), an SADF covert unit in the throes of being disbanded B/Day 21/2/92

He said he was barred from commenting on the issue in terms of Section 6 3(a) of the Auditor-General Act and an agreement between himself, President F W de Klerk and Finance Minister Barend du Plessis

On Wednesday Wronsley told Parliament former Defence Minister Gen Magnus Malan and Du Plessis had authorised payment of more than R28m to the CCB during the past two years

Yesterday he refused to say whether further payments were being made to the CCB The R3m pension given to one former CCB member was a problem for the insurance company concerned and not the Defence Ministry, he said

Investment returns of trust 17,8%

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LINDA ENSOR

CAPE TOWN — The Independent Development Trust (IDT) had achieved an average return on its investments of 17,8% since August 1990. IDT communications director Jolyon Nuttall said yesterday

Nuttall was commenting on a note in Auditor-General Peter Wronsley's report for 1990/91 — tabled in Parliament this week — which said IDT trustees had not formally minuted the criteria used to select the initial seven portfolio managers The managers were given responsibility to invest the R2bn granted to the IDT by government

Nuttall said the overall return achieved had been very good B/Day

Portfolio managers selected were FNB, Rand Merchant Bank, Senbank, Standard Merchant Bank, Volkskas Merchant Bank and Syfrets Managed Assets 21/2/92

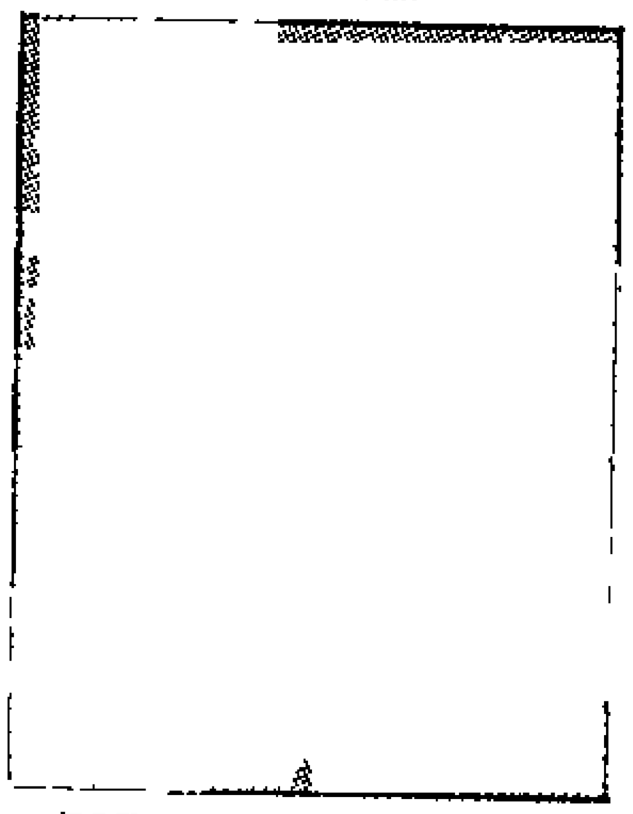
The Auditor-General's report also noted that no certificates had been obtained from the institutions to the effect that no commission on the investments had been paid to intermediaries Each portfolio manager had, however, submitted a certificate in this regard

Nuttall said there were practical difficulties attached to getting certificates, but stressed that no commissions had been paid

Consider a new stance on JSE

232

STAR 24/4/92.



US stock markets are looking dicey and will influence the JSE — but there is still a good case for holding SA shares. The weight of funds and prospects for even a weak recovery should underpin the JSE, but the risks have increased and the time has come to amend strategy. YOUR MONEY interviewed Syfrets economist Matt Brenzel (above).

THE Dow Jones recently experienced a 120-point correction. Why did this occur and will the current uncertainty impact on SA shares?

At present, the US market is very highly priced with its price earnings ratio exceeding 30 This is well in excess of the average of the past decade.

Unless the earnings recovery is quite spectacular, this rating is not justified and one would expected some sort of correction — in the region of 10 percent to 20 percent.

Our share market follows the international trend of being led by the US Dow Jones — irrespective of the relative economic or other fundamentals October is a case in point; local shares followed the Dow up and then down again

Interest rates

US inflation however, apears under control. Is that not usually positive for equities?

There is strong positive correlation between US inflation and US interest rates If one looks at the traditional economic cycle, the link is quite logical at the top of the cycle, the economy is growing strongly, upward pressure exists on prices as demand exceeds supply and monetary policy is adjusted to prevent runaway inflation

During recessionary periods, the opposite applies with inflation low and rates low in order to restimulate the economy

The relationship between rates and equities is negative — the opportunity cost of being invested in interest-bearing investments rises as rates fall Consequently, as rates decline, there is a swing out of interest-bearing investments into equities That is how traditional bull markets start.

The run is then further sustained as weaker monetary policy leads to economic recovery and higher corporate earnings. We believe however, that the US recovery will be more mute than the market is discounting at present — earnings growth will not be at all as robust as after the 1982 recession The market does not appear to have taken this into account

Won't institutional buying support US equities?

Institutional buying power can support the US market — just as it often does locally — owing to the shortage of scrip But the fundamentals will dictate at some stage.

All it needs is some form of catalyst

How does all this impact on our share market?

The weight-of-funds argument has become increasingly relevant owing to structural changes which have taken place in the past few months·

- Government pension funds are being privatised
- The prudence guidelines for pension funds have been amended to the extent that up to 75 percent of the market value (previously 65 percent) of a fund can now be invested in equities.
- Moreover, proposals have been put forward to amend the unit trust requirement that a maximum of 5 percent of the value of the fund can be invested in any one particular counter, to 10 percent

Pessimism

In addition, the financial rand mechanism will supply its historic support against foreign sales

All the aforementioned aspects, however, will not prevent local pessimism should the US and other major stock markets come under pressure

What will cause the recovery of the SA economy?

As in the case of the US, the local recovery is expected to be relatively muted We anticipate that the upturn will be brought about by higher exports, inreased social infrastructural expenditure and restocking Private consumption expenditure will remain under pressure in the next few months.

How would one position one's portfolio, given the economic and financial prospects?

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Markets cool off after panic wave

By CIARAN RYAN in Johannesburg and JOHN CAVILL in London

ALTHOUGH foreign investors are expected to remain wary of committing new funds to South African securities until after the referendum, London investment analysts do not expect a big sell-off

There was a rush of nonresident gilt sales on Thursday, totalling R53,2-million Purchases totalled R17,2-million on Wednesday

On the share market, the value of foreign deals was R10,6-billion on Thursday, half that of Wednesday, as foreigners started offloading shares

232 (61) (26)

Dive

London analysts say the financial rand had already been undermined by the disinvestment of large British groups, such as Pilkington Glass and now Blue Circle, and by the taxing of interest on short-term deposits with SA banks

Responding to foreign selling pressure, the finrand dived from US28,2 cents to a low of US27,3c before recovering to US27,5c on Friday, widening the discount between it and the commercial rand to 27%

Ironically, this widening discount is likely to arrest — and possibly reverse — a decline in share and gilt prices in spite of political uncertainties as foreign investors return to pick up bargains

The fall in the finrand failed to prevent a 24-point drop in the JSE all-gold index to 1 214 and a 25-point decline in the overall index to 3 526 But the industrial index recovered 32 points to 4 652 at the close on Friday

Crises

Fund managers said investment strategies would not be changed much in the weeks leading up to the referendum

This reaction supports the view that SA investors are relatively insensitive to political crises In fact, any decline in share prices would present excellent buying opportunities in a market generally seen to be overpriced

One portfolio manager told Business Times "We are likely to see more foreigners switching in and out of the market This is a luxury they are entitled to

"Our investment strategy is determined by fundamentals more than short-term hiccups in the market

"One of the effects of the referendum will be to slow down the number of rights issues "

The enthusiasm for the Gencor rights issue, pitched at 1 000c, looked a little faded on Friday as the share price dropped to 1 050c The discount between the rights and the market price narrowed from about 15% a few weeks ago to 5%

Head of investment at Sanlam, Ronnie Masson, said the share market was likely to drift slightly downwards in the coming weeks But high-quality scrip would be picked up by bargain hunters

Benchmark gilt Eskom 168 shot to 16,55% before retreating to 16,45% on Friday Rand-hedge shares, such as Richemont, De Beers, Charter and Minorco, as well as golds are likely to suffer volatile swings in price

The finrand is expected to suffer violent swings as buyers hold off

S1Times (BUSS) 23/2/92

Clock

A London currency dealer said "At the low the effective yield on Eskom 11% 2008 was getting close to 22,5% — six points more than inflation That is highly attractive to investors

"People who follow SA developments know that even a Conservative Party government would not be able to turn the clock back to apartheid They also believe the odds are in favour of President De Klerk winning the referendum, even if it is a close-run thing "

He said trading volume in the finrand had shrunk "The fall was more due to buyers holding back than selling pressure There was a lot of marking down by market makers in the finrand and it

● To Page 3

● From Page 1 S1Times (BUSS) (61) (232) 23/2/92

Panic's over

brought in buyers"

Investment analysts briefing jittery clients have been telling them that President De Klerk's move will force white South Africans to focus on stark options — chiefly the risk of sacrificing all the gains made in the past two years and returning the country to isolation

'Nobody can believe they will opt for that or even something which will delay the pace of reform and the economic stagnation that would result," said one

London broker goes for Premier

S/Times (Buss) 23/2/92

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By JOHN CAVILL: London

INVESTMENT interest in South Africa is moving from the general to the specific and away from the imponderables of gold London broker Henderson Crosthwaite, which has not previously devoted much effort to SA shares, has sent a long bullish analysis of the outlook for Premier Group to 350 of its institutional clients

A strong element of caution about political developments remains.

But Henderson analyst Bill Myers says· "We believe that now or quite soon, investment in selected SA companies should be seriously considered. Premier offers an excellent combination of risk and reward."

Apart from the high quality of management and business, Mr Myers notes: "For more than a decade the group and its management have been in the first rank of those urging the end of apartheid. Before President De Klerk this was an exposed position — since the beginning of reform it becomes *a major commercial advantage*"

Margins

Barring civil unrest, he foresees Premier's achieving a big improvement in operating margins from 1% to 2% in the next two years in its Metro acquisition which has almost doubled turnover. Group gearing should be held at no more than 30% in the medium term.

The nub of Henderson's forecast is that Premier sales will rise from R11,5-billion for 1991-92 to R13,3-billion in 1992-93. It expects pre-tax profits (up 53% after the merger) to gain another 28% to R575-million.

Earnings a share on the increased capital should register a three-year compound growth rate of nearly 18% to 295c by April next year

Higher tax bill offsets Picapli's improvement

BDay 24/2/92 (232)

LINDA ENSOR

CAPE TOWN — Improved operating efficiencies and significantly lower finance charges saw Picardi Appliances (Picapli) achieve a 14,7% increase in pre-tax income in the six months to end-December.

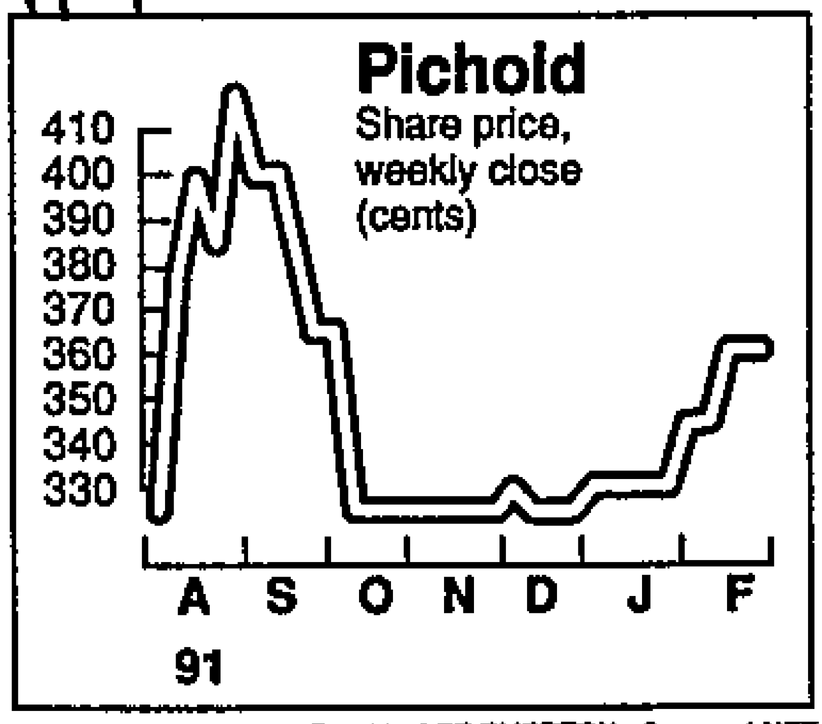
However, a substantial hike in its tax bill resulted in bottom-line earnings being merely maintained

The group expects to resume paying dividends by year-end

Earnings a share of 27,5c (27,1c previously) were notched up on a 13% reduction in turnover, which suffered under the weight of product rationalisation and depressed consumer spending Last year Picapli withdrew from the portable audio products market, concentrating instead on the higher-margin white goods sector

Pre-interest income fell 12,8% to R14,6m (R16,8m) This, director Jan Pickard junior said, reflected operating efficiencies achieved. Branch and staff numbers had been cut

A 15% decline in interest bearing debt during December 1990 meant Picapli paid only R6,5m in interest — 33% down on the previous R9,6m Gearing at year end, a peak period, stood at 133% or 95% if the R21m loan from parent company Picardi Holdings was excluded Pickard expected this to fall to 65% by year end



Graphic: LEE EMERTON Source I-NET

The tax rate rose from 1,2% to 12,6% but should rise sharply in the next six months as Picapli has exhausted its tax losses After-tax income was almost unchanged at R7m

Chairman Jan Pickard senior said profits in the next six months would remain under pressure because of depressed consumer expenditure and intense competition in the white goods market, where there was significant overcapacity This would affect margins, but the group would continue to position itself for an upswing in 1993 by maintaining market share and improving efficiencies

In spite of a higher tax bill, strong growth was displayed by Picardi Holdings (Pichold), the assets of which consist of a 93% stake in Picapli, about R21m cash loaned to Picapli and other investments Attributable earnings and earnings a share rose 50% to R7,3m (R4,8m) and 120c (80c), respectively

The percentage of interest bearing debt to equity declined to 78% from 118% Finance charges almost halved to R5,2m (R10,2m) to produce a 61% rise in pre-tax income of R9,3m (R5,8m) on a 10% decline in pre-interest income to R14,5m (R16m) The bottom-line improvement was somewhat constrained by a rise in the tax rate to 16,6% (8%)

The growth was attributed mainly to an asset management programme embarked upon two years ago

Picardi Investments (Picbel), which holds 69% of Pichold, produced earnings a share of 122c — 44% up from its previous 85c

None of the companies declared an interim dividend In the last Picapli annual report Pickard said payment of dividends would be waived until such time as interest bearing debt relative to shareholders' funds reached acceptable levels

MONEY MARKETS by Sheridan Connolly

Rates ignore referendum news

B/Day 26/2/92 (232)

PRESIDENT FW de Klerk's call on Thursday for a whites-only referendum wreaked havoc in the currency and capital markets, but left the money markets largely unaffected

Dealers said there was still good demand for short-term paper and high liquidity conditions prevailed, so there was "no reason to push up rates"

The 90-day liquid BA held out at 15,90% last week — its lowest level since February 1989 — and dealers said they saw a good chance for rates to drift further downwards this week.

Mopping-up operations by the Reserve Bank continued last week with two special Treasury bill (TB) tenders worth R800m on offer The Bank received R1,33bn on a five-day TB and only R827m on a seven-day issue.

The average rate on the special TBs was marginally higher at 16,30% on Thursday than on Wednesday, when it stood at 16,28%

With February's reputation as a spending month, cash inflows are expected to rise substantially in the next few days This could exert downward pressure on market rates.

Dealers said the Reserve Bank should be kept busy this week as liquidity conditions would allow room for rates to drift downwards. Tenders falling due on Monday and Thursday this week would probably be rolled and more special issues could be on the cards, they said.

At the end of last week, the Bank quoted the money market shortage higher at R1,21bn on Thursday from R1,03bn on Wednesday.

Capital market rates "shot through the roof" at the end of the week following news of a planned referendum Dealers said the CP's win in the Potchefstroom by-election and news of the referendum caused alarm and uncertainty among investors, pushing rates higher

Towards the end of the week the benchmark Eskom 168 was sharply higher at about 16,53% from 16,30% at the beginning of the week. The RSA 150 stock was also up, at 17,05% on Friday from 16,97% earlier

Dealers said capital market rates and currency rates were particularly susceptible to foreign investor uncertainty

Nervousness and uncertainty over political stability in the country would continue to scare off potential investors, they added.

BUSINESS DAY, Tuesday, February 25 1992

Suggested 5% wealth tax on 20 richest families interests ANC

DIRK HARTFORD

THE ANC said yesterday it was "very interested" in a proposal that a 5% wealth tax should be slapped on the 20 richest families in SA

According to the Labour Research Service (LRS), leading consultants to the trade union movement, this alone would bring in more than R500m a year — enough to employ 100 000 jobless people in a public works programme (232)

The LRS said that in 1991 the total worth of SA's 20 richest families increased by 57% from R6,9bn to R10,8bn But it added this was a "conservative estimate" of their total wealth, as it was based on their holdings in their own "family businesses" listed on the JSE Many of these families, according to LRS, had built up substantial interests outside the JSE in the form of overseas investments, cash deposits, fixed interest securities, property and unlisted companies

The ANC's Saki Macozoma said the ANC was as interested in seeing how the 20 richest families responded to the proposal, as it was in the proposal itself.

Cosatu's Neil Coleman said the tax burden had increasingly fallen on the poor and the entire system needed to be overhauled He said a wealth tax could not be looked at in isolation, but needed to be seen in the context of the whole tax system

The LRS cited Liberty Life's Donald Gordon, Pick 'n Pay's Raymond Ackerman, Ventron's Bill Venter, the Keeley Group's Fred Keeley and FSI's Jeff Liebesman as examples of family businesses where the founders were still closely involved

In addition, LRS named businesses where control was held by the children or grandchildren of the founders — like the Oppenheimer's Anglo American, the Rupert's Rembrandt, the Hersov's and Menell's Angolvaal and the Mowszowski's Elcentre

The Oppenheimer family leads the pack with R2,87bn in wealth

25/2/92

COMPANIES

Natsel sells LuK Africa stake

JABULANI SIKHAKHANE

NATIONAL Selections (Natsel) has sold its 49% shareholding in Port Elizabeth automotive parts manufacturer LuK Africa to the German controlling shareholder LuK GmbH for an undisclosed sum 232

Natsel is one of the two investment trusts controlled by the Industrial Development Corporation (IDC)

IDC managing director Carel van der Merwe said yesterday that the sale price could not be disclosed at the request of the German company

He said that the amount involved was "sizeable" BDay 26/2/92

Van der Merwe said that the IDC had been approached by the German group, which needed to integrate the local operation into its worldwide network

LuK GmbH has plants in Mexico, Brazil and Europe

● VAN DER MERWE

With the cash received, Natsel would look into the possibility of taking over one of the non-listed investments from the IDC.

A decision would be made within the next month, Van der Merwe said

LuK Africa (formerly Repco) manufactures clutches for passenger and commercial vehicles at a factory in Port Elizabeth

The IDC has been involved with LuK Africa (then Repco) since 1964, when it participated with an Australian company to start the operation.

The Australian group sold its 51% stake to LuK GmbH in 1987

Persons declared bankrupt in 1991

52 Mr K M ANDREW asked the Minister of Justice 232

How many persons were declared bankrupt in each division of the Supreme Court in 1991?

B107E

The MINISTER OF JUSTICE

Bloemfontein	585
Grahamstown	245
Kimberley	126
Cape Town	480
Pietermaritzburg	241
Pretoria	1 474
TOTAL	3 151

Companies liquidated in 1991

53 Mr K M ANDREW asked the Minister of Justice

How many companies were placed under compulsory liquidation in the area of each Master of the Supreme Court in 1991?

B108E

The MINISTER OF JUSTICE

Bloemfontein	163
Grahamstown	29
Kimberley	26
Cape Town	227
Pietermaritzburg	282
Pretoria	1 490
TOTAL	2 217

Persons sentenced to whipping

88 Mr A J LEON asked the Minister of Justice

(1) How many persons were sentenced in South Africa in 1991 to a whipping (a) with and (b) without the option of a fine or imprisonment by (i) regional magistrates' courts and (ii) divisions of the Supreme Court,

(2) how many (a) such whippings were carried out, and (b) cuts were administered in each case, in 1991?

B233E

The MINISTER OF JUSTICE

(1) (a) 5 635

(b) 32 689

(i) and (ii)

The required information is not readily available To obtain the information all court records of cases in which persons were sentenced to a whipping will have to be scrutinized which is not economically feasible

(2) The required information is not readily available

Post office Yeoville

91 Mr D H M GIBSON asked the Minister of Posts and Telecommunications

(1) Whether any progress has been made concerning the proposed erection of a post office in Yeoville, if so, (a) when is it anticipated that building operations will commence and (b) what is the estimated cost of the building, if not, why not,

(2) whether the authorities will consider disposing of this site, if not, why not, if so, what possibilities are being considered in this regard?

B236E

The MINISTER OF POSTS AND TELECOMMUNICATIONS

(1) No Owing to other more urgent projects and the limited funds available for the erection of new buildings, the planning of the Yeoville Post Office had perforce to be postponed for at least 12 months

(a) and (b) Fall away

(2) Yes The possibility of acquiring suitable hired accommodation to house the Yeoville Post Office is being explored afresh Should we succeed herein alienation of the site at a market related price will be considered

Public Service posts: created/abolished

94 Mr R M BURROWS asked the Minister for Administration and Tourism

Whether any posts were created or abolished in the Public Service in 1991, if so, what number of posts in each department or organizational component?

B240E

The MINISTER FOR ADMINISTRATION AND TOURISM

Yes See attached Annexure with information as supplied by the relevant departments/organizational components

ANNEXURE

Posts were abolished/Created at the following Departments/Organizational components

Departments/ Organizational Components	Posts created 1-1-91 to 31-12-91	Posts abolished 1-1-91 to 31-12-91
Administration House of Delegates	1 161	592
Administration House of Representatives	1 060	380
Administration House of Assembly	1 029	1 518
Planning and Provincial Affairs	433	512
Home Affairs	340	400
Foreign Affairs	169	0
Finance	419	75
Trade and Industry	59	134
Justice	711	39
Office of the Commission for Administration	3	33
Office of the Auditor-General	0	17
Office for Privatisation	36	0
State President's Office	61	85
Office for Regional Development	0	0
Agriculture	61	195
Manpower	173	23
Mineral and Energy Affairs	13	12
National Health and Population Development	938	175
National Education	24	116
Environment Affairs	30	27
Education and Training	4 359	627
Development Aid	1 188	503
Public Works and Land Affairs	40	32
Central Economic Advisory Service	5	0
Constitutional Development Service	5	0
State Expenditure	0	0
Regional and Land Affairs	30	0
South African Communication Service	73	26
Transport	50	36
Water Affairs and Forestry	18	25
Provincial Administration of the Cape of Good Hope	1 767	1 202
Provincial Administration of Natal	1 397	660
Provincial Administration of the Orange Free State	2 866	2 830
Provincial Administration of Transvaal	11 916	12 483
Total	30 434	22 757

Notes

1 Above-mentioned figures only indicate posts created in civil departments

2 Information with regard to service departments is not readily available

3 The net increase in posts represents a growth of 3,10%

4 In certain cases the abolishment and creation of posts reflect the transfer of a function from one institution to another

cont →

JSE 'fights for honest market'

B/Day 27/2/92

MERVYN HARRIS

THE suspension imposed on a broking member by the JSE this week was further indication of efforts to maintain a fair and honest market, JSE executive president Tony Norton said yesterday

He was commenting on the decision by the general committee of the JSE to suspend Frank Brewer from Monday, March 2, to the close of business on Friday, March 6 (232)

Brewer, formerly a director of Frankel, Max Pollak, Vinderine, was found guilty at a special meeting of the committee on February 25 of a charge of failing to comply with a committee decision while a director of the firm

Norton said SA was experiencing a deterioration in white-collar behaviour, and people were tending to breach rules more frequently than used to be the case

"We are aware that standards have slipped and the JSE has undoubtedly been feeling some of the effects of such behaviour."

Acquisitions help M&R increase earnings 29%

BDay 27/2/92

232

JABULANI SIKHAKHANE

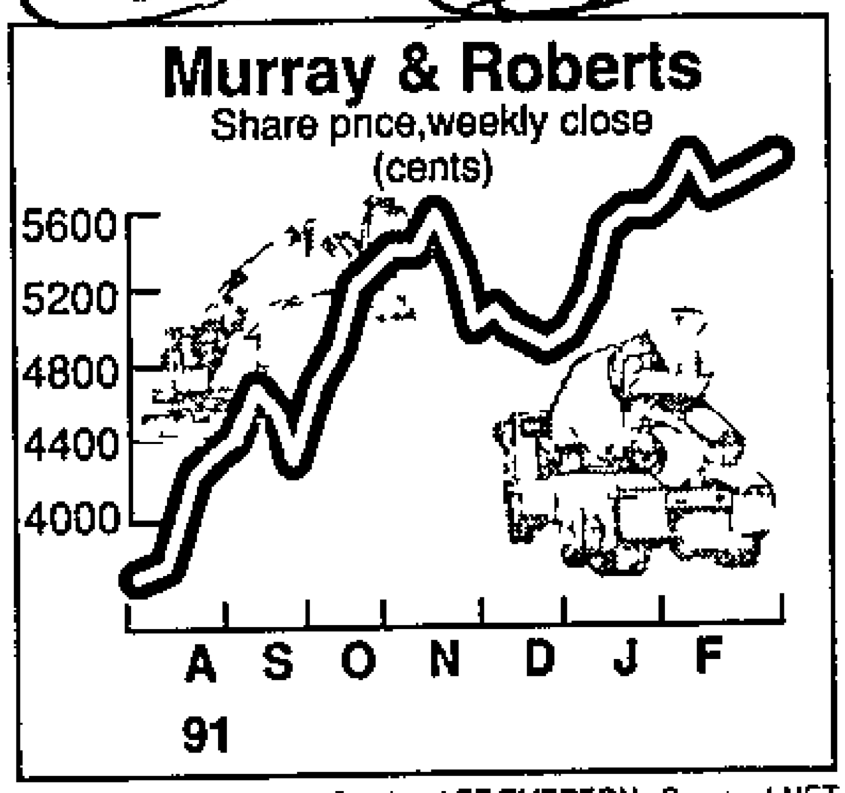
ACQUISITIONS totalling R717m helped industrial holdings group Murray & Roberts increase attributable earnings 29% to R96,2m for the six months to December

But due to a 31% increase in the average share base (a weighted average of 11,14m shares were issued to fund acquisitions) this growth was diluted to a 2% drop at the earnings level to 204c (208c)

A strong balance sheet and improved cashflows increased dividend payout 15% to 52c (46c) a share M & R said it was negotiating with Federale Volksbeleggings for the 100% acquisition of Firestone tyre maker Fedstone, 94% of automotive components manufacturer Trichamp Components and 35% of shock absorber manufacturer Gabriel

The group plans to take out minorities in engineering subsidiary Genrec which will be delisted It is understood Genrec minorities will be offered one M & R share for every four Genrec shares

Negotiations are still in progress for the purchase of 42,33% stake in Blue Circle from the UK parent for more than R400m Market sources said M & R could use a combination of cash and new shares to fund the acquisitions At end-December M & R had cash and borrowing facilities totalling R662m



Graphic LEE EMERTON Source I NET

Commercial director Jeremy Ractliffe said the rationale for taking out Genrec minorities was that the shares were tightly held M & R and Genrec management jointly hold 93% of equity, leaving 7% for outside shareholders

Turnover rose 19% during the review period from R2,24bn to R2,65bn Operating profit before interest jumped 33% to R190,5m, with the pre-interest margins improving from 6,4% to 7,2% The star performer here was the suppliers and services division which increased its contribution to group pre-interest operating profit by more than 200% to R78,2m, or 41% of the total A large chunk of this came from new acquisitions Darling & Hodgson and transport group Unitrans

The engineering division, boosted by completion of three draglines before December, increased its contribution 22% to R42,8m Construction was up 15% to R41,3m, while the industrial division's contribution fell from R39,2m to R24,7m.

Although contribution from properties dropped to R10,4m (R11,8m), Ractliffe said the division had developments valued at R1bn in progress It had also concluded a new contract with Eskom for the development of the Westville Pavilion in Durban Ractliffe said existing developments would start contributing to group profits only from financial 1993

The group's effective tax rate was static at 40% with the tax charge increased R19m to R71,5m Outside shareholder's interest jumped to R10,9m, shaving growth at the attributable earnings level to 29%

Ractliffe said M & R was well placed to benefit from any upturn in the economy He said its business portfolio was now well balanced, with an exposure to gross domestic fixed investment (GDFI) and industrial consumables Despite the exposure to GDFI, M & R had shown growth when fixed investment was declining After increasing 2,8% in 1990, GDFI dropped 5,1% in 1991 and is forecast to fall further by a real 5,5% this year

All merger deals approved

B/Day 27/2/92 (232)

JABULANI SIKHAKHANE

IN ITS first year of operation, the Securities Regulation Panel had approved all of the nearly 60 merger and takeover deals referred to it, executive director Doug Gair said yesterday

Gair said that although the panel had not rejected any of the deals, it had requested minor modifications in some cases

The panel was awaiting documentation for another 10 mergers or takeover deals

In the past 12 months the panel had also investigated 10 cases of price fluctuations and high trading volumes on shares of companies that had announced, or were expected to announce, deals

However, the panel had not been able to find any cases of insider trading in the 10 instances.

Gair added that the panel was due to release practice notes shortly to clarify certain areas of the takeover code and also resolve problem areas

The panel, a statutory body, went into operation on February 1 last year

Gair felt the panel had been busy compared with its counterparts in the UK which were involved in between 200 and 250 deals last year The London Stock Exchange has about 10 000 securities listed, compared with 700 or so companies on the JSE.

Strong rally in leading industrial shares

MERVYN HARRIS

AN EARLY start to window dressing of share prices ahead of institutions' February year-end was said to be the driving force for a strong rally of leading industrial shares on the JSE yesterday afternoon

The almost 1% rise in the industrial index to 4.401 points came on generally thin trading but was helped by improving political sentiment and another overnight record close on Wall Street

Mining shares also came to the fore on the back of renewed weakness in the finrand and a resurgence in precious metal prices After clawing its way back from five-month lows to go above $350 in London yesterday, gold was swept up more than $6 on the day to a high of $355 in early New York dealings

(232)

The uptick came on a lower dollar in what some observers described as a short covering rally in a bear market The metal eased slightly to close at $353,20 in London

Platinum was also on the rebound after the scare that US company Corning had developed a catalytic converter The price rose nearly $10 to go back to the $360 level

B/Day 28/2/92

IDT opts for aggressive investment

B|Day 28/2/92

232

LINDA ENSOR in Cape Town

THE Independent Development Trust (IDT) devised a unique set of investment guidelines for the management of its R2bn portfolio, IDT finance director Jannie Kitsoff said this week

It was decided to embark on an aggressive investment strategy in order to get a higher return Each of the seven selected portfolio managers was given the freedom to pursue his own investment strategy within the parameters of the guidelines laid down

The results are monitored on a monthly basis and the relative performance of the portfolio managers is measured within asset classes against the benchmark of a passive investment strategy over two years — 35% in the JSE Actuaries All Bond Index and 65% in the McLeod Money Market Index The McLeod index is one devised by McLeod Asset Consulting, which monitors performance The performance is evaluated over a period of at least six months

There have been wide differences in the performance of the various portfolios and dramatic swings have taken place over time An average overall return on investments of 17,8% was achieved from August 1990

Seven portfolio managers were given responsibility to invest the R2bn granted to the IDT by government First National Bank (R400m), Standard Merchant Bank (R400m), UAL Merchant Bank (R400m), Rand Merchant Bank (R200m), Senbank (R200m), Volkskas Merchant Bank (R200m) and Syfrets Managed Assets (R200m)

"They were chosen for their expertise in managing short-term fixed interest security portfolios They were also chosen because of their size and their financial soundness as institutions," Kitsoff says

Management of the IDT's funds was either taken over by a specialist portfolio management division or the money market division of the institution.

Although there was uncertainty over the duration of the trust, it was assumed for the purpose of portfolio management that, in the absence of an additional inflow of funds, the assets of the trust would be exhausted in about three to four years The liabilities were estimated to have a likely duration of two years To limit the exposure of the fund to adverse interest rate movements, a maximum duration of three years was set

In terms of the investment guidelines, not more than 25% of the total funds under administration by any one portfolio manager could be exposed to banking groups with shareholders' funds in excess of R1bn or any of their wholly owned subsidiaries These groups were FNB Standard Bank Investment Corporation, Absa and Nedcor The maximum maturity of instruments in this category could not exceed three years

Not more than 10% of the fund could be invested in the Bank Holding Corporation of SA (shareholders' funds in excess of R500m) or its subsidiaries, with the maximum maturity of investments being limited to two years

For financial institutions with shareholders' funds in excess of R100m such as NBS Holdings and Rand Merchant Bank, a limit of 2,5% of the fund was laid down and the maximum maturity of investments was one year

No limits were placed on investments in bills, bonds and securities issued or guaranteed by the government, Eskom and the Post Office A limit of 30% of the fund was placed on instruments issued or guaranteed by Transnet and the Land Bank SA Housing Trust, Development Bank and Umgeni Water Board instruments were limited to 10% of the fund

Guidelines were also laid down on the use of options

Kitsoff says the IDT has been pleased with the performance so far.

BAD DEBT FM 28/2/92

Little acorns

232

The pattern of bad and doubtful debt emerging in this recession differs from the pattern seen in the 1985-1986 recession

Standard Bank Investment Corp MD Eddie Theron says that, in his company's experience, the average size of individual bad and doubtful debts is far lower now than it was in the last recession — 75% of the bad debts last year were worth less than R500 000 and only a handful were more than R5m

232

Small business

This indicates that the stress is being felt most by small businesses and individuals This trend is confirmed by other banks Says Nedbank's Jack de Blanche "The bigger firms were more prepared, following their experience the previous time around."

Says Standard Bank group economist Nico Czypionka "The nature of the two recessions is very different Within a year of the start of the last downturn, we were right in the middle of a very deep recession A number of large companies were highly geared and very vulnerable

"Generally speaking, larger companies are now soundly financed and have vigorously rationalised This has included laying off substantial numbers of people It is the small, undercapitalised companies that have been worn down by the prolonged period of high interest rates, aggravated last year by negative cash flows"

On the bright side, the home-loan position has changed for the better SBIC's Duncan

continue →

FM 28/2/92 232

Reekie reports that the incidence of new repossessions is slowing. First National Bank's Andre Latré also reports a slowing in the rate of repossession De Blanche reports "almost no repossessions."

"This suggests that borrowers have acclimatised themselves to high mortgage rates over a period of two-and-a-half years," Czypionka says

It appears that some banks have been conservative in their lending policies, cultivating their customer base Those that have moved into riskier markets have been fully aware of the potential risks ■

TOM's slow start not is abnormal — expert

232 B/Day 28/2/92

WILLIAM GILFILLAN

THE slow start to the JSE's traded options market (TOM) is not unique, international options specialist Ivers Riley told brokers and institutional fund managers this week. Since the TOM's opening in January, the new market has handled only 60 or so trades. At the opening, TOM manager Jonathan Sims reckoned that 300 deals were needed each day simply to break even.

Riley, brought to SA by the JSE, illustrated this by pointing out the Chicago Board Options Exchange took five years to develop.

He told the brokers that now the JSE's TOM structure had been set up, the next priority had to be to increase its liquidity. But the public needed to be educated if TOM's liquidity was to rise, he added.

Riley said that, although no two market places were the same, he believed the JSE could learn some valuable lessons from mistakes made when option markets were established abroad. The biggest mistake abroad had been to treat options and equities markets as separate entities. "The options market must be related to the equities market that underlies it from the day it opens. For options to thrive, equities must thrive."

Education

Riley, who helped establish the options market on the New York Stock Exchange in 1983, said statistics overseas had shown that changes in the liquidity of equities and options markets were closely related. They had also indicated that the presence of an options market had contributed to the liquidity of the equities market.

"In the case of the Chicago Board, the options market re-energised the brokerage firms by attracting the institutions back to the stock exchange." Evidence had also shown that institutions changed their patterns of doing business significantly when options markets emerged.

Riley believed that, apart from the need to educate the public on options, another reason for the slow start related to institutional dominance on the JSE. "Individuals constitute about 30% of the total market in the US, whereas the figure is closer to 10% in Johannesburg. Individuals are more inclined to move into the options market sooner as they do not have to go through the laborious process of getting board approval before playing in the market."

Riley dismissed the concern expressed by some local institutions that the underlying equity market was not sufficiently liquid. (Equity shares have to be traded when an option is exercised to meet the commitment attached to the option.)

JSE outgoing president Tony Norton said although he was concerned about TOM's slow start, he was heartened to hear overseas experience had shown this was not abnormal. "The challenge now is to get the education side going, as it has been shown abroad that liquidity rises once this is done," he said.

Safe unit trust plan is good entry point

STAR 29/2/92 232

PROPERTY

How to break into the big time

INVESTMENTS: *Commercial real estate offers unusual and profitable opportunities*

MEG WILSON

FOR most people, owning property means owning a house or, perhaps, a farm or stand at the coast where they intend to build their retirement home one day.

Some may venture to buy a second house or perhaps a couple of apartments to bring in some rental income, but there are not many individuals who have explored the possibility of buying into office blocks or shopping centres.

However, there are several ways to do just that and they are worth exploring as alternative investments to equities.

Probably the easiest way to get into the property "big time" is to put some money into a property unit trust (PUT).

These are something like ordinary unit trusts, in that you are buying a chunk of a JSE-listed portfolio and participating, with other unit-holders, in the income from that portfolio. In this case, the income comes from rentals in commercial buildings. The ma[illegible] differences are that the activities o[illegible] Ts are restricted to investment in [illegible] ares of property-owning compani[illegible] and that they are "closed-end" trusts.

This means that there are a set number of units which can only be increased through a rights issue to existing unit-holders. It also means that there is no guaranteed buy-back of your units by the management company.

The advantages of PUTs are that they are particularly safe investments and that the entry level is relatively low.

PUTs are regulated in terms of the Unit Trusts Control Act and have to be properly managed by a professional team of real estate specialists.

This gives you the opportunity to invest in carefully chosen, well-located commercial properties, without specialised knowledge. But, because most PUTs specialise in offices, shops or factories, you can choose where to put your money, depending on your own feelings about the likely fortunes of say, the service, retailing or manufacturing sectors of the economy.

However, the diversified portfolios of property trusts (the actual buildings in which your money is ultimately invested) mean your risk is spread. In other words, rental losses from vacancies or from a fall in geographic popularity, in one building will tend to be smoothed out by other buildings in the portfolio doing better.

Although there is no guaranteed buy-back of your units, they are marketable on the stock exchange through a broker. This makes the investment much more flexible than one directly into a building and means you can adjust your investment portfolio quite rapidly.

By law, you can buy a minimum of 100 units in a PUT. The most expensive unit quoted on the JSE this week cost R7,80, so a new investor buying the minimum number of units would have paid R780 — quite a small amount compared with investments in other property investment vehicles.

PUTs enjoy a special tax position. John Rayner, of stockbroking firm Frankel Max Pollack Vinderine, explains that neither the trust nor its underlying property companies pay tax, which means that dividends paid to the unitholders are free of tax at source.

However, the fact that PUTs do not pay company tax means that these dividends, usually paid every six months, are regarded as interest, and that individual investors will be taxed on them according to their own marginal tax rates. At the moment, only the first R2 000 a year of interest income is tax-free.

If you have a minimum of R1 000 to invest, you could put it into a participation mortgage bond (partbond). These are property-related schemes run by several financial institutions as a means of raising mortage fi[illegible]ance for large property purchases from a number of investors.

In other words, your money is a "loan", secured by property, to the partbond company, which will pay you interest. It is important to understand that this is not an investment in property as such.

The main advantages of partbonds are low risk and high interest rates. The low risk arises from the fact that partbond administrators are conservative in estimating the value of properties over which they grant bonds. They usually advance between 60 and 65 percent of a valuation based on capitalisation of income flow from the building, rather than its current market value.

The high interest rates paid to partbond investors, usually quarterly or monthly in advance, make them popular as a secure source of high income.

The major disadvantage is that there is no capital growth for the period of the investment, which is usually five years. It is certainly worth considering how inflation will erode this capital and also that the returns on partbonds are, like those on PUTs, fully taxable.

Probably the most exciting way to invest in property is in a syndicate, where you and a few others actually buy your own building.

Such investments provide both capital gains and income and are becoming increasingly popular among those wishing to beat both inflation and taxation.

But, and it's a big but, you need to be sure [illegible]xactly what you a[illegible] getting into. The entry levels are high (a minimum investment of R10 000 is required) and the industrial and commercial property markets are highly-developed and complicated and require a great deal of expertise.

So, while there is nothing to prevent a group of private investors from buying or even building a shop[illegible] centre or factory complex on their [illegible]n, it is wiser to have professional management on board.

In a syndicate, the property is usually owned by a sharebloc[illegible] company, of which you, the investor, b[illegible]come a shareholder. Thus you actually own a specific "piece" of the building.

The tenants in the building pay rentals, which are passed on to the investors after deduction by the management company of running and maintenance costs, as well as a small administration fee. This gives you a regular income, usually 11 percent a year, payable quarterly in arrears.

However, the value of the building, as a saleable commodity, also rises over the years, boosting your capital invested.

Professional management ensures that the risks are reduced. The reputable institutions offering syndication schemes have experts to identify and buy buildings with good potential, and to optimise this potential in terms of keeping it fully occupied and properly maintained.

The major advantage of a syndication is that you can negotiate the sale of your share of the building to any other person at the market value at any time.

The capital gains on such sales are often exceptional (and not yet taxable).

P.T.O. for Picture

Small brokers in good shape despite bad times

232

S/Times 1/3/92

By ROBIN PEGLER

SMALL stockbrokers are learning to survive in a market that was previously considered too small to support them

Two years ago it was thought that the JSE needed a daily turnover of R100-million for brokers to survive Nowadays this figure is reached only occasionally, but only one firm has defaulted

The brokers interviewed for this article did not wish to be named

Broker A says that even though business is slow, it is important to be able to control overheads Low costs help survival When business dwindled, there was scope for cutting costs, mainly by reducing entertainment and staff numbers

Up to last year, JSE administration charges were rising rapidly, but there has been some relief and computer costs have been reduced

Broker A relies on individual investors and a couple of small institutions The firm also undertakes portfolio management and favours niche business

Broker B is another compact firm and has done good business even in the quietest times It deals mainly for private clients and banks operating on behalf of individuals It has employed a mining analyst Even in boom times, the firm's overheads were kept low

It may appear surprising that a few new stockbroking firms have appeared Broker C was established a year ago after being part of a much larger firm Its members preferred to be independent and did not want to bear a share of the large firm's heavy costs

Their operation has met high expectations There is a good client base, including managed portfolios The firm does not specify a minimum amount of capital for clients

If the client prefers unit trusts, the firm will deal in them Its older clients prefer unit trusts for safety The firm occupies a small office and has minimal overheads

Broker D also became independent recently Here the motivation was similar to Broker C's

Uphill

Broker D's business is a mixture of institutions and private clients For institutions it specialises in good administration and dealing rather than concentrating on research

Medium-sized brokers are less well placed They cannot reduce staff numbers below a certain level and this entails renting large premises

Brokers E and F rely far less than before on individual investors and have cut the size of their portfolio management teams They concentrate on institutional business

Research teams are compact and the brokers look essentially for niche areas which the larger firms neglect

Because so many brokers are chasing a limited amount of institutional business, the institutions are deluged by their reports on leading companies, such as Barlows and Sasol They read the reports which have been written by analysts they know well and throw most of the others away

To attract the attention of institutions takes time, though it helps if the broker visits them and makes a presentation It is uphill work, so the more niches and neglected areas the brokers' research teams can find, the better

At current levels of JSE turnover, some brokers do well, but several are losing money

Many, both large and small, depend on short-term jobbing to balance their books

Some are staking their hopes on a favourable political settlement The removal of uncertainty and return of confidence should lead to better markets.

MONEY MARKETS by Sheridan Connolly

Scramble as market shortage dips

B/Day 2/3/92

THE month-end scramble in the local money market got under way towards the end of last week with the market shortage dipping sharply to R843m on Thursday from a previous R1,76bn.

Dealers attributed the sharply lower market shortage to tax payments falling due They also said there was a lot of money flowing through the system to finance a special rights issue by Gencor.

Meanwhile, the Reserve Bank continued its liquidity-draining operations last week with a series of special Treasury bill (TB) tenders On Friday the Bank's special three-day TB tender was sharply undersubscribed, with the Bank receiving only R820m at an average rate of 16,39% for its R1bn worth of bills on offer.

Dealers said the bad response to the Bank's special issue could have been due to the relatively high rate of 16,39%. Corporates could get similar rates on call and, at month end, the smaller institutions did not have that kind of money lying around With hectic month-end activity and general confusion over how cash flows will go, the Bank's offer was not all that attractive.

Hopes of a cut in official interest rates are still running high, but most analysts expect Reserve Bank Governor Chris Stals to hold out until after the reform referendum on March 17 and until he has seen the fiscal thrust of the March 18 Budget.

February's inflation rate is due out about three days after the Budget, so Stals could wait for some signs of success in the inflation war. 232

Turnover suffered on the capital market as traders were diverted by two contrasting events — the political nervousness in the run-up to the referendum, and the midweek World Cup cricket match in Australia. The screens players were watching tended to feature scores and bowling analyses instead of prices and yields. Confidence that the referendum would result in a "yes" majority kept yields on the benchmark Eskom 168 comfortably below the 16,5% level.

Call to deregulate the health sector

232

BDay 2/3/92

KATHRYN STRACHAN

PROPOSED amendments to the Medical Schemes Bill would go a long way towards containing the soaring cost of medicines, National Health Department director-general Coen Slabber said at the weekend.

Addressing a forum convened by National Health Minister Rina Venter to discuss the cost of medicines in the private sector, Slabber said there was considerable support for deregulation in the health sector.

Representative Association of Medical Aid Schemes executive-director Rob Speedie said the expenditure of medical schemes had increased by 34% last year, and that the only way to contain these costs was to allow more deregulation.

Deregulation is seen as the answer to escalating costs in health care as it promises to give medical schemes greater flexibility to negotiate packages with doctors, pharmacists and clients and to tailor programmes.

The Bill aims to do away with fixed fees and amend the scale of benefits and maximum and minimum benefits payable as these are seen as contrary to free market principles.

Slabber said the forum had also accepted that pharmacists, despite being the most accessible health care practicioners, were the most underutilised and that they could provide a lot more in terms of primary health care. It was agreed they should be given more authority in terms of diagnosing and dispensing medicines.

The main discussion at the forum centred around granting pharmacists greater professional discretion by allowing them to supply schedule three and four drugs without prescriptions. Pharmacists can supply only unscheduled and schedule one and two ng dispensers greater freedom to sell cheaper generic drugs in place of brand name equivalents was also agreed on.

Another issue discussed was introducing single exit prices on sales by pharmaceutical manufacturers. Single exit prices would restrain manufacturers from giving certain medicine suppliers an unfair advantage by preventing them from offering medicines to suppliers at different prices. At the moment some dispensing doctors can obtain medicines more cheaply than pharmacists.

Venter proposed removing restrictions on parallel importing. Current legislation prevented importation of medicines manufactured in SA. Anomalies existed where, for example, SA-manufactured medicines are available more cheaply in Gaborone than in SA.

Slabber said it was unfortunate that left wing health organisations had elected not to attend as they would have made a positive contribution, but admitted the Department were on a "learning curve" in dealing with consultation. It is expected there will be more "talks about talks".

Medical Association of SA secretary-general Hendrik Hanekom said that if the department wanted to affect change it needed the support of all parties involved. He said the department needed to take greater care in the process of arranging such forums to ensure all groups were represented

Slabber said proposals to reduce the high cost of medicines would be circulated to all groups concerned for consensus, including those which stayed away from the forum

The recommendations would then be put to Venter and discussed at a meeting in October. Then the recommendations could be incorporated into a National Medicines Policy

HOUSE OF ASSEMBLY

QUESTIONS

†Indicates translated version

For written reply

General Affairs

232

Two financial institutions: insolvencies

55 Mr D H M GIBSON asked the Minister of Finance

(1) Whether two financial institutions, the names of which have been furnished to the Minister's Department for the purpose of his reply, went insolvent recently, if so, what are the names of the institutions,

(2) whether any directors or officers of these two financial institutions are to be charged criminally, in terms of any statutory or other provisions administered by his Department, in respect of any alleged offences arising from the insolvencies of these institutions, if so, what are the relevant details?

B142E

The MINISTER OF FINANCE

(1) Masterbond Participation Bond Trust Managers (Pty) Ltd and seven affiliate companies were placed under provisional curatorship between 21 October 1991 and 31 October 1991 These companies are not financial institutions

Cape Investment Bank Limited was finally liquidated on 14 May 1992 This was a registered deposit-taking institution

(2) (a) Information indicating that offences or contraventions were possibly committed by any person employed by or associated with the companies concerned, will be submitted without delay to the Attorney-General of the Cape for consideration of criminal prosecution as soon as possible

(b) An investigation in terms of sections 417 and 418 of the Companies Act, 1973, was upon the insistence of the Registrar of Deposit-taking Institutions, requested by the liquidator of Cape Investment Bank Limited This investigation has been completed and at this stage the report of the commissioner in charge of the investigation, former Appeal Judge Oscar Galgut, is awaited If this report indicates that directors or officials of the aforementioned bank possibly committed offences, criminal proceedings against such persons will be instituted immediately The liquidator of the aforementioned bank instituted civil proceedings against four former directors and chairmen of the bank on 8 February 1991 This matter is at present *sub judice*

Certain financial institution: number of investors

56 Mr D H M GIBSON asked the Minister of Finance

(1) Whether he will disclose the (a) number of individual investors in a certain financial institution, the name of which has been furnished to the Minister's Department for the purpose of his reply, (b) types of investment made by them and (c) value of investments in each category, if not, why not, if so, (i) what is the name of this institution and (ii) what are the relevant details,

(2) whether any investigation has been instituted to establish whether (a) the Reserve Bank or (b) any other (i) Government or (ii) semi-Government authority was guilty of dereliction of duty or failed to exercise sufficient vigilance in supervising this financial institution, if not, why not, if so, with what results,

(3) whether financial institutions registered as deposit-taking institutions are (a) monitored by his Department from time to time to ensure that they are (i) solvent and (ii) engaged in financially viable undertakings and (b) properly regulated in terms of existing legislation, if not, why not, if so, what are the relevant details?

B143E

cont.. →

Quiet first day as Venter moves up 5c

Bday 5/3/92

MARCIA KLEIN

THE first day of Venter Leisure and Commercial Trailers (Ventel) on the JSE yesterday was characterised by a reasonable amount of trade, but not much in the way of share movement

The share opened in the morning at 150c, in line with the issue price, and closed just 5c higher at 155c.

Soon after opening Ventel went up to 155c and stayed at this level, although some stags tried to get 157c, with no takers.

Analysts said yesterday that the day's trade was in line with expectations, and the listing had not created much excitement in the market 232

The last trade of the day was a bear sale at 155c, which suggests that some investors think the share will go down.

Yesterday's listing follows a R25,5m share offer of 17-million ordinary shares The private placement of 13-million shares was fully subscribed, and the public offer of 4-million shares 11% oversubscribed

No escape from deregulation

232

FM 6/3/92

The negotiations on a new bilateral air services agreement between SA and the UK are taking place against an inexorable movement towards deregulation in western Europe That trend has profound implications for SA and its national carrier

As Bob Ebdon, British Airways' head of government affairs, sees it, no airline that operates services into the deregulated EC after January 1 will be able to maintain regulation in its home market

"Europe is seeking to remove barriers to trade and aviation is just one part of that," Ebdon said in London last month. "The EC is pushing for a liberal, open and competitive environment In return for such a system here, we will expect liberal, open systems in other countries."

The reward for such willingness to embrace competition is, BA believes, vastly improved prospects for expansion. On the SA route, for example, he insists that BA has no objection to the introduction of competition from Virgin Atlantic Airways

"Our experience has shown that there is no point in resisting the entry of additional British carriers," he says "We object only if their access hampers our opportunities to do what we want to do It's foolish to say we want a liberal agreement and at the same time try to restrict the access of other airlines Increased access will give us an opportunity to promote and expand the route "

The new bilateral agreement is expected to eliminate many of the restrictions on the SA-UK route The way could be cleared for one or possibly two new airlines — Virgin Atlantic and Flitestar — to begin to serve the route. Representatives from BA, SA Airways, Virgin Atlantic, the Department of Transport and the British Embassy met in Pretoria last week for the first round of talks They are expected to meet again in London in the next few months

The reciprocal nature of the current agreement prevents BA and SAA from fully developing the route because sanctions forced SAA to fly around the bulge of Africa This pushed up SAA's costs and helped to maintain high fares for both airlines on the route

"But if we are free to operate a normal, nonstop service, as we want, to fly direct to Cape Town or Durban, we are confident we will expand the market and make more money," Ebdon says

Certainly, BA is well-placed to take advantage of a freer environment It is one of perhaps 20 world airlines (among the top 200) that makes an operating profit Latest results show that in the nine months to December the airline recorded an operating profit of R1,6bn — 13,5% better than the previous year

"What we have now is a regulatory system that keeps airlines in existence that would not be there in a normal economic environment," he says

Therefore, the cost of deregulation, almost inevitably, is short-term turmoil that may well result in many airlines going under. The new ones that start up will also have a tough time Salomon Brothers' airline analyst Julius Maldutis says deregulation in the US in 1978 brought 178 new airlines into existence

Mega-airlines *are they ready for open skies?*

"Only one survives today and that is in Chapter 11 bankruptcy Mergers caused 22 of them to disappear Others reorganised "

With a pronounced shift from domestic to international travel by Americans, he adds "There will be further asset sales and acquisition of international routes by the strong companies."

Will the same thing happen in Europe? Maldutis believes not "This is because no government will permit its national flag carrier to disappear In Europe, you are seeing a consolidation and disappearance of the smaller charter carriers

"Far more important is the globalisation of the airline industry, in which national airlines are looking for partnerships or engagements with other national airlines To survive in the international arena you will have to be a global airline "

Tie-ups have been negotiated or mooted, involving Swissair, Delta and Singapore Airlines, BA and KLM, and Japan Airlines and Lufthansa These last two groups are reportedly looking for further expansion via a link with a US airline. Where does this leave small national carriers such as SAA? "They will survive," Maldutis says "There is plenty of room for niche players to make good profits There will be continued growth for smaller specialist airlines "

The lesson of privatisation at BA — which Maldutis regards as "one of the great success stories of the last decade" — is significant for all government-owned airlines Says Ebdon. "BA was not profitable when it had huge government support Now it operates on a commercial basis and makes money I would hope governments would see that running airlines is a matter for business people "

Deregulation will inevitably lead to concentrations of airline power in Europe, he agrees. Five or six mega-airlines may end up handling most of the European travel business But this won't mean less competition

"Regulation should create a more competitive environment, even if it means fewer airlines. You will have a few mega-airlines competing very fiercely "

Amic able to limit decline in profit

BDay 6/3/92 232

WILLIAM GILFILLAN

A MODEST recovery in the second half helped limit the profit decline at Anglo American Industrial Corporation (Amic) to 11% when it reported attributable income of R401m for the year to end-December

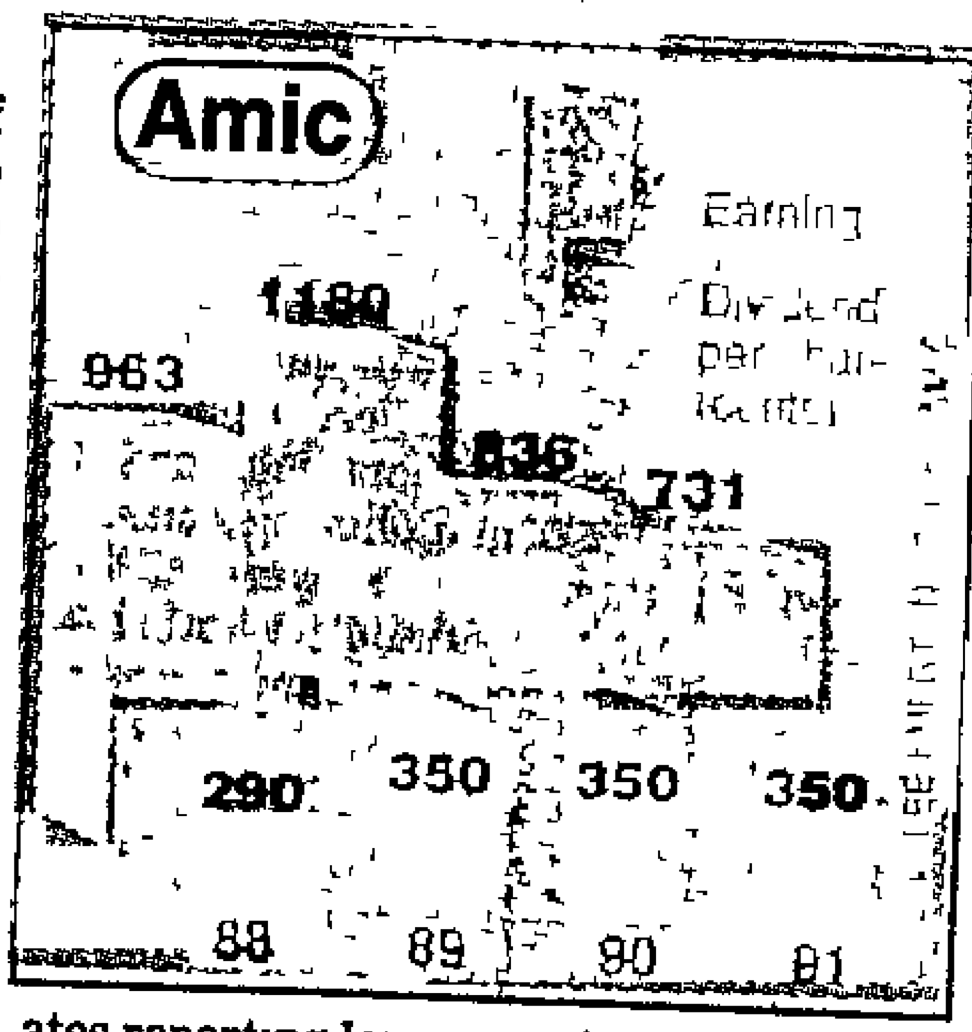
Earnings a share at the industrial blue chip fell 12,5% to 731c from 836c a share on an increased number of shares in issue However, the group managed a 5% rise in earnings in the second half of the year after the first half's 26% decline

A final dividend of 240c a share has been declared giving an unchanged total dividend of 350c a share for the third successive year

Although turnover increased to R6,4bn from R6,1bn, income from its operations dropped 24% to R434m from R571m Amic's share of earnings of associates declined to R206m from R222m

The decrease in Amic's attributable income was also limited by the sharply lower tax charge, which dropped to R50m from R152m

Retiring chairman Graham Boustred said the marked deterioration in economic conditions worldwide as well as the deepening of the recession in SA, resulted in many of Amic's subsidiaries and associates reporting lower earnings for the year



But he predicted that 1992 earnings would increase modestly "on the basis of a progressive improvement in trading conditions in Amic's markets, aside from the gold mining industry, towards the year-end"

Subsidiary Highveld Steel & Vanadium (Hiveld) last month reported attributable income of R95,5m from 1990's R150m while major associate AECI's attributable in-

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Amic

BDay 6/3/92 232

☐ From Page 1

come dropped to R187m from R238m in the year to December

Boustred said attributable income at paper company Mondi and NTE, both 53% held by Amic, increased 18% to R110m But associate Samcor, the motor vehicle manufacturer in which Amic had a 19% stake, reported lower profits

Directors said group capital expenditure for the year totalled R790m, of which R672m related to expansion projects and the balance to asset replacement

Boustred warned that unless the inflationary spiral and associated wage expectations were brought under control, many jobs would be lost as industry moved progressively from labour-intensive to capital-intensive operations

Owing to the current world recession, Boustred did not believe the withdrawal of international sanctions would have any immediate effect on Amic

"But as the group's trading base will broaden over a period of time following the lifting of sanctions, it will be well placed when markets improve," he added

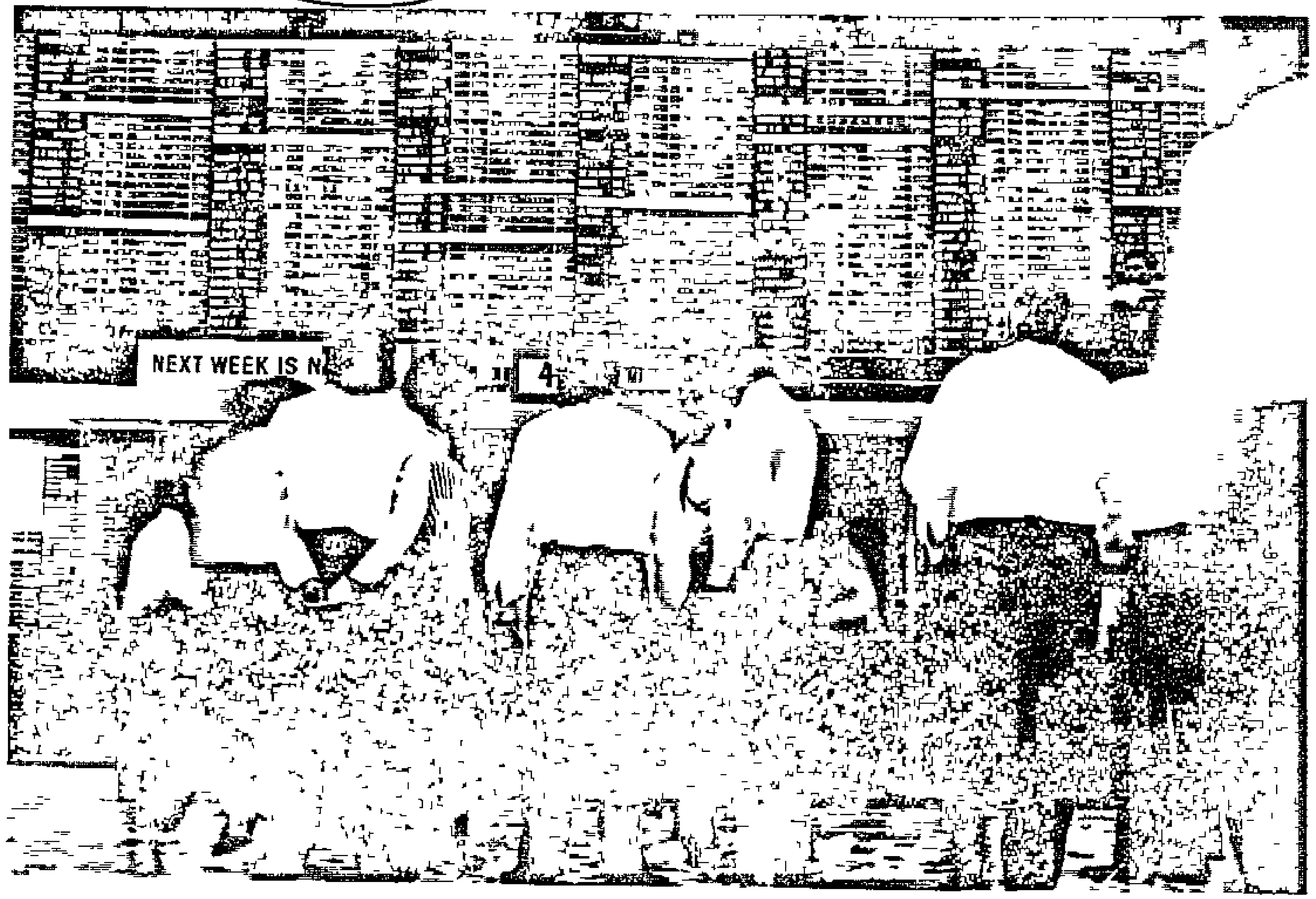
Leslie Boyd has replaced Boustred, who announced his retirement yesterday, as chairman Boyd has been associated with the group for the past 22 years Hilton Davies and Tony Trahar have been elected deputy chairmen

Brokers come a cropper as JSE stalls

W/Mail 6/3-12/3/92

232

A drop in trading volume and tough economic conditions are putting the squeeze on Johannesburg Stock Exchange brokers, reports
FERIAL HAFFAJEE



Waiting for the upturn . . or Godot

Photo STEVE HILTON-BARBER

ROWS of red barber chairs sit empty and idle hairdressers stare out of picture windows at the bustling street below Croppers, a hair salon in the air-conditioned mezzanine of the Johannesburg Stock Exchange, is an accurate barometer of the crisis facing stockbrokers

James Dysart, the owner of Croppers, believes the 3 800 people who used to fill the JSE daily have dwindled to just 1 400 These days, he says, many clients come in and tell him: "This will be my last appointment. I've been retrenched "

JSE president Tony Norton agrees that times are hard The situation is the worst its been in 10 years and many brokers are "just surviving" he says

Many firms have had to cut their staff quotas, in most instances by more than half

In the halcyon days, the market peaked at 12 000 deals a day From 1986 to 1989 it held steady at 3 500 deals on a normal day and up to 5 600 deals could be traded on a good day

That figure has recently dropped to an average of 2 400 deals a day and on really bad days the market has closed on 1 500 deals

The daily average turnover has been R75-million in the past year This may sound like a lot of money, but to support its brokers and to get out of the quagmire, the JSE needs to turnover at least R100-million daily at an average of 4 000 deals

The volume of deals on the market is important — profits depend on the number of deals brokered Because of a sliding brokerage deal, they earn more on smaller deals

Stockbrokers also point out a distortion in the turnover caused by the fact that 30 percent of the daily turnover does not show a profit but is the result of "jobbing" or speculating where brokers buy shares for themselves The rest is "natural business" which yields a profit.

Retrenchments in the industry have been high One of South Africa's leading broking companies has sliced its staff quota by more than two thirds to a lean 40 members

A leading stockbroker stresses that there is a limit to how many staffmembers you can retrench "At that point, you get to the heart of an organisation that you just cannot do without "

Norton says broking firms have responded by cutting overheads The first to go was staff Frills, fringe benefits and fancy offices have also been axed, he says

A large firm must make an income of R80 000 to R100 000 a day to survive, according to a market analyst And to do this, it has to take 20 percent of the daily JSE turnover "We're just not doing this," laments a member of one of the JSE's biggest firms

If it and the other nine big firms on the JSE are having such a problem, then the situation is even more dismal for the bourse's 40 smaller firms A broking analyst believes three big firms take almost half the market every day The rest have to divide what's left over "I just don't know how they are surviving," he says

One of the smaller firms, Hillary Crosby, went to the wall in December last year, the first victim of the recession

It sent shockwaves through the industry especially when a client revealed that he had had R100 000 invested in the defunct company

But Norton points out that a guarantee fund protects investors He says the fund now stands at R70-million

One of the leading lights on the JSE says many brokers are surviving on private capital and the accumulated wealth of generations "If broking firms were owned by corporations, we would have been closed a long time ago by applying normal standards of returns "

The crisis in the stock market is a casualty of the falling gold price

"Brokers tend to make money when gold is strong But gold will be a commodity forever and there is a need to restructure the stock market," he says

The crisis is also related to the recession Private clients are not investing because they do not have the disposable income they used to Many are selling their shares and these are getting tied up in institutions This squeezes brokers, who rely on constantly fluid shares Private clients are selling off their investments to support their families and "to pay for weddings and barmitzvahs", says another broker

The political position has also not helped the stock exchange "The policies of the country have turned away investors and we have been kept away from participation on international markets," he says, adding that "a yes vote in the referendum will go a long way to improving investor confidence"

And there are internal problems on the stock exchange as well These range from problems with the computer accounting system, a costly new JSE Annexe and the traded options market.

The options market, originally costed out at R2,2-million, finally cost about R14,7-million That and increasing overheads forced the JSE to borrow Now, of the market's estimated R45-million operating costs, half of that is interest.

All of these costs have to be recovered from brokers, who complain that dealing costs have risen sharply

According to Norton, the stock exchange needs "economic recovery, tax changes and savings and investment in the industry"

Masterbond losers explore recovery

(232) STAR 7/3/92

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This would be "infinitely more" than investors would get if they agreed to the curatorship

"The second avenue of recovery would be to investigate the personal estates of people responsible for the administration of the Masterbond group," said Mr Levine

The Companies Act applied personal liability to people who carried on business in a reckless manner with intent to defraud, or which caused losses to investors and creditors

Another avenue was open to those who had invested money with Masterbond through brokers and were never allocated secured debenture bonds This could be the personal liability of directors of the companies concerned

The third avenue of recovery to be investigated would be the financial brokers, said Mr Levine

"I am sure most of you were advised by a financial broker to put your money into Masterbond because there was an extra percent of interest to be gained

"What they did not tell you, I'm sure, was that Masterbond was offering commissions and kickbacks way beyond the norm in the industry at the time

"If those brokers had done their work properly they would not have put you in Masterbond"

The fourth avenue of recovery was through the financial authorities This included the Reserve Bank and others who had found irregularities in Masterbond's affairs as long ago as 1985 At the time, the attorney-general of the Cape declined to prosecute, but the financial authorities recognised that they had to safeguard investors' funds

The fifth avenue of recovery was to determine whether the auditors had been remiss in their duties, said Mr Levine

Place your trust in units

STAR 7/3/92 (232)

MONEY MATTERS

MAGNUS *Heystek*

THE unit trust industry has just increased the basic management fee by 50 percent from 0,5 percent to 0,75 percent of the asset value

Not everyone is happy with this sharp increase, which the Association of Unit Trusts says was necessary to keep pace with increased costs and inflation It also says that compared to overseas costs, the fee of 0,75 percent is not very high.

Pressure

Now, I am led to believe, there is pressure to increase the commission paid to unit trust agents Most of this pressure comes from the life assurance industry, which largely dominates unit trusts

The commission paid to unit trust agents or brokers is substantially lower than that paid on endowment policies But while the endowment business has been showing signs of tapering off in recent years, the unit trust industry continues to soar

It is fast becoming the most popular investment for the average investor and the reasons are not hard to find.

They include inflation-beating investment returns over a long period, ease of entry and exit, and a great deal of liquidity and flexibility In short the ideal stock market investment for the average investor who does not have the time or the knowledge to follow the upward and downward moves of the Johannesburg Stock Exchange on a daily basis

At the end of 1991, the number of unit trust accounts was rapidly approaching 900 000 with the number of individual unit trust holders approaching 500 000

However, it needs to be pointed out that it took the unit trust industry more than 26 years to achieve this total In contrast, it took M-Net barely five years to sell more than half-a-million decoders Makes one think, doesn't it?

Unit trusts have always suffered from a rather lacklustre marketing effort. This is likely to change after the increase in the service fee by 50 percent earlier this year Now it becomes more profitable to market unit trusts as opposed to alternative equity-linked investments such as endowment policies and retirement annuities

Broadly speaking there are three types of unit trusts, general equity funds, specialist equity funds and the income funds

As the name implies, the general equity funds are investments in virtually all the sectors on the JSE.

By spreading the investments across the whole of the JSE, the risk is reduced considerably

The average investor simply does not have the time and the knowledge to pick the winners and discard the losers This is done for him or her by the professional unit trust fund-managers who are trained to do this job for eight hours a day, every day

Over time, the general equity funds have consistently beaten the inflation rate Over the past 10 years, the average compound return (capital appreciation plus income distribution) has been more than 25 percent, compared with an average inflation rate of 15 percent

Another factor which works to the advantage of the smaller investor is that regular and small investments can be made into unit trusts It is not possible for the average investor to invest amounts as small as R50 a month on the JSE

So why should the smaller investor lose out on the inflation-beating returns produced by the stock market year after year? Unit trusts are the way to get round this obstacle

Specialist unit trusts, as the name implies, are investments in certain specialised sectors of the JSE Some will invest solely in gold and gold-related shares while others will invest only in industrial companies

Over the long term the general, broad-based, funds have shown the most consistent growth

Volatile

Income funds, while being unit trusts, are not equity-based at all Here the investments are made in high-income-producing fixed investments, like Government stocks and bonds

Many investors use income funds to "park" their capital during volatile times on the Johannesburg Stock Exchange

A great advantage of unit trusts (sometimes also a disadvantage) is the ease of entry and exit. Should the investor decide to cash in on his investment, it can be done very easily without any penalties

In terms of the Unit Trust Control Act, the unit trust company is obliged to buy back any units from an investor For this reason it always needs a certain amount of cash in the bank (currently 5 percent of the total assets)

The disadvantage of this, of course, is that investors use their unit trusts as a savings account. This is not

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Place your trust in units

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advisable at all and can seriously undermine a long-term investment or savings plan

It sometimes requires a great deal of discipline not to "dip" into those unit trusts, especially after the market has risen strongly

But is it a good time to invest in unit trusts now?

The answer is not a simple "yes" or "no" It depends on the time-span of the investment.

The longer the investment period, the less risk.

For the smaller investor with a limited amount of knowledge and money, there is no better investment than unit trusts

Bidvest pulls off spicey deal

232

S/Times 8/3/92 (Buss)

By JULIE WALKER

BIDVEST chief executive Brian Joffe makes it sound like the script for an episode of Dallas when he says:

"What have we bought in Crown? We've bought the movie rights"

In January, his company bid for control of Murray & Roberts' Crown Foods, clearly a misfit in the industrial conglomerate but right up Bidvest's street

The point of offering 85c a share — slightly above net asset value but a high premium to the market price of Crown shares at the time — was that in Bidvest's opinion up to R17-million worth of assets were not productive

More effective asset management would have allowed Bidvest to realise that R17-million, according to initial calculations So to pay R23-million for Crown quickly to get back R17-million seemed to Bidvest a good deal

Two weeks ago Crown was suspended at the request of the directors and queries were raised about the net asset value

A due-diligence audit and a Bidvest ear close to the ground brought to light irregularities in the spice division of Crown In short, plenty of stock had been stolen Two heads have rolled

But there is an ultimate irony to the tale Instead of having to lay out R23-million to get its hands on R17-million, Bidvest is now paying only R12,3-million, or 45c a share, for control of a R150-million-a-year business projected to make R12-million operating profit

Bidvest's projections were obviously close because Crown's net asset value declined by about R13-million

Happy

Mr Joffe says M&R gave Bidvest every opportunity to walk away from the deal, but he is happy with the terms

M&R will lend Crown R11-million on favourable terms A rights issue in Crown will raise about that much It is unlikely that the Crown will need to pay tax in the short term

The irregularities occurred in the meat industry supplies division of Crown, whose spices and sausage casings accounted for about two-thirds of group sales and half the profit.

Even on a worst-case scenario where the food business is a disaster, catering equipment supplier Vulcan will still make R6-million on sales of R50-million

There is about R19-million of borrowing in the group, which comes down to R8-million with the favourable injection from M&R Servicing this will cost R1,5-million on the outside So Crown can still make R4,5-million if it breaks even only on food

In other words, Bidvest has bought the group at below three times notional worst-case earnings

"It must be a good company if it can still make money with half its asset base missing," quips Mr Joffe.

Crown will acquire National Spice, already part of Bidvest, for shares Bidvest issued R8-million in paper for part of the acquisition It has been placed on behalf of M&R

Crown shares have fallen to 55c But they are sure to fly under new management Shares in the Bidvest stable are at highs after fine performances in recession

BRIAN JOFFE Good terms

Bosal gets two plants

BOSAL Afrika has celebrated its 40th anniversary with the opening of two plants — one in Pretoria and the other at Uitenhage

The Pretoria plant in Watloo will make exhaust systems for trucks, buses and industrial use. It will also make long-life stainless-steel exhaust systems

The R10-million Uitenhage plant will manufacture autocatalysts, mainly for the European market.

WEEK IN BRIEF

A SUMMARY of the week's corporate announcements.

MONDAY Bidvest to pay 45c a share for Crown, not 85c. Murray & Roberts will accept Bidvest paper for part of the deal and will lend R11-million on favourable terms to Crown. Foschini, Lefic plan to issue three shares for one approved Persetech prelisting statement appears

TUESDAY Last day to register for Kudu dividend is 13/3

WEDNESDAY Caxton to issue members with 40 capitalisation shares for 100 and split the shares 25 for one CTP to give 30 shares for 100

Last day to register for Investec and Fedsure's offers of convertible prefs is 20/3 Offer to Fedsure minority is accepted for 0,2% of shares Boymans rights offer opens 13/3, closes 3/4 Ventel public offer 11% oversubscribed.

THURSDAY· Metair to sell its stake in Metlink to Toyota GA Holdings' disposal and delisting approved from 28/2. SA Breweries, Placor scheme meeting is on 27/3

Afex members offered 8,13 shares for 100 held instead of cash dividend and Conafex members 4,8 for 100

FRIDAY. Offer to ODM minority accepted by holders of 200 shares Crulife's rights offer 93% subscribed, Avins' 87% and AVF Group's 83%. AVI to buy 19,5% of Anglo-Alpha for R249,1-million for the issue of shares of R130

Gencor issue successful

BDay 9/3/92 — **Business Day Reporter**

IN SPITE of the uncertain market conditions, the Gencor rights issue was well supported by its shareholders.

Gencor shareholders and/or their renouncees applied for 195,6-million of the new Gencor shares on offer — a 97,8% takeup Gencor Beherend will take up the balance in terms of its underwriting commitment, thus ensuring that Gencor will receive its full R2bn. 232

The Gencor Beherend rights offer to raise R1,1bn was 99,8% subscribed and its underwriter, Sankorp, will take up the remaining 310 799 Genbeheer shares

The new shares were listed on the JSE on February 27.

EXECUTIVE SUITE

By William Wells and Jack Lindstrom

Record issue of debt summonses

(232)

GERALD REILLY

PRETORIA — More than 1-million debt summonses were issued last year — a new record, Information Trust Corporation (ITC) CE Tony Leng said yesterday

This was 13% higher than the last peak of 908 314 summonses in 1986.

About 50% of the actions resulted in judgments, which totalled 519 703 last year — another record figure.

Leng said the value of judgments against individuals had increased at a compound rate of 36% since 1988

The average 1988 judgment was R1 906 compared with an average R4 779 judgment last year, indicating consumers had been committing themselves way beyond their ability to pay

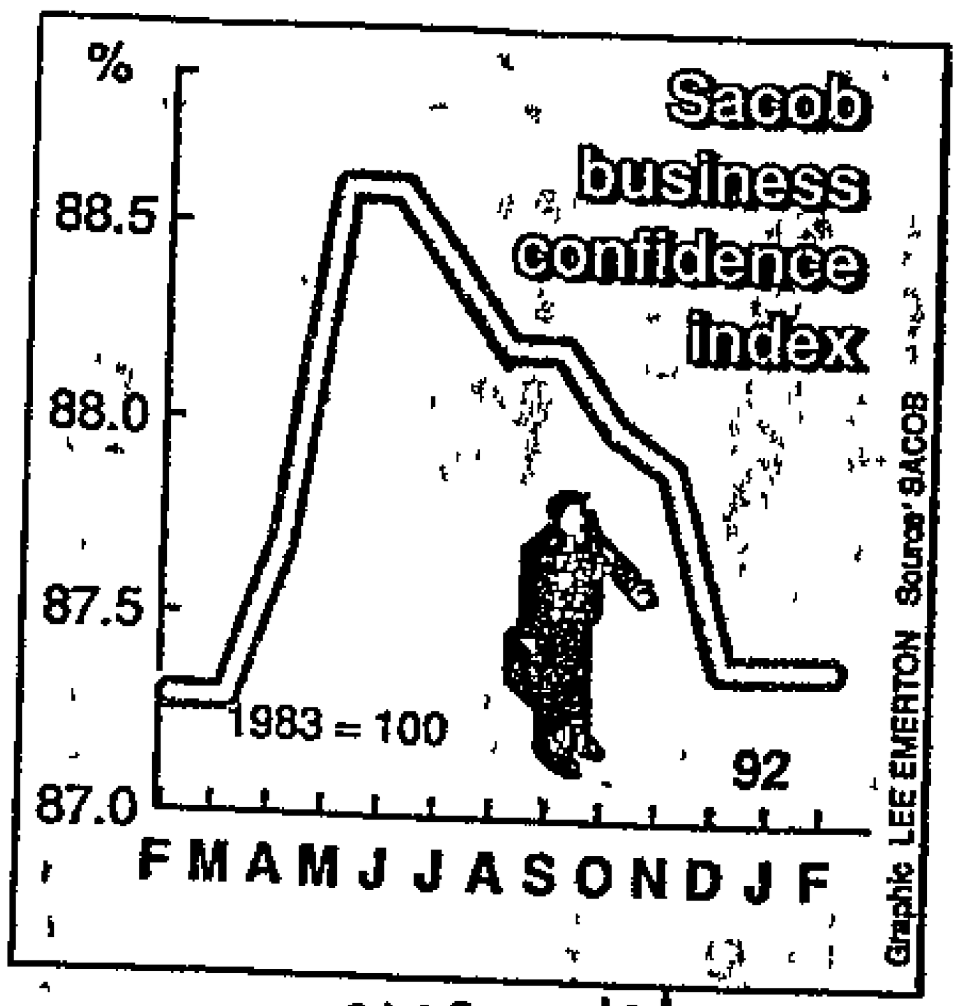
Bday 10/3/92

Sequestration of individuals rose by 17% in 1990 and 23% last year to 3 542

The increasing trend of larger court actions was an early warning signal that 1992 insolvencies would reach the 1986 level of 4 310

The incidence of bounced cheques was also rising sharply with about 30% more individual judgments compared with 1990

Leng said there was a 34% increase in summonses against business enterprises last year but judgments increased by only 12,6% indicating better responses to repayments demands



BI Day 10/3/92

Business mood is static ahead of poll

232

SHARON WOOD

BUSINESS expectations of an economic upturn have been put on hold ahead of the referendum and Budget, as shown by static business confidence levels in February.

The SA Chamber of Business's business confidence index released yesterday showed confidence levels remained at 87,4 in February for the third successive month. The index showed consistent monthly declines between May and December last year.

Political developments had become a focal point following the announcement of the referendum, Sacob chief economist Ben van Rensburg said. The influence of political developments on business sentiment in the previous few months had waned. "Issues which had appeared resolved are now once more open to question and newly forged international relations could once more be in jeopardy," he added.

"However, irrespective of the outcome 1992 will remain a difficult year for the economy in view of the drought and sluggish world growth," Van Rensburg said.

The decline in exports and retail sales and a continued high inflation rate in February suggested the economy had not yet switched into recovery mode, he said

Report by S Wood TML 11 Diagonal St Jhb

Creditors sue Wolnit directors

BI Day 10/3/97

STEPHANE BOTHMA

THE directors of Wolnit, a liquidated subsidiary of Rentmeester, are being sued in the Pretoria Supreme Court for almost R2m for allegedly recklessly carrying on the business of the company in circumstances of insolvency

Fourteen textile companies, all unsecured creditors in the insolvent estate of Wolnit, claimed the directors were jointly and severally liable for Wolnit's debts and liabilities incurred between July 1 1987 and November 20 1989

Wolnit was placed in liquidation by a special resolution of its members in November 1989

L Goldblatt, representing the textile companies, told the court that at the time, creditors were led to believe Wolnit had the backing and support of the "mighty" Rentmeester group which would look after Wolnit's creditors' interests

Creditors had received a "so-called letter of comfort" claiming Rentmeester's support would enable its subsidiary to meet commitments.

Court papers before Mr Justice Deon van Zyl stated Wolnit's 10 directors recklessly carried on its business by failing to record the registration of a general notarial bond of R1 128 000 over the personal and movable assets of Wolnit in favour of Trebbob Beleggings They also failed to disclose the bond to company auditors

The directors allegedly further permitted accounting and financial reporting to be done which reflected a misleading financial state and carried on the business of Wolnit in circumstances of actual or commercial insolvency

They also permitted Wolnit to continue making purchases and incurring and increasing credit, knowing that the company would not be able to meet its obligations Wolnit was permitted to become undercapitalised and the directors failed to rectify the situation (232)

The textile companies asked for an order declaring the directors personally liable for all Wolnit debts incurred after July 1 1987 and asked the court to order them to pay R1 896 304 to the plaintiffs

They are Philotex, Union Spinning Mills, Gregory Knitting Mills, Textilaties, Braitex, BMD Knitting Mills, Aranda Textile Mills, Yiluk Textile Industries, SA Fine Worsteds, Yarntex, Tricot Fasteners, Da Gama Textile, D Cooper & Sons and Martilonh Textured Yarns

The matter was stood down until tomorrow

Unit trust accounts now close to a million

STAR 11/3/92

By Derek Tommey (232)

South Africans are coming close to operating almost one million unit trust accounts, reports Clive Turner, chairman of the Association of Unit Trusts.

He says in his annual review that the strong rise in equity prices in 1991 led to another excellent year

Total assets rose almost R4 billion to R11,4 billion while the number of accounts rose by 203 000 to 938 000

Unit trust sales topped R2,9 billion while repurchases rose to R1,5 billion resulting in a net inflow of R1,4 billion

Sales and repurchases were at record levels. This followed a year when the unit trust capital index had a marginal decline of 1,5 percent and occured in a year when the index gained 27,4 percent.

Longer view

Mr Turner said the continually growing level of sales at a time of a somewhat volatile stock market environment reflected the growing contractual sales and a propensity by new investors to take the longer view.

The higher level of repurchases, while mirroring some concern among unit holders at the vulnerability of the current level of prices to a correction, was also a factor in the expanding size of the industry It would always be subject to a certain level of repurchases, he said

During 1991 the general equity trusts achieved an average annual return (capital appreciation plus income) of 34,2 percent and 19,7 percent a year over the past five years

The specialist equity funds achieved an average annual return of 10,3 percent for the same five-year period and 21,6 percent for the past 12 months.

The six high income funds achieved an average return of 16,5 percent for the past 12 months, reflecting the high interest rates.

Share incentives losing value

STAR 11/3/92

MAGLIOLO (232) on the MARKET

In the past month a host of companies — across numerous sectors — have released appalling preliminary results, with some showing pre-tax profits falling by almost 50 percent.

Heading the most recent list are Highveld with a 46 percent drop, Sterling Clothing 37 percent, Impala Plats 36 percent, Seardel 30 percent, Wooltru 29 percent, Haggie 24 percent, Amic 20 percent and McCarthy 11 percent

Poor results do not, in themselves, represent anything new However, these figures do identify an underlying problem centred on share incentive schemes.

In the late 1980s a number of companies offered the labour unions the option of such a scheme in a bid to temper exorbitant wage increases.

While wary of white bosses, unions nevertheless mostly took up the offer

Now, with company profits slipping minimal dividends are being paid and unions will have to face a highly disgruntled membership.

The unions are expected to point fingers at the companies and threaten industrial action.

A director of a Cape-based financial institution says "In some instances, companies were trying to bribe staff with shares It would have been better to have offered bonuses based on personal and group productivity performances" In essence, it is important for investors to identify which sectors could be hardest hit by increased industrial action Once these sectors have been noted, it would be prudent to lighten share holding in these companies — at least for the short term.

Withthe industrial index increasing to over 4 000 points since 1990s 3 000 points it is evident that not all companies have been negatively affected and it is thus necessary to identify the type of company which might be facing labour unrest in the near future.

Analysts generally believe that once the recession lifts, companies to benefit first will be those that are consumer based. In tandem to increased turnover levels, improved profit margins and generally better results, employees will receive higher dividends on their shares and labour relations should remain calm.

However, the heavier industrial companies are not in the same position

"Engineering, building and construction companies have seen debt levels rising to the extent that there is no light at the end of the tunnel for at least two years," says an analyst and director of a Johannesburg based stockbroking firm He points out that there will not be infrastructural development until the recovery is in full swing.

These companies, he says, are most prone to labour problems

Unit trusts advised on savings role

BDay 11/3/92 (232)

Business Day Reporter

THE unit trust industry's role in the mobilisation of savings must increase, Association of Unit Trusts chairman Clive Turner said in the association's 1992 yearbook.

"The unit trust industry will undoubtedly have a growing role to play in the future development of the financial services sector"

The strong rise in equity prices during the year led to another excellent year for unit trusts, he said

Total unit trust assets reached R10bn for the first time during the September quarter Assets ended the year at R11,4bn, up R3,9bn from December 1990's R7,5bn.

Total unit trust sales reached a record R2,9bn for the year and after repurchases of R1,5bn, the total net inflow topped R1,4bn

Both sales and repurchases were at record levels following a 1,5% marginal decline in the unit trust capital index in 1990 and in 1991 when the capital index again showed a meaningful gain of 27,4%.

The continually growing level of sales through a somewhat volatile stock market environment reflected higher contractual sales through systematic savings schemes, automatic reinvestment of income distributions and a propensity by new investors to take the longer view

Turner said the higher level of repurchases, while likely to be mirroring unit holders' concern at the vulnerability of the current level of prices to a correction, was also a factor of the expanding size of the industry, which would always be subject to a certain level of repurchases

Three particular issues handled by the Unit Trusts Advisory Committee were worthy of note, Turner said

The committee agreed to amend legislation to allow trusts to invest up to 10% of their total assets in any company with a market capitalisation exceeding R2bn

The existing limit of 5% continued to apply to companies with a lower market capitalisation

It also agreed trusts could invest in up to 10% of issued share capital of companies with a market capitalisation higher than R2bn, again with the previous 5% restriction applying to companies under this level

The committee also supported the proposed 1% annual service charge, compared with the previous 0,5% a year, fixed 26 years ago.

The Financial Services Board reviewed the decision and set the level at 0,75% a year

Amending legislation effectively allowed the use of derivatives, but only after strict parameters had been drawn up and approved.

Turner said a sub-committee had been appointed to examine the implications of the use of derivatives

Foreign buying livens up JSE

(232)

MERVYN HARRIS

DIAGONAL Street was set alight yesterday as foreign buying of blue chip industrials induced local institutions back into the market to lift share prices sharply higher.

The rally took most observers by surprise, the market had been drifting lower after initial views of a resounding "yes" vote in the March 17 referendum shifted to perceptions that the vote would be much closer

BDay 11/3/92

"Investors are voting with their money," a jubilant dealer said as the JSE industrial index advanced 29 points to 4 399, helping to lift the overall index 20 points to 3 560 Both indices were off their highs towards the close of an active session

Most observers were divided over the reasons for the sudden entry of offshore investors for the first time in several months

Some ascribed the demand to investors taking advantage of a weak finrand, which would firm on a "yes" vote so that they could "take a turn" even if share prices did not improve.

Others doubted that buying came on investment grounds, saying rather that demand was futures-related and could have involved some hedging There had recently been big volumes on the all shares March contract, which would expire on Monday.

Foreign buying set the trend and domestic institutions swiftly revised earlier strategies of remaining on the sidelines and scrambled into the market to obtain shares

The only weak sector on the market was the gold board, as the metal continued its downward drift to test key support at around $348 Gold touched a low of $347 but firmed to close slightly lower on the day in London at $348,60

Analysts said the danger point for the metal would come if it breached resistance at last year's lows of around $342.

Platinum was fixed in London at $362,75 in the afternoon, slightly down from the morning fix but holding above Monday's $361 close

Business is on hold until after referendum

Sowetan 12/3/92

232

Sowetan Correspondent

MANY jittery businessmen are adopting a wait-and-see policy before next Tuesday's reform referendum.

They are holding back on deals running into many millions of rands and placing large sectors of the economy on hold

A resounding "yes" majority will help restore badly-needed confidence, according to local business spokesmen And there are hopes that it will spark off a "mini-boom" in the property market, in financial investment by the public and in some other fields, particularly if next week's Budget is a popular one

But the outlook is bleak if the "no" votes carry the day, according to the spokesmen A number of big deals will crash

Not all businessmen and members of the public are marking time The overall picture is topsy-turvy - and one Durban financial adviser, Mr David Upfold, said that now was the time to invest and to buy property - before the "mini-boom", which he is confident will materialise

A multi-million rand commercial property deal arranged by estate agents JH Isaacs is precariously balanced A clause written into the agreement stipulates that it will fall through in the event of a "no" victory

Brink Properties' marketing director, Mr Chris Williams, said yesterday that a R500 000 property offer had been frozen and was dependent on a "yes" vote

He said "The general trend is that people are looking around at properties but are reluctant to put pen to paper until after the referendum "

Share prices on the Johannesburg Stock Exchange drifted aimlessly yesterday as nervous investors mostly kept to the sidelines Dealers described trading as directionless in jittery conditions ahead of the referendum

Durban Metropolitan Chamber of Commerce economist Barry Poulsom said "Everyone is on tenterhooks in business circles "

A Durban travel agent said quite a few nervous people had inquired in the last fortnight about the "cheapest possible one-way ticket to the UK"

A large number of other people, who had immigrated to South Africa years ago, had now made up their minds to quit the country

The referendum has led to the postponement of Safto export marketing consultants' Southern African Trade and Investment Conference in Johannesburg this month

The conference will now be held on April 28 and 29

A Safto spokesman said "We have speakers confirmed from Zimbabwe, Zaire, Kenya, Botswana, Ivory Coast and Angola as well as Europe and America The referendum has influenced the situation and the speakers understandably don't want to be in South Africa before the results are clear "

Datakor acquires Cortech

STAR 13/3/92

Datakor, the information technology group has acquired computer firm Cortech

A Datakor spokesman says the transaction is subject to certain conditions precedent and that the purchase price will be determined after a due diligence report

It is not expected that there will be any material effect on earnings a share or net asset value in the short term arising form the acquisition of Cortech

The spokesman added "Cortech has a good team led by John Miller and Tom Glover and there are opportunities for synergies in the maintenance and other areas"

Managing director John Miller says Cortech looks forward to continued growth under the Datakor banner (232)

"We know we will have the support necessary for us to contribute to Datakor's aim of a market share which places it in the top three in very information technology market sector in which it competes."

KENNISGEWING 224 VAN 1992

RAAD OP FINANSIËLE DIENSTE

DIE JOHANNESBURGSE EFFEKTEBEURS

KENNISGEWING BETREFFENDE
WYSIGING VAN REELS

1. Ingevolge artikel 12 (6) van die Wet op Beheer van Effektebeurse, 1985 (Wet No. 1 van 1985), word hierby bekendgemaak dat die Johannesburgse Effektebeurs by die Registrateur van Effektebeurse aansoek gedoen het om goedkeuring om sy reels te wysig soos in die Bylae hiervan uiteengesit.

2 Ingevolge artikel 12 (7) van genoemde Wet word alle belanghebbendes (uitgesonderd lede van die Effektebeurs) wat beswaar het teen die voorgestelde wysigings, hierby versoek om hulle besware binne 'n tydperk van 30 dae vanaf die datum van publikasie van hierdie kennisgewing by die Registrateur van Effektebeurse, Privaatsak X238, Pretoria, 0001, in te dien

NOTICE 224 OF 1992

FINANCIAL SERVICES BOARD

THE JOHANNESBURG STOCK EXCHANGE

NOTICE REGARDING 232
AMENDMENT OF RULES

1. In terms of section 12 (6) of the Stock Exchanges Control Act, 1985 (Act No. 1 of 1985), it is hereby notified that the Johannesburg Stock Exchange has applied to the Registrar of Stock Exchanges for approval to make amendments to its rules, as set forth in the Schedule hereto.

2. In terms of section 12 (7) of the said Act all interested persons (other than members of the Stock Exchange) who have any objections to the proposed amendments are hereby called upon to lodge their objections with the Registrar of Stock Exchanges, Private Bag, X238, Pretoria, 0001, within a period of 30 days from date of this notice.

BYLAE

Algemene verduidelikende notas

1. Woorde tussen vierkantige hakies (**[** **]**) dui skrappings uit bestaande reëls aan.
2. Woorde met 'n volstreep daaronder (——) dui invoegings in bestaande reëls aan.

VOORGESTELDE WYSIGING VAN DIE REËLS VAN DIE JOHANNESBURGSE EFFEKTEBEURS

1. VOORGESTELDE SKRAPPING VAN REËL 5.270.4

Effektebewyse in veilige bewaring

"**[**5.270.4 5.270.4.1 'n Makelaarsfirma wat 'n Komitee-goedkeuring ingevolge 5.260.1 hou, vereis van sy ouditeur om vier keer per jaar (een waarvan soos aan die einde van Februarie en een soos aan die einde van Augustus is en twee ander by "verrassings"-geleenthede) die volmagteregister te ouditeer en 'n volledige oudit van effektebewyse en bevestigings aan kliënte van die effekte wat aldus gehou word en sodanige bevestiging van die oorblywende rekeninge as wat die ouditeur nodig ag, uit te voer· Met dien verstande dat waar 'n makelaarsfirma begin om sake te doen—

5.270.4 1.1 na 31 Mei maar nie later as 31 Augustus in 'n jaar nie, dan word vir die tydperk wat op die laaste dag van die volgende Februarie eindig, drie sodanige volledige oudits van die effektebewyse en bevestigings aan kliënte uitgevoer, een waarvan soos aan die einde van Augustus en een soos aan die einde van Februarie is en die ander by 'n "verrassings"-geleentheid;

5 270 4.1 2 na 31 Augustus maar op of voor 30 November in 'n jaar, dan word vir die tydperk wat op die laaste dag van die volgende Februarie eindig, twee sodanige volledige oudits van die effektebewyse en bevestigings aan kliente uitgevoer, een waarvan soos aan die einde van Februarie is en die ander by 'n "verrassings"-geleentheid,

5.270 4 1.3 na 30 November maar voor einde Februarie in die volgende jaar, dan word een sodanige volledige oudit van die effektebewyse en bevestigings aan kliente soos aan die einde van Februarie uitgevoer.

Koop- of verkoopteenprestasie	*Makelaarsloon*
Bo R250 000 tot R500 000	0,55% op 'n bedrag bo R250 000.
Bo R500 000 tot R1 000 000...........	0,45% op 'n bedrag bo R500 000.
R1 000 000 tot R1 500 000.	0,35% op 'n bedrag bo R1 000 000.
Bo R1 500 000	0,20% op 'n bedrag bo R1 500 000.

(Bogenoemde koerse is onderworpe aan 'n minimum vordering van R2,20 vir enige transaksie);

plus

6.20.2.3 'n heffing van 2,4% op die makelaarsloon soos gehef ingevolge reel 6.20 2.2 om te kompenseer vir oninbare insetbelasting as gevolg van Belasting op Toegevoegde Waarde,

6.20.2.4 beperk ten opsigte van beide die basiese vordering en die toepaslike makelaarsloonskaal tot elk van die volgende kategorieë.

6.20.2.[3].4.1 Alle . . . .
6.20.2.[3].4.2 . . . ."

6. VOORGESTELDE WYSIGING VAN REËL 14.280.1

Indeksopsies

14.280 1 Koop- en verkoopprYse vir indeksopsies sal uitgedruk word in rand vir die indeks.

Nota: Wysiging van slegs die Engelse Teks

13 Maart 1992.

SCHEDULE

General explanatory notes

1. Words in square brackets ([ ]) indicate omissions from existing rules.
2. Words underlined with solid line (——) indicate insertions in existing rules.

PROPOSED AMENDMENTS TO THE RULES OF THE JOHANNESBURG STOCK EXCHANGE

(232)

1. PROPOSED DELETION OF RULE 5.270.4

Safe Custody Scrip

"[5.270.4 5.270.4.1 A broking firm holding Committee approval in terms of 5.260.1 shall require its auditor to audit the register of mandates and carry out a complete scrip audit and verification to clients of the securities so held and such verification of the remaining accounts as the auditor deems necessary four times a year (one of which shall be as at the end of February and one as at the end of August and two others on "surprise" occassions). Provided that where a broking firm commences business—

5.270.4.1.1 after 31 May, but not later than 31 August in any year, then for the period ending on the last day of the following February three such complete scrip audits and verifications to clients shall be carried out, one of which shall be as at the end of August and one as at the end of February and the other on a "surprise" occasion;

5.270.4 1 2 after 31 August, but on or before 30 November in any year, then for the period ending on the last day of the following February, two such complete scrip audits and verifications to clients shall be carried out, one of which shall be as at the end of February and the other on a "surprise" occasion;

5.270.4.1.3 after 30 November, but before the end of February in the following year, then one such complete scrip audit and verification to clients shall be carried out as at the end of February.

5.270.4.2 The auditor shall, within three months of the date to which the report relates, report in writing to the broking firm and to the Committee on every such audit and such report shall state—

5 270.4.2.1 the results of the audit;

5.270 4.2 2 whether the broking firm held a mandate signed by each client for whom the securities are held; and

5 270.4.2.3 any material matter which has come to the notice of the auditor to which, in his opinion, the broking firm should give attention]

Rules 5.270 4 [5] through to 5.270.9 [10] to be renumbered".

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2. PROPOSED DELETION OF RULE 5.280.3

Minimum Cover—Pledges

"[5.280 3 5.280.3.1 A broking firm which holds securities for the purposes referred to in 5.280 1 shall require its auditor to carry out a complete scrip audit and verification to clients of the securities so held and such verification of the remaining accounts as the auditor deems necessary four times a year (one of which shall be as at the end of February and one as at the end of August and two others on "surprise" occasions); provided that where a broking firm commences business—

5.280 3.1.1 after 31 May, but not later than 31 August in any year, then for the period ending on the last day of the following February three such complete scrip audits and verifications to clients shall be carried out, one of which shall be as at the end of August and one at the end of February and the other on a "surprise" occasion;

5 280.3.1.2 after 31 August, but on or before 30 November in any year then for the period ending on the last day of the following February, two such complete scrip audits and verifications to clients shall be carried out, one of which shall be as at the end of February and the other on a "surprise" occasion;

5 280.3.1.3 after 30 November, but before the end of February in the following year, then one such complete scrip audit and verification to clients shall be carried out as at the end of February.

5.280 3 2 The auditor shall, within three months of the date to which the report relates, the report in writing to the broking firm and the Committee on the results of such audit and the report shall state any material matter which has come to the notice of the auditor to which, in his opinion, the broking firm should give attention]

Rules 5.280 2 [3] through to 5.280 5 [6] to be renumbered"

3. PROPOSED DELETION OF RULE 5.300.4

Managed Accounts

"[5 300 4 5.300.4.1 A broking firm holding Committee approval in terms of 5 290 shall require its auditor to audit the register of mandates and carry out a complete scrip audit and confirmation that cash held by JSE Trustees (Pty) Limited is in accordance with the managed accounts of clients in the books of account of such broking firm at least four times a year (one of which shall be as at the end of February and one as at the end of August and two others on "surprise" occasions) and send statements to these clients and such other clients as the auditor deems necessary for verification on each of these occasions: Provided that where a broking firm commences business—

5.300.4.1.1 after 31 May, but not later than 31 August in any year, then for the period ending on the last day of the following February three such complete scrip and cash audits and verifications to clients shall be carried out, one of which shall be as at the end of August and one as at the end of February and the other on a "surprise" occasion;

5 300.4.1.2 after 31 August, but on or before 30 November in any year, then for the period ending on the last day of the following February, two such complete scrip and cash audits and verifications to clients shall be carried out, one of which shall be as at the end of February and the other on a "surprise" occasion;

5 300.4.1.3 after 30 November, but before the end of February in the following year, then one such complete scrip and cash audit and verification to clients shall be carried out as at the end of February.

5.300.4 2 The auditor shall, within three months of the date to which the report relates, report in writing to the broking firm and the Committee on every such audit and the report shall state—

5 300.4 2.1 the results of the audit;

5 300 4 2.2 whether the broking firm held a mandate signed by each client for whom a managed account is maintained;

5 300.4.2.3 any material matter which has come to the notice of the auditor to which, in his opinion, the broking firm should give attention; and

5.300 4 2 4 in instances where 5.300.5 applies, the fact that no verification of securities was undertaken.]

Rules 5 300.4 [5] through to 5 300.8 [9] to be renumbered".

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4. PROPOSED DELETION OF RULES 5.380.14.4 TO 5.380.14.6

Dealings in Krugerrands

"[5 380 14.4 The auditor of the broking firm shall as at the end of February and August in each year audit the register of mandates and carry out a complete audit and verification to clients of the Krugerrands held in safe custody,

5.380.14 5 the auditor shall, within three months of the date to which the audit relates, report in writing to the broking firm and to the Committee on every such audit and such report shall state—

5.380 14.5 1 the results of the audit;

5.380 14.5 2 whether the broking firm held a mandate signed by each client for whom the Krugerrands are held; and

5.380.14.5 3 any material matter which has come to the notice of the auditor to which, in his opinion, the broking firm should give attention.

5 380 14.6 the broking firm shall not require the prior written approval of the Committee to retain Krugerrands in safe custody]".

Note: Rules 5.270.4, 5.280.3, 5 300.4, 5 380.14.4, 5.380.14.5 and 5.380.14.6 are replaced by new directives DA1.1 to DA3.3.

5. PROPOSED AMENDMENT OF RULE 6.20

Rates of brokerage on securities, option transactions and Krugerrands:

"6.20.2 For transactions in shares and listed options and in debentures and notes which have inherent option rights or which are convertible either in whole or in part, or which are capable of paying a variable rate of interest dependent on any profit performance or proportional to the dividend on any related ordinary share, or a mixture of loan stock and equity with interest rate variable dependent on the profit performance, the charges shall be—

6 20 2.1 a flat basic charge of R30,

plus

6 20.2.2 a brokage rate in terms of the following scale:

Purchase or sale consideration	*Brokerage*
Up to R5 000	1,20%.
Over R5 000 up to R10 000	0,85% on excess over R5 000
Over R10 000 up to R100 000............	0,75% on excess over R10 000
Over R100 000 up to R250 000..........	0,65% on excess over R100 000
Over R250 000 up to R500 000..........	0,55% on excess over R250 000.
Over R500 000 up to R1 000 000...	0,45% on excess over R500 000
Over R1 000 000 up to R1 500 000	0,35% on excess over R1 000 000.
Over R1 500 000	0,20% on excess over R1 500 000

(The above rates shall be subject to a minimum charge of R2,20 for any transaction);

plus

6.20 2.3 a surcharge of 2.4% on the brokerage levied in terms of 6.20.2.2 to compensate for irrecoverable Value Added Tax input taxes,

6 20 2.4 limited in respect of both the basic charge and the applicable brokerage rate to each of the following categories·

6.20 2 [3] 4 1 All . .

6 20.2.[3] 4.2 . . ."

6. PROPOSED AMENDMENT OF RULE 14.280.1

Index Options

"14.280.1 Bids and offers for index options shall be expressed in terms of [cents] rands for the index "

13 March 1992.

(13 Maart 1992)/(13 March 1992)

COMPANIES

M&R alters strategy on Genrec

B/Day 13/3/92

EDWARD WEST

MURRAY & Roberts (M & R) has dropped its plans to buy 100% of Genrec, and will now make an offer to Genrec minorities.

M & R director Lionel Bird said yesterday the company dropped plans to acquire the entire shareholding in Genrec and delist as the scheme would prove expensive and M & R did not wish to be seen as wielding "the big stick" by forcing out minority shareholders

Instead, it will now offer to buy out Genrec minorities for R16,50 a share — against the current price of R14,25. Alternatively Genrec shareholders can opt for a share swap of one M & R ordinary share for every 3,5 Genrec shares.

Genrec's share price has climbed from 820c a year ago M & R's cash offer reflects Genrec's peak share price of 1 650c a share recorded in September last year

M & R traded at 5 700c a share yesterday so its share offer represented a R6,25 premium over the cash offer.

The announcement said fractional entitlements to M & R ordinary shares would be aggregated and sold on the JSE for the benefit of minorities entitled to it.

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Liquidations set to maintain momentum

BDay 13/3/92

GERALD REILLY

232

PRETORIA — Liquidations of close corporations and companies increased 32,8% in the three months to end January compared with the year-ago period, Central Statistical Service figures show

However, compared with the previous three months they decreased by 10,9% to 482 Insolvencies showed a similar trend, increasing 27,1% to 966 in the fourth quarter last year, but decreasing 18,1% over the previous quarter

Head of Stellenbosch University's Bureau for Economic research Ockie Stuart said the economy was expected to start turning around by mid-year

Liquidations and insolvencies had a momentum of their own, however, and would continue in big numbers until year-end

BUSINESS DAY, Friday, March 13 1992 3

Wine estate seeks court help

(3) wine + viticulture (232)

LINDA ENSOR

CAPE TOWN — The Boland-based Zevenwacht wine estate has brought an urgent application in the Cape Town Supreme Court to be placed under judicial management, in a desperate bid to fend off an application for its provisional liquidation

A bid was made late yesterday to have all pending applications against Zevenwacht postponed to March 20.

The application for provisional liquidation has been brought by Christopher van Zyl, provisional liquidator of architectural firm G Colyn Meiring Early in March Trust Bank won an attachment order over Zevenwacht's assets

Zevenwacht chairman and 65% shareholder Gilbert Colyn said in an affidavit in support of the judicial management application that Zevenwacht owed a total amount of about R13,3m, while total assets were worth R22m Short-term liabilities amounted to R4m

Trust Bank subsidiary Libertas Consolidated Holdings was owed R7,5m, Colmeir Belange R1,9m (loan), Boland Bank R970 000 (overdraft), Trust Bank R1,9m (overdraft), provisionally liquidated Fundstrust R593 000 plus interest (loan), Zevenwacht directors about R275 000, and diverse creditors R140 000 There was also a disputed claim for R170 000.

Colyn said in his affidavit that the well-known wine estate had been crippled by its onerous interest bill. Before interest, it showed an operating profit of R682 538 in its last financial year, but after interest it showed a loss of R1,4m.

Zevenwacht has to pay Libertas a dividend of R999 375 annually on the preference shares Libertas bought in Zevenwacht and its associated companies To pay this dividend to Libertas, Trust Bank gave Zevenwacht an overdraft facility and was owed R1,9m plus interest.

To solve its financial difficulties Zevenwacht embarked on a rights offer with today as the provisional closing date So far R140 000 had been received and Colyn said directors expected to receive a total of R400 000. A prospectus would be put out shortly to get the overseas public to invest in Zevenwacht. A total of 4,7-million shares at 210c each would be marketed in the hopes of bringing in R9,87m. Colyn said both these steps if successful would reduce the pressure on Zevenwacht

He said a provisional liquidation order would be detrimental to creditors and said Zevenwacht should be able to work itself out of its debt.

UNIT TRUSTS: *Greater sense of urgency sees swing gather momentum*

Now 41 funds compete

STAR 14/3/92

Top of the pops

The top performing unit trusts (Source: Quarterly Unit Trust Survey of the Graduate School of Management at the University of Pretoria).

GENERAL EQUITY FUNDS
1 YEAR (selling to repurchasers)

1.Sanlam Dividend Trust	35,07 %
2.Southern Equity	32,17 %
3.Syfrets Growth Fund	32,00 %
4.Momentum	28,63 %
5.Old Mutual's Investors' Fund	27,06 %
All share index	31,02 %
3 YEARS	
1.Syfrets Growth Fund	31,24 %
2.Momentum	27,44 %
3.UAL Unit Trusts	26,01 %
4.Sanlam Trust	25,62 %
5 Sanlam Index Trust	25,59 %
All share index	24,56 %
5 YEARS	
1.Old Mutual Investors' Fund	21,59 %
2.Guardbank Growth	20,82 %
3.Sage Fund	19,89 %
4.Standard Bank Mutual Fund	19,67 %
5.Sanlam Index Trust	19,14 %
All share index	16,24 %
10 YEARS	
1.Old Mutual Investors' Fund	25,77 %
2.Guardbank Growth	24,59 %
3.Sage Fund	22,99 %
4.Sanlam Index Fund	22,91 %
5.Standard Bank Mutual Fund	22,12 %
All share index	23,28 %

MAGNUS HEYSTEK 232

THE massive swing towards unit trusts as a wide-ranging investment vehicle continued in 1991 with the total assets of the industry rising to R11,4 billion on the back of a strongly rising share prices and increased public participation

The number of unit trust accounts rose strongly by more than 200 000 to 938 000

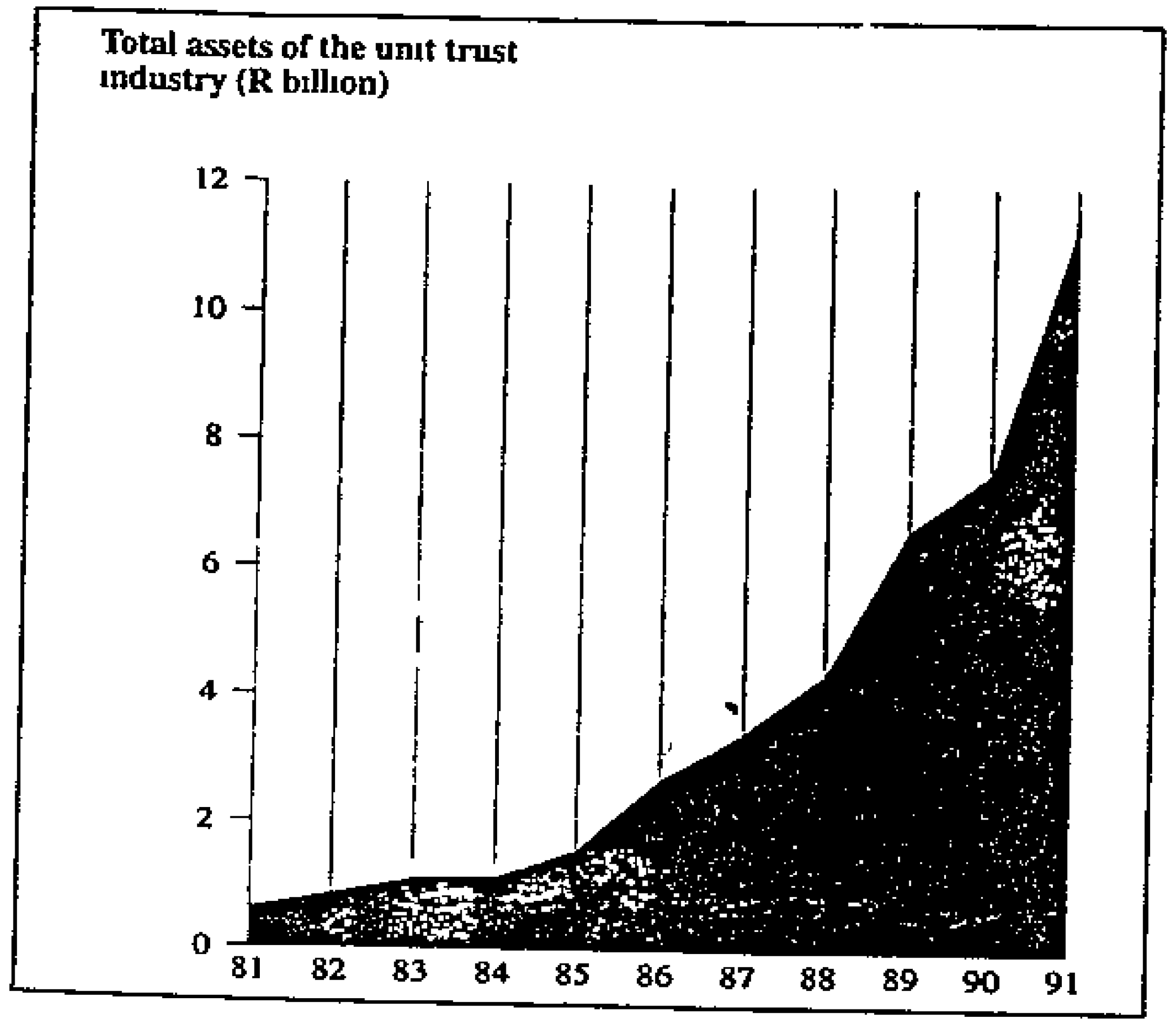
Five new funds were launched which brought the total number of funds to 41

The latest figures from the Association of Unit Trusts clearly underline the broad-based acceptance of unit trusts as an ideal investment vehicle for a wide range of uses ranging from retirement planning, educational plans and plain, simple inflation-beating investments

And, says the chairman of the Association, Clive Turner of Nedbank/UAL "Unit trusts will be an absolutely key industry over the next decade", quoting from his counterpart in the United Kingdom

Total sales of unit trusts during the year reached a record R2,9 billion which, after repurchases of R1,5 billion, left a net inflow of R1,4 billion

According to Mr Turner a number of interesting observations can be made from these figures



"Both sales and repurchases were at record levels This pattern followed a year (1990) when the unit trust capital index reflected a marginal decline of 1,5 percent and occurred in a year (1991) when the capital index once again showed a meaningful gain of 27,4 percent"

The continually growing level of sales through a somewhat volatile stock market environment reflects two things higher contractual sales through systematic savings schemes and automatic reinvestment of income distributions as well as a propensity by new investors to take a longer view

On this score Mr Turner adds "The higher level of repurchases, while likely to be mirroring some concern amongst unit holders at the vulnerability of the current level of prices to correction, is also a factor of the expanding of the size of the industry, which will always be subject to a certain level of repurchases as an ongoing part of its business"

Mr Turner could well have added that the level of repurchases was, no doubt, influenced by a chorus of analysts, myself included, that the stock market was entering very dangerous territory

This factor certainly contributed towards a greater sense of urgency among certain investors

Certain proposed changes to the regulations governing unit trusts could also result in improved performance figures from certain funds Under current legislation unit trust management companies — which are strictly guided by the Unit Trust Control Act — are not allowed to invest more than 5 percent of a fund's total assets in one particular company

This restriction, it was felt, effected investment performance, especially when shares were rising strongly

It has now been agreed that unit trusts companies can now invest up to 10 percent of their assets in any companies whose market capitalisation exceeds R2 billion

Similarly trusts can now invest in up to 10 percent of the issued share capital of companies with a market capitalisation higher than R2-billion

Further changes to the investment parameters of unit trust managers are also in the offing

The industry is investigating guidelines for investing in derivative instruments

This, it is felt, could prove to be meaningful for the industry

BAD DEBTS: *The figures keep rising, and further increases are expected as the drought bites*

Sad millionaire 'milestone'

STAR 14/3/92 (232)

MAGNUS HEYSTEK

THE relentless grip of the longest post-war recession is clearly showing up in the summonses for the recovery of bad debt In 1991 debt summons rose sharply to breach the one million mark for the first time

Further increases are expected this quarter, especially from the farming community which has been devastated by the drought and persistent high interest rates

According to the latest figures from the Central Statistical Services (CSS) in Pretoria, debt summonses in 1991 rose to 1 028 913, 13 percent higher than the peak of 908 314 reached in the previous recession of 1986

The figures

The total number of liquidations of companies and close corporations for the three months up to January 1992 showed an increase of 32,8 percent compared with the corresponding period of the previous year.

Central Statistical Services said during January 1992 that a total of 169 liquidations were recorded — an increase of 23,4 percent compared with the 137 liquidations recorded for January 1991.

The CSS added that 3 961 insolvencies were recorded for 1991, 27,6 percent higher than for 1990.

A more disturbing factor is that about half of the summonses issued last year — 509 703 in total — resulted in judgments

Says Tony Leng, chief executive officer of Information Trust Corporation (ITC), the country's largest supplier of business and credit information "The disturbing aspect of this upward trend is that the value of judgments against individuals has increased at a compound annual rate of 36 percent since 1988

"The average amount of 1988 consumer debt judgements was R1 906 Last year this average rose to R4 779

Disturbing

"This increase is well in excess of the official inflation rate as measured by the Consumer Price Index

"Even more disturbing is that it indicates that consumers have been committing themselves far beyond their means — in the face of persistently high lending rates which are far higher than the prime bank rate of 20,25 percent," he says

The trend of increasing court actions is clearly an early warning signal that insolvencies this year will exceed the level of 4 310 in 1986 — particularly if this trend is aggravated by increasing levels of unemployment, lower salary increases and a stubbornly high inflation rate

According to Mr Leng the trend towards people issuing bank cheques against insufficient funds is also on the increase

In this category 39 percent more individual judgments were issued last year compared with 1990

The total value of last year's 43 101 judgments in respect of promissory notes, bills and credit cards was R310 million — an average of R7 207 per judgment

"Last year's volume of dishonoured paper was up 85 percent on the 1990 total.

"These substantial increases in numbers and value indicate the desperate lengths to which thousands of consumers have gone to maintain their standard of living," said Mr Leng

SOARING INSOLVENCIES: many consumers, hit by inflation and rising costs are going to desperate lengths to keep body and soul together.

The present degree of political and economic uncertainty has caused many to defer credit purchase decisions

The attendant drop in demand, combined with lagging credit collections, has placed a severe strain on the cash flows of many companies, especially smaller ones

Summonses

This has resulted in an increase of 34 percent in the number of summonses served on businesses last year However, judgments in that year increased by only 12,6 percent, indicating a better response by business to payment demands than by consumers

In the short term — six months — liquidations may well hit an average of more than 160 a month The average last year was 157 a month which in turn was 18,3 percent higher than the level of 1990

□ **Comment. The outlook for an improvement in the financial position of the consumer is bleak Another reduction in the prime overdraft rate, currently at 20,25 percent, would provide welcome relief, but an increase in salaries and wages at an after-tax rate higher than the inflation rate is the only way for consumers to reduce their debt burden**

Several factors have contributed to delay this The severe impact of the drought on business conditions, as well as the uncertainty about the outcome of the referendum, has delayed any economic upswing for at least two to three quarters.

Dying economy after a 30-pc drop in share prices

Wipe-out for SA

STAR 14/3/92 (232)

A SKID CALLED 'NO': Wealth

JSE spells out dire future in ad calling for a 'yes'

SVEN LÜNSCHE

SHARE prices on the Johannesburg Stock Exchange could plunge by as much as 30 percent if the referendum returns a "no" vote, a top stockbroker has warned.

This could wipe out the wealth of millions of South Africans whose money is directly or indirectly linked to the country's largest investment market.

Property prices would also suffer if the reform process is halted, property analysts have warned

The investment community has come out strongly in favour of a "yes", warning of dire economic consequences in case of a negative response

Business demise

The JSE yesterday said in an advertisement that "no" would signal a "dying economy"

Leading stockbroker Sydney Frankel, chief executive of Frankel Max Pollak Vinderine, said a rejection would mean the demise of the South African business community.

One of the few dissenters was Jacques Theron, a partner of stockbrokers Theron & Co and a Conservative Party representative in the Johannesburg City Council

He said neither the economy nor share prices would be affected because the country had not yet moved conclusively out of the sanctions era

The JSE statement said it actively supported a "yes" vote so that the JSE would to be able to fulfil its proper role in the economy

"From the JSE's relative vantage point in the economy, and with its close ties with the overseas investment community, the general committee is concerned that a negative vote could signal international isolation, a dying economy, foreign disinvestment and severely restricted foreign trade

"While we cannot speak for all JSE members, we have a duty to point out the consequences of a 'no' vote."

Frankel was even more to the point "Some of our corporate clients have indicated they could be forced to retrench up to 30 percent of their workforce if there is a 'no' vote

"We envisage a total blockade through enforcement of sanctions that would include the United Kingdom and the EC"

He expected share prices to drop by up to 30 percent almost instantaneously in case of a "no" return.

But Theron argued that the market would be underpinned by strong cash flows from major financial institutions and pension funds. "They will continue to invest in the market, there are very few other options"

No big impact

While he expected foreign investors to sell their shares and thus cause a decline in the financial rand, he said they would not have a major impact

In respect of the overall economy, Theron said, he expected sanctions would be tightened "but then we have boosted our trade despite sanctions over the past decade"

Financial sanctions, which had been the most detrimental, were still in force anyway. "Even after a 'yes' vote it is unlikely that foreign investors will come pouring into SA"

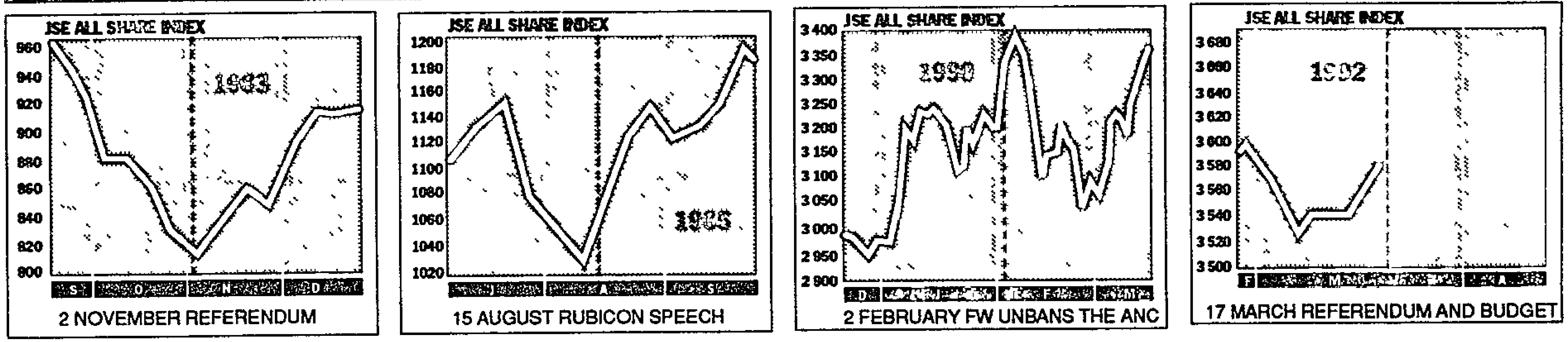
A more sombre analysis was provided by stockbroker Dr Manny Pohl in Davis, Borkum Hare's latest Market View.

"The brunt of a 'no' will be felt by the financial rand, with SA institutions buying stock as it becomes available at lower prices after the foreign sell-off

Pohl said a "yes" — which he expected — would boost foreign investor confidence, with share prices improving in dollar terms

"However, we do not expect a significant further improvement in local prices until there is a reduction in Bank rate and corporate earnings show an improvement"

THE JSE AND MILESTONES ON ROAD TO REFORM



Investor money backs a Yes vote

S/Times (Business) · 15/3/92

(232)

INVESTORS in shares are betting on a Yes vote in Tuesday's referendum

The JSE overall index dropped this month after the referendum announcement, but has regained most of the lost ground (see 1992 graph above)

One observer says: "Investors have placed their bets and the market will probably move sideways until the referendum result and details of the Budget are known"

But like most sources approached by Business Times, he believes the effect of the Budget on share prices will be overshadowed by the referendum result

By CURT VON KEYSERLINGK

Activity on the new SA Futures Exchange indicates that investors expect a Yes result Exchange chairman Stuart Rees says "Futures are trading at a slight premium to prices reflected by the JSE all-share index

"If the futures market is to be believed, there will be a Yes majority and it will be business as usual afterwards"

Futures

The referendum has stimulated interest in futures Until the beginning of the month volumes traded in futures averaged about 70% of JSE turnover of about R80-million a day

But since March 5, futures transactions on the all-share index have exceeded R150-million a day They hit R268-million on Monday and R284-million on Wednesday before falling to R170-million on Thursday

Much of the trade is based on speculation about the referendum, many investors expecting a favourable outcome, says SA Futures Exchange assistant general manager Patrick Birley

Stockbroker Dawid Meades of Meades De Klerk says that if the Yes vote wins, euphoria will take prices to new highs in the short term

"But after a while people will realise that we are still in the same old South Africa with the same old problems It could happen that the market will rise, fall and then move sideways"

Stockbroker David Cobbett of Simpson McKie says "A Yes vote will signal the start of real economic growth because the chances of the influx of foreign funds will improve

"But this will strengthen the finrand and curb the rise in share prices '

Mr Cobbett says a Yes re-

Investors (232)

☐ From Page (232)

sorship and the resulting disappearance of scenes of political violence from newspapers and television screens helped

Expectations of a momentous political announcement by President De Klerk lifted the index before February 2, 1990 The rise continued after his speech on the unbanning of the ANC 15/3/92

But the bubble burst after Nelson Mandela's release from jail when he proclaimed that nationalisation was still on the ANC's agenda S/Times (BUSS)

A renewed spate of political violence in Natal and other black townships also damaged investor confidence

whammy to foreign holders of SA shares They would benefit from higher share prices as well as a stronger finrand

Analysts are unanimous that a No result will have a disastrous effect on share prices in the short term

Standard Bank chief economist Nico Czypionka says there would be a bloodbath in the gilts market

He says half of Eskom's domestically issued stock is held by foreigners, many of whom would dump it if the referendum went the "No way"

But some analysts say that after an initial shock, share prices would rise again and could be higher in about 12 months' time than if there were a Yes result

Sell-off

One says "If there is a No vote, there will be no wholesale sell-off of equities by the big institutions But there will also be virtually no investment in new business ventures That will lead to even greater liquidity A lot of these surplus funds will find their way to the JSE and will lead to a stronger market for negative reasons"

Conversely, a Yes result could take money out of shares into investment in the real economy

Share prices have reacted sharply to political events in recent years (see graphs) Uncertainty about the outcome of the 1983 tricameral parliament referendum led to a fall in the JSE index before it recovered after the Yes victory

The index fell again after township unrest and declaration of a state of emergency in July 1985 It started rising after hitting a low point in August 1985 and continued higher even after the notorious Rubicon speech

Analysts say this was because the reintroduction of the finrand and the moratorium on foreign debt repayment brought stability to the market Stricter media cen-

☐ To Page 3

MONEY MARKETS by Sheridan Connolly

Motionless markets wait for Wednesday

(232)

BDay 16/3/92

NERVOUSNESS hung over a quiet and fairly dull market last week Rates moved sideways with players reluctant to assume positions before tomorrow's referendum, and also before the outcome of Wednesday's Budget

The 90-day liquid BA rate held steady at its new three-year low of 15,85% established at the beginning of last week This rate is now at its lowest level since February 1989 when the BA rate dropped to as low as 15,25% from an initial 15,65%.

The market seems comfortable with the rate steady at its current level and, despite continued good demand for paper, there does not seem to be much scope for sharply lower rates at this stage

The referendum result will, at least, give the markets some direction — particularly the capital market which is more sensitive to foreign investor sentiment A "no" vote would be detrimental to foreign participation in longer-term investments but could drive money market rates down as demand for short-term paper would be much stronger

As one dealer said "People will have to put their money somewhere"

Meanwhile the Reserve Bank continued its struggle against strong liquidity conditions The Bank issued two special Treasury bill tenders which were well received

The average rate on the special issues dropped from 16,29% at the beginning of the week to 16,24% for its special issue last Thursday.

The three-month Treasury bill rate continued its downward slide last week with the average rate for the weekly tender slipping to 15,57% from the previous week's 15,63% Applications for the allotted R200m tender on offer amounted to R971,05m

The money market shortage continued to drift around recent levels and fell slightly towards the end of the week to R1,032m on Thursday from R1,505m at mid-week

The market was still looking for a cut in interest rates but expectations of an imminent drop were put on hold until the referendum and the Budget

The next set of consumer inflation data for February is due out at the beginning of next week

Reserve Bank Governor Chris Stals can be expected to wait until the figures shed some light on the success or otherwise of the Bank's long battle against the stubborn rate of inflation He has remained determined to retain high interest rates until inflation is well under control

No plans to suspend finrand trading

Finance Staff (232)

The president of the Johannesburg Stock Exchange, Mr Tony Norton, said yesterday there were no plans to suspend trading in the financial rand until the outcome of the referendum was known. STAR 18/3/92

Strong rumours were circulating at the stock exchange yesterday that no dealings would be allowed in the financial rand between 4,30 pm yesterday and noon today

Mr Norton said the stock exchange believed that it was extremely important that all its instruments could be traded at all times

"We like to trade, particularly in times of stress," he said

JSE gets 'yes' boost

232

STAR 19/3/92

By Magnus Heystek

Shares on the Johannesburg Stock Exchange surged yesterday as it became clear that President de Klerk had received overwhelming support for his reform plans.

The market started rising almost immediately as the first results started coming in. By the close, the overall market was 43 points higher at 3573 and the industrial index up by 62 points to 4758.

This happened despite a major strengthening of the financial rand from R3,98 in the morning to R3,70.

The Budget speech was delivered too late to affect the JSE but analysts are confident that the market will rise even higher today.

The "safe-haven-period" for shares has been reduced from 10 years to five.

While the reaction of the business community to the outcome of the referendum was very favourable, the Budget elicited a much more subdued response.

● More reports — Pages 27 to 30

REFERENDUM/BUDGET REACTION

SA comes up trumps abroad

STAR 19/3/92 (232)

By Neil Behrmann

LONDON — South African shares and bonds soared on foreign markets as overseas investors responded to referendum results which were far better than overseas expectations

The financial rand, South Africa's volatile investment currency, soared eight percent to 27 US cents, pulling SA securities upwards

The performance abroad was thus more impressive than moves on the domestic market

De Beers and Anglo American, South Africa's leading international shares, soared 10 percent to $24, and $33,75 respectively, while Barlow Rand and SA Breweries jumped five percent in London and New York

Gold shares surged by around seven percent, despite the weak bullion price

Bonds were also boosted by the stronger financial rand and rising domestic quotes

Thus, Eskom 168, the most liquid SA long-term bond, rose by 8,4 percent, an extraordinary performance in international bond market terms

"I am delighted because South Africa now has such a good chance," said John Taylor, South African specialist at James Capel

In the bleak days before the referendum he tried to persuade James Capel sales people to stop telling clients to sell SA securities

"There was so much gloom that during the day before the referendum, 45 out of 60 orders were sales"

Mr Taylor forecast that more international investors would buy SA securities and the financial rand discount would swiftly narrow to around 10 percent from the present level of 22 percent

"It is a tremendous relief, excellent news," said Ray Davis, head of the South African Department at Smith New Court, market makers in SA securities "It is a rocky road ahead, but at least SA is on the road," he said

"Trade and investment decisions were put on hold," added Patrick Quarmby, an executive director at Standard London "Now they will be approved"

Brokers expect large US funds such as Franklins to be buyers

With the exception of a few brokers and "gutsy individual investors", the City completely misread the sensible reaction of the majority of South African whites

Brokers reporte, for instance, that there were redemptions from the M&G Gold Fund in London, forcing the trust to sell SA securities before the referendum

Fund managers and other market participants became pessimistic, mainly because of superficial reporting from the foreign press media in South Africa

Only David Beresford of the Guardian, known to be a grassroots reporter, forecast that there would be an overwhelming yes vote

Others were, at best, extremely cautious or downright gloomy

BBC Television's coverage was particularly poor, concentrating on township violence and missing key aspects of a remarkable international story

To be sure, international media and the majority of world financial market participants were as bad at misreading the SA political scene as they were in interpreting the events preceding the Gulf War

Then share markets initially crashed, turning around rapidly when the Allies moved to crush the Iraqi dictator

Outside the market, trade is bound to benefit, and once an interim government is formed, SA will gain access to IMF and World Bank funds

"One should not be too euphoric," said a German banker with close ties to South Africa

"Inflation is high, the currency is weak and the Government needs to borrow more funds to boost the living standards of disadvantaged people

"Obviously South Africa is not a Triple A borrower," he said "But it is certainly not a high-risk country either"

He rates South Africa alongside stronger South American countries and Australia

Even applying that cautionary stance, there will still be plenty of international funds available for SA

According to a recent report of Salomon Brothers, Latin America attracted more than $40 billion (R115 billion) of foreign private capital last year, of which $15,7 billion (R45 billion) was loans, $14 billion (R56 billion) in direct investment and privatisation inflows and $6,4 billion (R18 billion) in portfolio investment

That compares with $13,4 billion (R38 billion) in 1990

As a result of these inflows Latin American bond yields have been driven down to around 14 percent to 18 percent, compared with rand bond international paper of 21 percent

Those who are selling the new South Africa short — beware!

Insolvency laws 'slack'

(232) B/Day 19/3/92

WILLIAM GILFILLAN

SLACK SA legislation has weakened the position of outside creditors in cases where companies are declared insolvent, says Kessel Feinstein insolvency partner Oliver Powell.

"Unlike the US, there is no legislation in SA which prohibits shareholder/director loans being repaid before outside creditors have been settled when a company is liquidated," he said

"Also, outside creditor protection would be increased if a law were introduced giving minimum equity positions for the financing of companies."

He said that in starting up a company shareholders/directors could contribute equity of as little as R1

This meant the risk was in reality being funded by outside creditors, he said

However, past-chairman of the Association of Insolvency Practioners Les Cohen believed a lack of knowledge of the company to which the creditors were exposed was more relevant in terms of the risk

For example, shareholders and directors could secure their loans by registering notarial bonds or holding the cession over the debtors' book

W&A Investments returns improved results

(232) B|Day 30/3/92

MARCIA KLEIN

STRONG performances from offshore activities, rationalisation benefits and reduced gearing saw W & A Investments increase attributable earnings by 14% from R113,1m to R129,0m in the year to end-December.

W & A also announced the R200m cash sale of its hosiery division to Durban-based Kiwi Brands subsidiary The SA Hosiery Co, supported by First National Corporate and Investment Bank. 30/3/92

Apart from this disposal, W & A disposed of some non-strategic properties, most of its stake in Elcentre and the JD Group's debtors book during the year.

About R157m was invested in offshore acquisitions and funded overseas. Chairman Jeff Liebesman said these investments were mainly in the UK, in the steel and alloy wheel business and in scaffolding. Exports and offshore businesses' contribution to group turnover increased from 8% to 18% during the year.

Group turnover of R3,2bn for the year cannot be compared with the R3,0bn posted in the previous period as the sale of the JD Group's debtors book to JD Sales saw its turnover reflecting only cash sales and the cost of merchandise sold to JD Sales.

Liebesman said despite difficult local and international environments, operating profit improved by 5,9% from R316,7m to R335,5m.

He said as the disposals of non-strategic assets took place late in the year, the effect on the interest bill would be felt in the new year. Interest grew by 28,7% to R151,8m in financial 1991.

W & A paid minimal taxation due to allowances as well as offshore operations, where earnings accrued outside SA. W & A does not expect to pay tax of more than 15% in financial 1992 and not over 25% for the next three years.

The drop in the contributions of associated companies reflects the disposal of the group's interest in Elcentre. Elcentre's earnings amounted to 4,5c a share in financial 1990.

Fully diluted earnings declined by 17% from 95c to 79c a share following a 37% increase in shares in issue.

The dividend was maintained at 42c a share "in view of the improved cash flows as a result of the restructure and the transactions".

Liebesman said that in all of the group's divisions, many past difficulties had been weeded out, and at an operational level, the group was well ahead of last year. The benefits of reorganisation and focusing the group, and its consequent degearing, had started, he said. Gearing was reduced from 67,4% to 58,1%.

Liebesman said the group's industrial companies had done well, especially those that were export orientated. But the consumer businesses had not fared as well because of difficult trading. The industrial divisions increased their contribution to turnover from 28,5% to 39%, while consumer-orientated businesses' contribution shrunk.

Liebesman said the various disposals and investments were in line with the group's goals of becoming more focused, investing in the growth of existing business, reducing domestic borrowings and globalisation.

W & A would continue to strengthen management, improve operating efficiencies, enter new markets, increase share in existing markets and add new products in financial 1992.

Although he did not expect conditions to improve during 1992, he said the group went into the new year with enthusiasm on the back of successful results in the current year.

He said interest cover should improve, the trend of a reduction in debt would continue, and there would be further investments into core businesses locally and internationally.

These are worth watching

STAR 21/3/92

JACQUES MAGLIOLO

232

THERE is a misconception among private investors that all shares are affected by cyclical fluctuations, social upheaval and political events like the Referendum and Budget.

This error has made a select few astute investors extremely wealthy since the October 1987 crash.

These shareholders have disproved the notion that all shares are influenced by bullish or bearish sentiment through their investments in over 20 listed companies, which have shown substantial and constant annual increases in share prices

To illustrate that such shares exist, a number of share prices, across numerous sectors, were analysed and compared to the Industrial and Overall indices, which rose by 190 percent to 4371 and by 118 percent to 3524 respectively.

The following high growth stock are indentified:

- In the Beverages, Hotels and Leisure sector, Dalys has risen by 565 percent to 4125c and its subsidiary, Suncrush, by 572 to 29000c;
- Paper and packaging company Carlcor's share has increased by nearly 760 percent to 4300c;
- Furniture retailer Ellerine's share climbed by 425 percent to 5250c;
- Under the bank and financial services sector, BoE's share soared by 350 percent to 1125c and Investec by nearly 500 percent to 1850c;
- Transport company Mobile's share price grew by 900 percent to 3200c and its subsidiary Trencor by 945 percent to 12800c.

Other high growth stocks include retailers and wholesalers CNA Gallo, Clicks and Foschini, industrial holding companies BTR Dunlop and Imperial Insurance company Saflife, electronics firms Delta and Aberdare, Tobacco and Match listed Utico and Toyota under the motor sector

Although these stocks are difficult to identity — they are not limited to particular sectors or types of operation — there are a number of common elements which enable investors to recognise them They are.

- Movement in share price This is the easiest indicator as the share continues to increase, despite market trends and other market forces.
- Political and economic variables. Instability and recession do not hinder upward share movement,
- Market share The company displays monopolistic characteristics or has a high market share,
- Nature of business The business is growing and expanding;
- Dividend yields The company's dividend yield trades at a premium to its sector and to the Industrial Index

While these shares are tightly held and thus difficult to obtain, dealers say parcels are periodically made available through new issues or shares splits. If these shares can defy an overwhelming number of negative factors experienced from the mid-1980s, then the time to acquire such shares must be during the current bearish market

Study the options, unit trust holders advised

STAR 21/3/92 **FINANCE STAFF** 232

Unit trust investors should be wary of the current high level of the JSE, says Clive Fox, managing director of Consolidated Fund Managers (CFM)

Clients at CFM, which specialises in advising unit trust investors, have been conservatively positioned in response to the risks the market offers

"Several options exist for unit trust investors and these should be pursued," says Fox

Industrial shares are currently discounting a massive economic recovery If this does not eventuate or if it is stalled by poor economic performance from South Africa's major trading partners, industrial equities could record a substantial correction.

If industrial dividends grow by 15 percent in 1992, the industrial index would need to fall more than 30 percent to take the dividend yield back to the more realistic 4 percent as in October 1987

CFM advises unit holders to explore the various options available to them.

Broker to answer to JSE committee

MERVYN HARRIS

STOCKBROKER Kcos Bosman of stockbroking firm J Bosman & Co is to appear before the JSE Committee on April 8 to answer questions about his firm's handling of discretionary accounts. B/Day 23/3/92

The outcome will determine whether the JSE committee will press formal charges against the firm. (232)

Bosman has been given the chance to reply to charges following a meeting of the general purposes subcommittee last week. The subcommittee had been assessing the findings of several weeks of investigation into the firm's activities.

According to market sources, the NGK Pension Fund has withdrawn its account from J Bosman and handed it over to another stockbroking firm

Bosman declined to comment on Friday when approached in his office in First National House He said the matter was sub judice and alleged that this newspaper had previously printed "nonsense" about the matter

When approached last week, JSE president Tony Norton was reluctant to comment on the Bosman issue, saying he did not want a "trial by media" while the matter was still in progress.

Govt rejects Competition Board ruling on Arwa deal

(232)

CT 24/3/92

By MARCIA KLEIN

JOHANNESBURG — Government has ruled against a Competition Board recommendation to rule FSI's acquisition of Arwa as unlawful

Following complaints about FSI's acquisition of Arwa in January, which saw FSI gain control of 99% of the hosiery market through Arwa and subsidiary Burhose, the Competition Board undertook and investigation into the deal

The Board recommended to government that the acquisition by FSI of the ladies hosiery division be declared unlawful — after initially approving the transaction in December 1990 — and that FSI dispose of Arwa to a suitable buyer

But Public Enterprises Minister Dawie de Villiers announced yesterday that government had decided against accepting the recommendations of the Competition Board

This was because the Board's report did not produce evidence which would have led to a contrasting decision to that made on December 18 1990, when the Board said it would not investigate the acquisition, De Villiers said

The Board also said that FSI has paid almost half of the price which had initially been offered — both FSI and SA Breweries had made offers for the company, with FSI's bid being lower.

In terms of the downward adjustment to the original price, De Villiers said an investigation by independent auditing firms had shown markedly reduced values for Arwa's assets

De Villiers said that in a monopoly situation, competition could be enhanced through imports and in the case of the hosiery division, imports offered a viable alternative source of supply

In this regard, government would request the Board of Trade and Industry to advise "on whether continuation of the present tariff of 15% is necessary and/or desirable", he said

Competition Board chairman Pierre Brookes said last night that the Board believed its approach was correct, but said it only acted as an advisory body to government

Single precedent

He said there had been one other occasion to his knowledge where a Competition Board recommendation had been overruled by goverment About five years ago government only partially accepted its findings on the liquor industry

There has been no further news on speculation that FSI could be selling its hosiery division for about R200m Government's ruling could pave the way for FSI to go ahead with a deal in this regard

FSI chairman Jeff Liebesman said last night that FSI welcomed the ruling.

Eskom to launch two new bonds on June 30

SHERIDAN CONNOLLY

ELECTRICITY utility Eskom planned to launch two new bonds on the local capital market on June 30, Eskom treasury manager Willem Kok said yesterday BDay

The bonds were first announced last November. 24/3/92

Kok said there would be a bond with a 13,5% coupon, maturing in 2020 with an issue size of R20bn, and a zero coupon bond maturing in 2002 with a R6bn limit.

He said Eskom was still considering a third medium-term bond, but an announcement was only expected in the second half of the year.

Eskom officials also confirmed they had prepared the debut issue of a DM300m (R530m) bond in international capital markets.

The Eurobond should be issued today, to be lead-managed by Germany's Commerzbank.

Analysts said they expected the bond to be well received in light of improved foreign investor confidence following the positive outcome of the March 17 referendum.

A second international bond issue is planned for later this year.

Eskom's Eurobond issue follows the highly successful issue by the Development Bank of SA

Strong investor demand lifted the bank's issue by 33% to DM200m from an initial DM150m.

—COMPANIES

BORKUM ... optimistic over Codesa negotiations Picture ROBERT BOTHA

Many factors confusing investors, says Borkum

BDay 24/3/92 232

HAROLD FRIDJHON

TOO many imponderables currently overhanging the Johannesburg Stock Exchange are blurring shorter-term perspectives of the market, says Max Borkum, past president and doyen of the JSE.

In his 46 years of broking, Borkum, who turns 75 today, cannot recall a period when the market was beset with so many diverse influences which are confusing investors and reducing turnover to minimal levels

The referendum — which the market had discounted days before the event — has brought some relief, a return of confidence, but not a flood of investment capital pouring into SA.

"The resounding 'yes' vote has undoubtedly changed overseas perceptions of the positive developments in this country, but an offsetting, and disturbing, influence is the 'killing fields' with its daily death toll," says Borkum "We will not see foreign capital coming our way in any quantity until the violence is quelled."

Borkum attributes some of the violence to prevailing socio-economic tensions, which he hopes will be eased through the Codesa negotiations which he views with optimism. The ANC is performing more like a political party with an ability to give and take, he says, and less and less like a liberation movement.

A prime factor in the undermining of share market confidence has been the sliding gold price, performing in an unpredictable fashion Investors abroad are large holders of gold shares and their associated mining houses and most of their trading on this market has been through the financial rand.

"Now the Reserve Bank has introduced a note of uncertainty into the gold market by declaring its intention to intervene in the finrand market It has introduced a new element into that trade because dealers will not know when the Bank is participating and when it is abstaining"

Borkum, for 46 years a bull, has not turned bear

In spite of some present difficulties, some misunderstandings, he is convinced that basic factors, common sense, assets and the will to co-operate will bring into being a new and prosperous SA

Govt slammed on FSI monopoly deal

232 CT 26/3/92

By AUDREY D'ANGELO
Business Editor

CAPE Town Chamber of Commerce has protested strongly against the government's decision to over-rule the Competitions Board and allow the FSI Group to acquire a virtual monopoly — 99% — of the women's hosiery market in SA

In a statement yesterday the acting president of the chamber, Herbert Hirsch, said the government must face the fact that SA will never bring inflation down to acceptable levels and compete effectively on world markets "until we take determined steps to improve competition in our local markets"

Hirsch called on the government to remove both the 15% import duty and the 15% surcharge on imported hosiery to provide the FSI group with real competition

Woolworths MD Syd Muller and Pick'n Pay GM Alan Baxter agreed with this Both said their organisations objected to monopolies on principle and thought the import duty and surcharge should be removed to allow competition in the hosiery market

Hirsch said that to achieve real competition in SA markets "we must implement the Industrial Development Council's recommendation to slash protective customs tariffs on the one hand and we must take concerted action to root out monopolistic and collusive practices on the other

"The Competition Board was set up to combat monopolies and the government must give it the support it needs to get on with the job

"The chamber accordingly records its concern at the fact that the government has ruled against a recommendation by the Competition Board that it intervene in a company acquisition that has resulted in the creation of a monopolistic condition"

Alan Baxter said Pick'n Pay was surprised that import surcharges had not been removed in the Budget, since it would have been an effective way of helping to reduce inflation

It considered there was no need at all for protective import duties on women's hosiery

Muller said it was hard to say how prices of women's hosiery overseas compared with those in SA because quality varied widely and foreign exporters frequently received incentives from their governments

Retail margins in the UK were higher than here because commercial rentals were higher

French order Cape wines

ROTTERDAM. — The Cape Town Chamber of Commerce trade mission to Europe has resulted, among other things, in an export order for Cape wines to France.

The president of the chamber, Kenneth Marcus, said this in an interview in Rotterdam yesterday

He said interest in the mission was "incredibly high" both in France and the Netherlands

"The Dutch are interested in serving as conduits for trade between SA and many other countries." — Sapa

(232) CT 26/3/92

Nationalisation 'part of Cosatu plan'

Own Correspondent

JOHANNESBURG. — Nationalisation — used strategically and not recklessly as the tool of a strong state — was part of Cosatu's economic strategy to create jobs and redistribute wealth, said Cosatu general secretary Mr Jay Naidoo.

Mr Naidoo and Cosatu's assistant general secretary, Mr Sam Shilowa, were speaking on the eve of Cosatu's economic policy conference, where proposals to be put to the ANC alliance for a future election platform will be thrashed out.

Mr Naidoo said Cosatu was opposed to Codesa discussing economic policy and it would soon meet President F W de Klerk to discuss government involvement in the national economic forum. Cosatu envisaged a tri-partite arrangement between employers, unions and a democratic government.

Mr Shilowa said Cosatu could not leave everything to the free market "which only concentrates wealth and control in the hands of a few white males".

He said when Cosatu spoke of nationalisation there was mass hysteria, but not when industries were nationalised by the NP government However, Cosatu would consider any alternatives business offered.

Mr Naidoo attacked the government on its "reckless" Vat policy He said in addition to a planned general strike in July, the federation would stop employers deducting Paye if the government did not meet its demands

He said restructuring was underway on everything from tariffs and trade, land and industrial policy to forests, health, housing, education, local government and social welfare.

Cosatu would also decide on what a democratic government would do about already privatised industries.

COMPANIES

No merger, say FNB and Nedcor

MERVYN HARRIS and SHARON WOOD

SPECULATION hotted up again on financial markets yesterday about a possible merger between FNB and Nedcor, but both denied there were plans to join forces

Nedcor CEO Chris Liebenberg said a merger could not be done without Old Mutual, because it was the majority shareholder in Nedcor and it was not looking for a buyer FNB senior GM Norman Axten said the two parties had not spoken and had no intention of merging

Speculation was bound to happen after the Absa/Bankorp merger, Axten said FNB and Standard Bank were seen as unlikely partners and this left a possible Standard Bank/Nedbank merger or an FNB/Nedbank merger, and markets had settled on the latter

The rumours first started circulating about a month ago after Absa announced it would be taking over Bankorp While some analysts initially scoffed at the suggestion, the persistence of the rumours has given credence to such a possibility

An analyst said Anglo American would probably be happy to reduce its stake in the financial services sector It had recently reduced its interest in FNB

On the other hand, FNB would be favourably inclined to increasing its share of the home loan market through the Perm, which was part of the Nedcor group

There could be cultural synergies between Nedcor and FNB, the analyst said While Old Mutual would have to have discussions with Anglo's insurance-arm Southern Life, analysts pointed out that Old Mutual already had interests in all the major banks.

Immediate investment rush unlikely, says poll

B/Day 26/3/92

Business Day Reporter

THERE has been a subtle post-referendum shift in sentiment towards investment in SA among UK investment brokers, according to a survey

But while the referendum will provide impetus to the renewed global interest in SA, it is unlikely to galvanise institutions into immediate investment activity.

This has emerged from a snap survey of influential brokers by London communications consultancy Financial Dynamics

James Capel broker John Taylor said SA was now increasingly viewed as a legitimate market "The final moral impediments are now out of the way and the stigma of unacceptability has been removed," Taylor said.

But without exeception, brokers did not expect the reform mandate to kick-start investment in SA immediately, the survey found

Capital House CE Norman Riddell told Business Day yesterday there was still a lot of work to be done before SA could expect any significant inflow of funds

Inflation remained a hurdle and the country could not expect any serious investment until government had addressed the problem, Riddell said

Smith New Court analyst Steve Oke said there had not been a flood of activity into the market but the way had been cleared for investors to make informed decisions about SA

The brokers surveyed were still looking forward to positive words from ANC leader Nelson Mandela regarding US investment.

"This, coupled with the clear positive message from the referendum, will provide the much needed boost of American interest The frustration of still having American investment potential excluded continues to dampen the market," the poll found

Investors could still take the view that the balance between risk and reward did not yet lie favourably Although the attraction of the financial rand discount did not go unnoticed, liquidity was a serious hindrance and the market was considered expensive

Govt slated for backing takeover

LINDA ENSOR

CAPE TOWN — Government action in overturning the Competition Board's ruling against the takeover by FSI of Arwa raised doubts about its commitment to the promotion of competition, Cape Town Chamber of Commerce acting president Herbert Hirsch said in a statement yesterday. B/Day 26/3/92.

Government had counteracted the first major action by the board in recent years to combat monopolistic practices, as FSI's takeover of Arwa created a monopoly in the manufacture of women's hosiery, Hirsch said, adding that government should instead give the board its support

EXECUTIVE SUITE

Companies may be able to buy back own shares

STAR 27/3/92 (232)

By Derek Tommey

Listed companies might be be allowed to buy back some of their shares.

The Government is considering an enabling proposal, and a draft Companies Act Amendment Bill providing for such purchases has been issued for public comment

US companies are allowed to buy back their own shares within certain limits

Until recently, companies in Britain, the Commonwealth, and most other countries were prohibited from doing so

Since 1985, British and Canadian companies and those in the European Community have been able to do so to a limited extent

The prohibition rests on the view that the process could be used to deprive creditors in bankrupt companies of payment

But shareholders can do this in any event, simply by declaring dividends to themselves, say Messrs A Trihardt, K Organ and J Cilliers of the University of the Orange Free State in a memorandum accompanying the draft Bill

Reasons often exist for firms wanting to buy back their shares, they say

These include the need to change the capital of a company, to change the organisation, to acquire or amalgamate with another company or to reclasify a public company as a private company

"The more freedom a company has to organise its affairs to suit the circumstances in which it finds itself, the more efficient it is as a business vehicle," the writers say.

They say the proposal will go some way to conferring such freedom

Limitations

But the effect will be limited by the recommendation that, in the absence of unanimous agreement, the company must make its offers to the holders of all of the classes of shares affected

The company will not be able to make an offer capable of being accepted by one shareholder or group of shareholders of the class only

These limitations have been imposed because until the position of minority shareholders is strengthened, the possibilities of abuse would be too great to be acceptable.

The Bill stipulates that repurchased shares have to be cancelled and restored to the status of authorised and unissued shares

This disposes of the problems of the voting and dividend rights attached to the shares and goes a long way to preventing market manipulation by companies, say the writers

In order to re-sell the shares, the company would have to make an offer in terms of the Securities Act

The Bill contains provisions to protect creditors It stipulates that a company cannot make any payment for the purchase of shares if there are reasonable grounds for believing it would be unable to meet its liabilities as they become due

Nor can a company purchase its shares if the realisable value of its assets after payment would be less than the aggregate of its liabilities and the issued share capital of the remaining shares of every class

The writers do not believe a notice to creditors of proposed share purchases is required, and believe such a requirement would be unduly onerous

But they propose heavy penalties for directors who consent to a resolution authorising a company to buy shares to the detriment of creditors

Such directors would be jointly and severally liable to restore to the company any amounts so paid and not otherwise recovered by the company.

Directors who had satisfied a judgment under this section would be entitled to contributions from other directors who voted for the purchase proposal However, actions against directors will have to brought within two years of the share purchase

Insider trading

Another consideration directors will have to take into account when considering making a share purchase is that the company will be required to comply with insider-trading provisions

The Bill limits the number of shares a listed company can buy to one percent of its issued share capital a month

The writers believe this number could hardly be sufficient to substantially affect or manipulate the market price

A further measure aimed at protecting creditors and minority shareholders is that the Securities Commission will be able to modify or block any offer to purchase shares if the company's directors infringe the proposed Act

Comments from the public on the proposals can be submitted to the Standing Advisory Committe on Company Law, Box 429, Pretoria, until July 30

FM 27/3/92

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COMPETITION POLICY

The Arwa case

Government's decision this week to overrule the Competition Board and allow FSI to take over Arwa's ladies' hosiery division was interesting for three reasons

Firstly, despite all the rumblings from the ANC that it would break up conglomerates and put an end to monopolies, government allowed a purchase that gives a conglomerate, FSI, 99% of one market, ladies' hosiery. Secondly, for possibly the first time, government cast import competition in a positive light instead of in the negative light it always invokes when it is slapping on higher tariffs or imposing anti-dumping duties.

Finally, government not only overturned a board decision for the first time in five years, but the board's recommendation was a reversal of its own decision 15 months ago

The board recommended that FSI should be forced to divest the Arwa acquisition on the grounds that it would create a horizontal monopoly The board would have given FSI four months to make the sale, if a suitable buyer could be found — a requirement that was by no means a formality. FSI would have had to make monthly progress reports to the board

But government's decision does not mean that the "horizontal monopoly" will last for long Public Enterprises Minister Dawie de Villiers, in making the announcement, said imports could enhance competition in the market by offering a "viable alternative source of supply."

So government will ask the Board of Trade & Industry to review the 15% tariff on hosiery imports. At the same time the Competition Board will monitor the market "to prevent any possible exploitation of a concentration of business activities"

Arwa, as the board explained in its report to government, was a failing company under threat of liquidation The liquidator had to choose between disposing of Arwa's divisions separately or selling the company in one piece SA Breweries considered acquiring the entire company but the liquidator believed that more money could be raised through piecemeal sales Under this process, FSI bought the hosiery division for nearly R14m — cut from R25m after a large reduction in the book value of the assets and other adjustments

In its first decision, in 1990, the board agreed to let FSI's purchase go ahead to maximise the proceeds from Arwa for its holding company, Tollgate, and its principal creditor, Senbank

But, this year, the board reopened the matter and reversed itself, citing complaints that.

- ☐ Arwa's assets had been valued at a far lower level than had been first expected;
- ☐ Other potential purchasers had been ignored, and
- ☐ FSI had abused its monopoly

But De Villiers pointed out that the board's report did not justify the change of mind. He said the downward rating of Arwa's assets — as a result of investigations by two independent auditors — would have affected other offers And he said that FSI's potential domination of the market could be countered by imports ■

FISHING INDUSTRY

Unhooking the long lines

Fishermen who trawl for hake have finally won their long battle against anglers who catch the fish using long lines.

Environment Affairs Minister Louis Pienaar has defined a long line as a fishing line with more than 10 hooks. This definition now allows officials of the Fishery Inspectorate of the Cape Provincial Administration to enforce the year-long ban against long-line hake fishing and to prosecute offenders.

The ban could not be carried out until now because there was no legal definition of a long line (*Business & Technology* February 21). FM 27/3/92

Long liners, who use lines up to 15 km long with a hook every metre, are catching thousands of hake in the rocky sea bottoms

continue

PUBLISHING TIE-UP

FM 27/3/92

One of the first fruits of last week's Yes vote in the referendum is a joint publishing venture between Times Media's *Leadership* and Britain's *First* magazines. In June, they will publish a major survey that will assess the chances of a democratic SA becoming the engine of growth in southern Africa and providing a buoyant market for British trade and investment.

In the normal style of both magazines, much of the material will consist of interviews with leading business and political figures in SA and Britain. They will discuss key issues such as nationalisation, the repatriation of dividends, and the honouring of international loans and agreements.

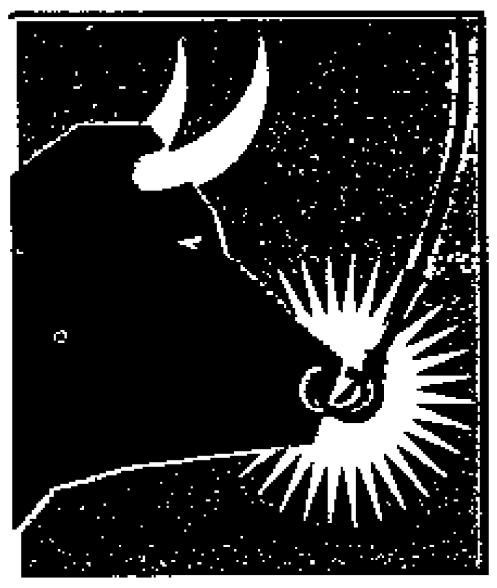
The publication will be called *Partnership* "to reflect the restored relationship between the political and business communities of both countries," says *Leadership*'s editor, Martin Schneider. At least 35 000 copies will be distributed in Britain and SA. The cost of advertising in *Partnership* will reflect the decision-making power of its anticipated readers. A full-colour page will cost R20 000.

First, which is a quarterly published in London independently of any major publishing group, is now six years old. Like *Leadership*, its editorial content consists largely of contributions from leading political and business figures

SHARE PRICES

Stoking the home fires (232)

The effects of the 'yes' vote will be favourable — a little later this year



Even a landslide "yes" vote in last week's referendum could hardly be expected to unleash a renewed bull run in equity markets — or, at least, not immediately But there should be growing confidence that it will happen later this year

Not unnaturally, after the surge of more than two-thirds in the Financial & Industrial index since October 1990, the stock market's response to the referendum and the Budget is one of caution — and even confusion But investors also know an immensely important hurdle has been passed

Source INET

As had been evident for some time, they were counting on a firm "yes" vote, and anything less would almost certainly have dealt the financial markets a severe blow But the resounding result far exceeded market expectations It will certainly help stiffen wilting confidence and be seen as a large step towards ensuring a healthier market in the long term (The damage of a "no" is unquantifiable)

The week brought encouraging noises and even some actions from abroad This development lends weight to those who have argued for over a year that investors should look beyond the present period of political upheaval and economic stagnation, into an era of growth and more settled politics

Trouble is that many big investors have been doing that for well over a year The gap between share prices and corporate profits has simply become ever larger Hardly any businessmen have reported signs of recovery in trading conditions If anything, their comments suggest things are getting worse

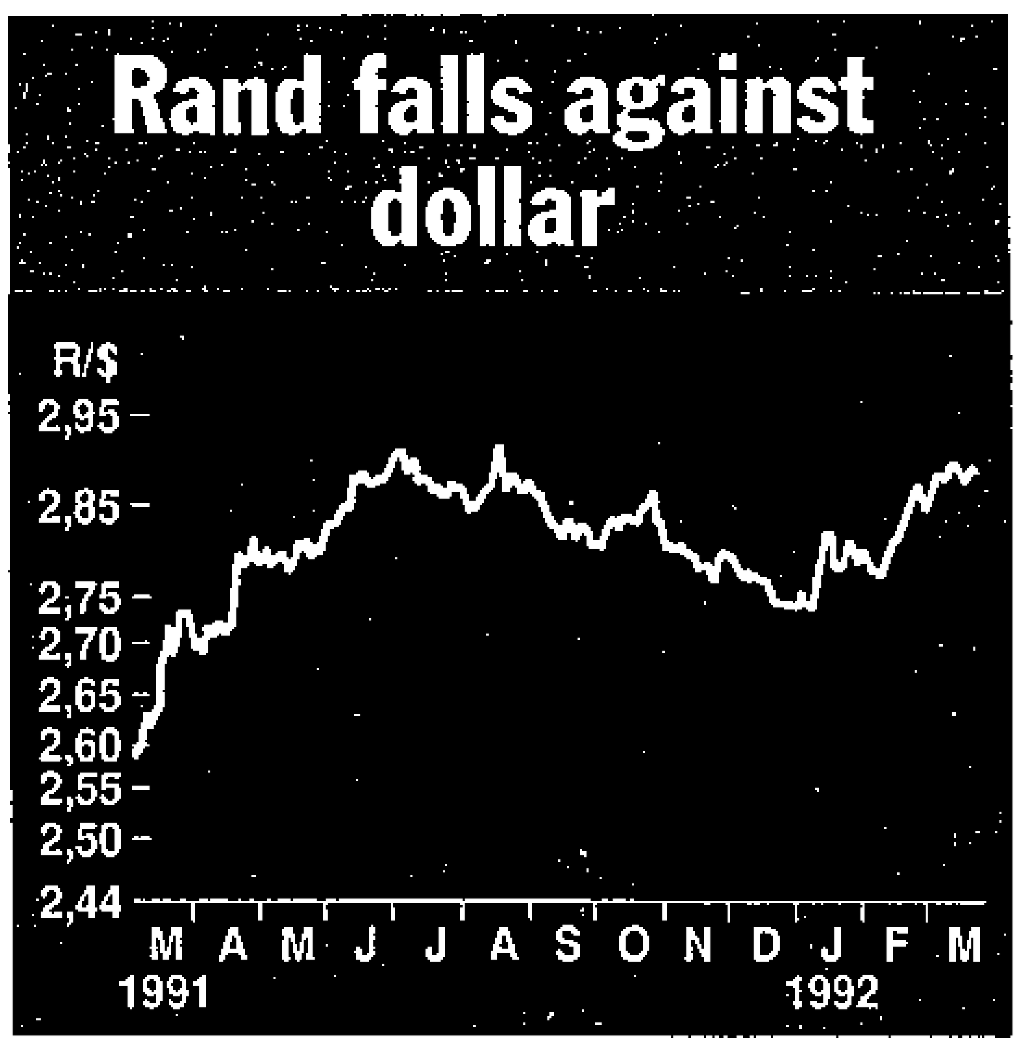
When the next spate of companies report results for March and June, we can be sure that there will be more nasty shocks from both large and small companies Not too long ago the recession was being called protracted but fairly mild Now, with consumer spending having gone into steep decline from about the middle of last year, it is looking a lot more severe

While it remains true that corporate balance sheets are generally much leaner than in previous recessions, debt has increased and finance costs are taking a growing toll on companies — more particularly on consumers In many businesses the mood is frankly dour

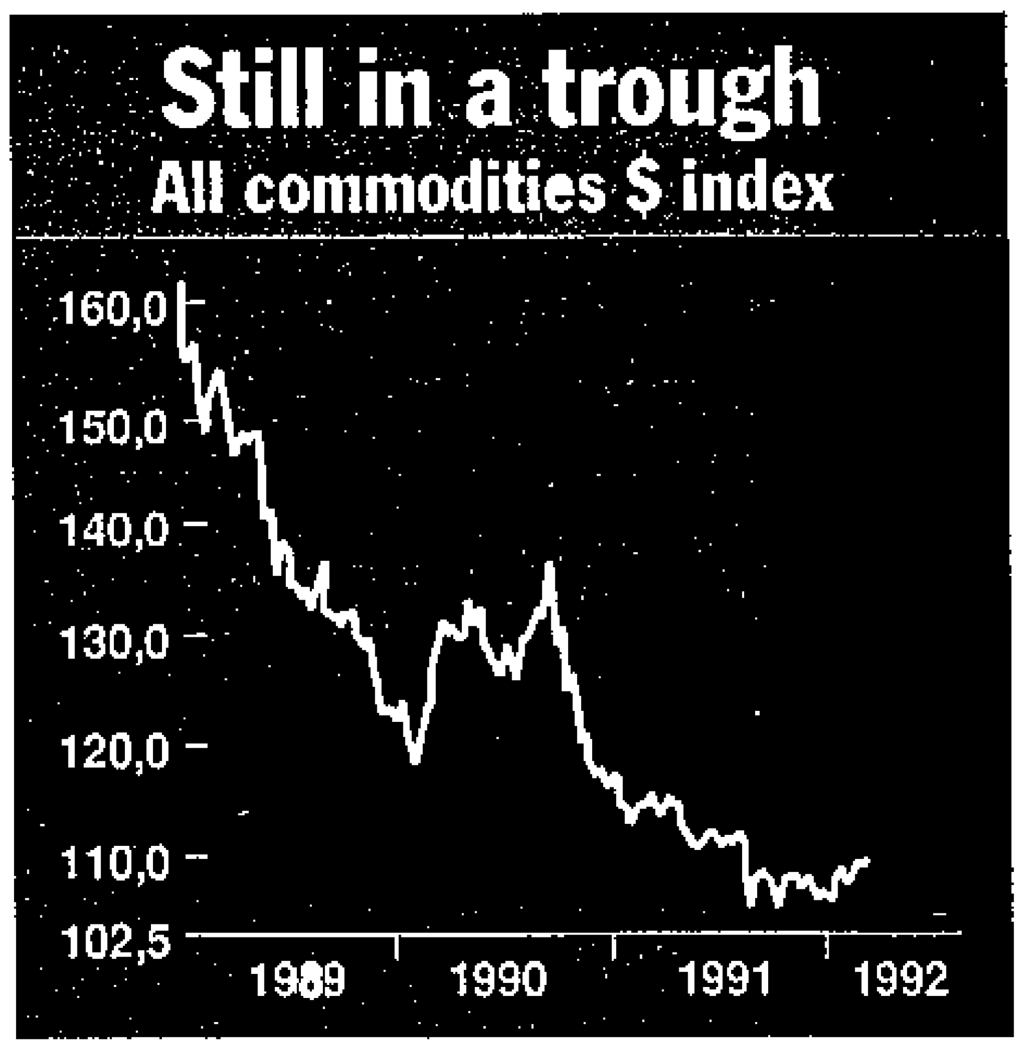
Referendum or no referendum, investors are bound to ask should the glum business mood be interpreted optimistically — as being the darkest hour that comes just before dawn? Or, has the market badly misjudged the timing of the elusive recovery, meaning that share prices will either stagnate or weaken? It does seem obvious now that overly optimistic earnings forecasts were being made early last year And for that matter, what sort of recovery will it be if violence drags on and there are still many political pitfalls to be traversed? The period ahead could be particularly dangerous

Answers to these questions will be influenced heavily by what happens abroad over the next three to six months The referendum and other developments on the domestic political front should help to underpin business sentiment And the poll did bring overseas investors sniffing around the SA capital and equity markets, as shown by the sharp rise in the financial rand rate in the past few days But that alone is not going to generate the needed turnaround in company profits

The average earnings multiple on the JSE Financial & Industrial index has climbed to an historically high 14,5, and the dividend yield is a thin 2,8% Some reassurance on when earnings growth will resume is needed before many portfolio managers will feel comfortable about seeing even higher p.e ratios on the leading equities



Source INET



Source INET

The axiom that the performance of the local economy is tied to leading industrial economies remains true For those who are trying to discern a recovery at home, or identify value on the JSE, this may be more true than in the past Late in the downward cycle, consumer spending has been thoroughly choked off, leaving little if any prospect that the upswing will be consumer-led Instead, exports and fixed investment are now being seen as the driving force for a recovery

For that to happen, there will probably have to be greater reliance on world demand for basic commodities — though, as has been clear from the accounts of many industrial companies in recent years, the country's export base of manufactured goods has broadened tremendously In many cases, of course, industrial exporters may switch production back to more profitable home markets in a recovery

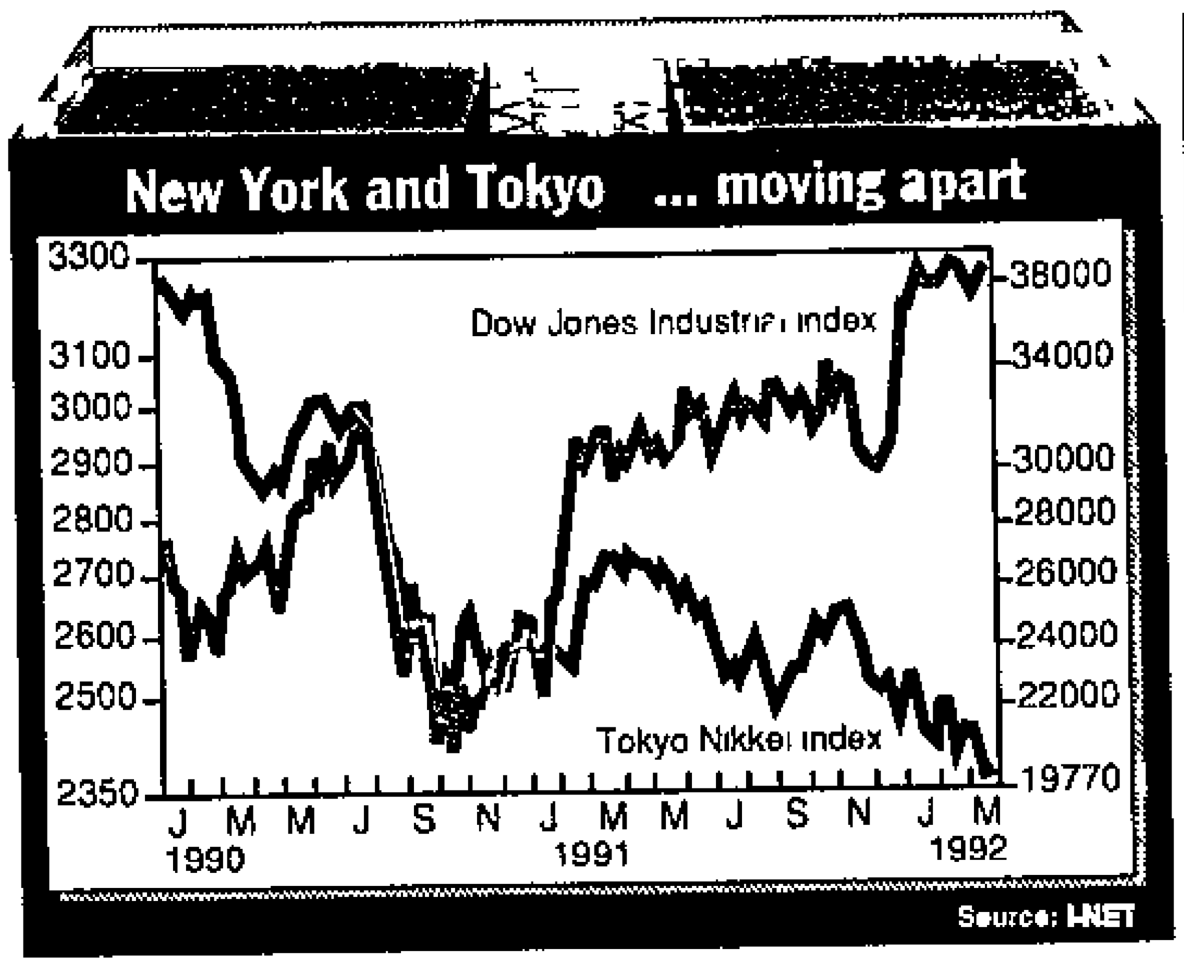
Precious metal prices still offer no encouragement At the same time the referendum results were announced, optimism in financial markets was being dampened by renewed falls in the gold price This week gold was still trading around US$337/oz, the dip below $340 being blamed, perhaps ominously, on the recession in Japan, where the Nikkei Dow has fallen below 20 000, its lowest in some five years But there is more than one signal to be read

As the graph shows, the All Commodities dollar index languishes far below the peaks reached in 1987-1988 when there had been nearly eight years of expansion in leading industrial economies There have been several false dawns since this index started falling, but it's notable that the index has been turning upwards markedly since early this year

That may signal improving prospects for a

continued

FM 27/3/92 (232)



New York and Tokyo ... moving apart

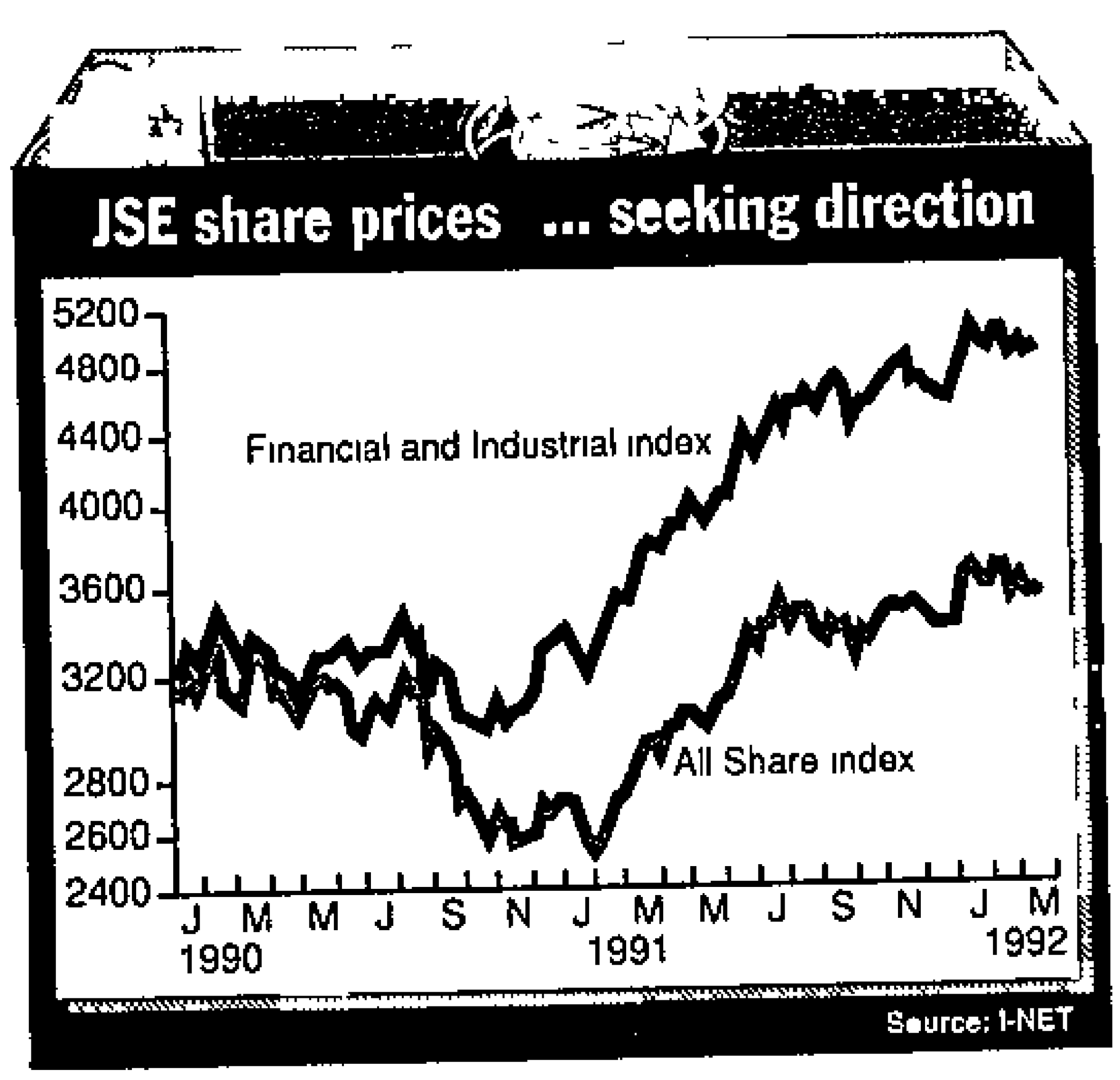
recovery later this year in countries such as the US, where short-term interest rates have been falling for two years The same trend is evident in the UK and Japan

In SA, a steady easing of the three-month BA rate since November 1989 presaged the drop in Bank and prime rates that finally came this week This, too, had been anticipated in the markets, and failed to produce much immediate response Like the "yes" vote, the non-appearance of an interest rate cut (preferably with more to come) would probably have led to weaker share prices

Nobody is assuming there will be a precipitous drop in rates, such as occurred from mid-1985 before the 1986-1987 bull market But lower rates are being seen as another development that should help take some of the strain out of company earnings and strengthen the case for appreciation in share prices later

Unexciting though it was, the Budget may be viewed in a similar vein Frankel Max Pollak Vinderine economist Mike Brown sees the Budget as "fairly expansionary," to which has been added a somewhat more expansionary monetary stance And on top of these have come separate measures such as the easing of HP restrictions

Favourable effects will not be seen swiftly Trading conditions and company results may worsen rather than improve until about the third quarter of this year At present levels, share prices could thus be in risky territory during this period As one analyst points out, markets seldom stagnate for long Prices are set at the margin and a withdrawal or slackening of buying interest — perhaps brought about by a catalyst such as a still lower gold price or a drop in New York share prices — would see JSE prices drifting downwards over the next four to six months



JSE share prices ... seeking direction

Institutional cash flows, of course, remain strong, and are now being swollen by State pension funds It is hard to ignore the weight-of-funds argument But that does not mean there won't be cracks along the way The weight-of-funds dictum may seem compelling on a medium- or long-term view — not necessarily in the short term

Not only may shares now be judged expensive, but in the past year billions of rands have been soaked up in a series of large rights issues by companies such as Gencor, Sasol, Anglovaal and FNB

Fluctuations in the volatile financial rand rate is another factor affecting market reaction to latest events Improved overseas sentiment immediately after the referendum pushed the finrand rate sharply higher That in turn helped to restrain prices of leading shares, such as Anglo American, Richemont and De Beers

Reserve Bank intervention may bring some stability to the finrand market, but the currency could well bedevil share prices for a while After narrowing to less than 10% in November, the finrand's discount to the commercial rand had climbed before the referendum back to around 25% (see graph) It is now around 17%, so there is some way to go before the discount is effectively eliminated

The renewed depreciation of the commercial rand against a strengthening dollar has recently been favourable for exporters, since this is the currency in which most of SA's exports are priced This, too, will help to compensate for flagging commodity prices But some investors believe that a resurgent dollar is indicative of broader and longer-term trends on the global political and economic scene

Southern Life equity investments GM Paul Beachy Head cites the view that the strong dollar and the continued buoyancy of the New York stock market are reflecting the perceived victory of capitalism The USSR has collapsed and the spectre of another major war in the Middle East has perceptibly receded Oil prices — and world inflation — have been tamed So many observers believe

Efforts to stoke up the US economy may be helping but, more importantly, international political events allow a different — and more positive — valuation and risk rating to be placed on capital If this theory holds, then SA could enjoy a "double whammy," with benefits from local and international political developments They would be working together

This view would suggest that share prices now may not be as expensive as they look Beachy Head says the average earnings multiple on the Dow Jones exceeded 100 in 1982. That was when earnings were being hammered It turned out to be the bottom of the market, and was followed by a bull market that lasted through much of the decade

Board of Executors GM Investments John Winship believes that the present mood of pessimism may simply be typical of this stage of the cycle A recovery later this year in the economies of the US, the UK and Japan, followed by Germany, could see local business activity picking up strongly "I am not despondent," Winship says "If that happens then earnings will probably rocket "

It is, of course, easy to forget during a recession how vigorously company profits can — and almost certainly will — grow once a recovery gets going In the last up-

Outside the JSE *hopes for continued dominance*

turn, there were several years when large groups such as Barlow Rand, SA Breweries and many others were consistently reporting earnings up by 30% or more each year Once a trend like that is perceived to be getting under way, share prices are likely to be back in a bull run

This time the pattern of recovery in profits and share prices may well be different Consumer stocks are already at high levels, and these companies may be among the later sectors to see earnings recovering, later the efficient companies will do well With commodity prices still in a trough, though, the real value may now be in SA's traditional strength, the commodity and currency-linked stocks

Investment at this stage in direct exporters or their holding companies, particularly th mining financials, is bound to prove rewarding for the patient holders Specialist trusts may also be worth considering

Even with the referendum behind us, ther is much that could derail recovery prosp — including the inability of Western governments to turn their economies round But for prospective equity investors it is more important to get the medium-term trend right And, particularly after last week, it woul not be unreasonable to take a favoural view on that

Andrew M.

No contracts on Traded Options Market

FOR the first time since the Traded Options Market (TOM) was started at the end of January, no contracts were written in the week ending March 20, according to latest trading statistics released by the JSE

B Day 27/3/92.

This compared with 65 contracts with an underlying value of R670 025 in the previous week

TOM manager Jonathan Sims said equity market trading was slow that week and options should be seen as a market reflection "We did not expect trading volumes on options to take off from day one and we have not had tremendous volumes"

MERVYN HARRIS

Foreign transactions were back to normal in the week ending March 20 after the previous week when non-resident buying exceeded sales by almost R28m

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There was also a reversal of ~~the usual~~ pattern of gilt trading by nonresidents in the week ending March 13 when sales exceeded purchases by nearly R20m

But in the week ending March 20, foreign sales of equities exceeded purchases by a net R42,6m while purchases of gilts exceeded sales by a net R298,6m.

New index to measure shares

SHARON WOOD

DISCOUNT House Portfolio Services had developed an institutional index which consisted of 40 of the most popular institutional share investments, GM Pierre de Villiers said yesterday

Research showed that the institutional index outperformed the JSE all share index over a five-year period, with capital growth in the institutional index 9,4% higher each year It had also outperformed all the general equity unit trusts

The conclusion that could be drawn was that the all share index was not representative of most share portfolios, De Villiers said It was well known in international markets that very few portfolio managers ever outperformed the major indices over sustained periods

The institutional index was more representative of the average portfolio The index was developed to give insight into the structure of performance orientated share portfolios and what shares the large financial institutions were buying and selling, De Villiers he said

BDay 27/3/92

The 40 shares were mainly the larger market capitalisation shares, such as Anglo American, De Beers and Barlows But smaller shares such as Suncrush, Pepkor and Trencor were also included

De Beers had the highest weighting in the index, at 9,3%, Richemont followed closed at 9% and Rembrandt at 7%

The weighting of financial shares in the index was 9,3%, industrial 42,8% and mining 19,3%

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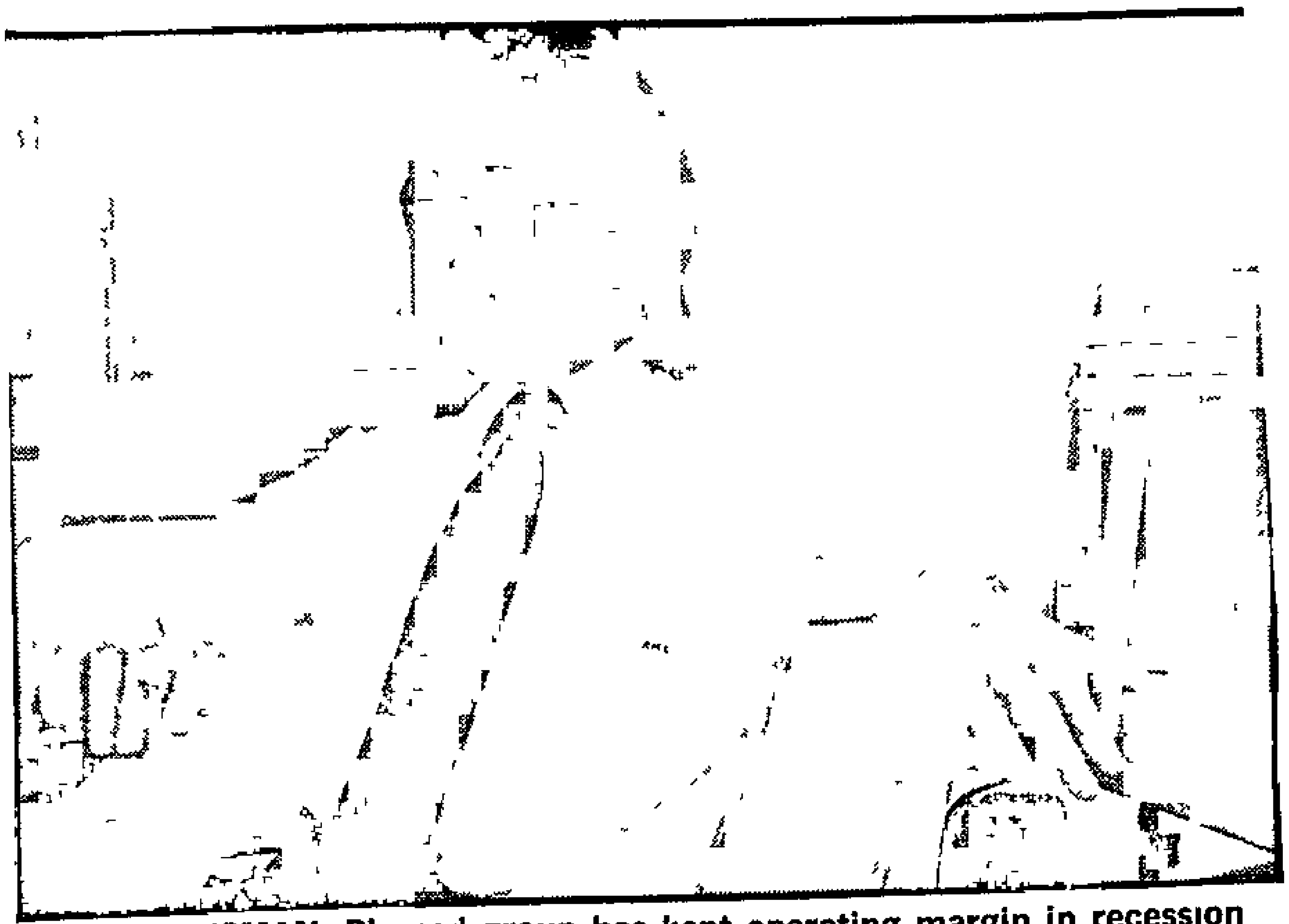
"Investors could use the index as a guide to structure portfolios that should perform well over time," De Villiers said

Discount House would continually monitor developments in the stock market and would publish regular updates of performance and changes in underlying shares The index would be readjusted quarterly, he said



JEFF LIEBESMAN: Pleased group has kept operating margin in recession

W&A convertible debs should be considered

SITimes (Buss) 29/3/92 (232)

By JULIE WALKER

POTENTIAL investors in W&A after its creditable results should consider the convertible debentures on a higher yield than prime overdraft rates

W&A, the holding company of industrial and consumer arms JD Group, Gentyre, Vektra, and Curnow among others, raised attributable profit by 14% to R129-million in the year to December 1991.

During the year it sold certain property and shares in Elcentre as well as the whole of its Burhose and Arwa hosiery business for R200-million

The JD Group debtors' book was also sold without recourse to a consortium of banks

These structural changes invalidate a direct turnover comparison. Group sales reached R3,2-billion in a year of economic conditions euphemistically described by executive chairman Jeff Liebesman as tough.

More than R157-million was invested in offshore acquisitions and was funded overseas. Foreign business, including both exports and offshore operations, grew from 8% of turnover to 18%.

Mr Liebesman is particularly pleased that the group maintained its operating margin at 10,4% in a recessionary environment

Collar

The interest bill reached R151-million, but the breakdown of the four contributing half-year payments casts light on the position In the six months to June 1990 the group paid R53-million A corporate restructure came into effect from July 1990 and the next six months' interest was R65-million.

In the first half of 1991 the finance costs rose to R88-million But in the last six months it fell to R64-million, reflecting the lower gearing in the group following the changes.

The new joint deputy chairman, former Senbank chief Hennie van der Merwe, says there is a collar over which the cost of capital is determined. Equity is the most expensive, because it lasts forever, but there is an optimal level of borrowings too

Benefits of restructuring and offshore taxation policies helped to keep the tax rate at a trifling 2% The group does not expect it to exceed 25% three years hence

The group suffered a few knocks from Elcentre, including a R100-million write-off and relinquished income of R7,5-million.

Together with the hosiery sales, the one-off smack to earnings amounted to 8,5c a share. In 1990 W&A made 95c a share on 119-million equity instruments, and in 1991 79c a share on 164-million, counting all the convertible instruments as permanent capital

W&A resisted the temptation to dress up the income statement by restating last year's to take account of favourable changes

"We have taken everything on the chin above the line, our gearing is down to 58% from 67%. If we had taken the Elcentre knock in 1990 the reduction in percentage gearing would have been even more marked"

W&A maintained the dividend at 42c, comforted by improved cash flow and lower borrowings

The ordinary shares at 445c are on a price-earnings ratio of 5,6 and a dividend yield of 9%. The convertible debentures yield 19,4% at a price of 535c

ANC attacks privatisation

(232)

CT 30/6/92

JOHANNESBURG — The government's economic restructuring will entrench white economic dominance, says African National Congress economics specialist Mr Max Sisulu

Speaking at the opening of the Congress of South African Trade Unions' economic policy conference at the weekend, Mr Sisulu said the government still seemed intent on carrying out privatisation plans "in greater secrecy, away from public debate and scrutiny" in spite of opposition from the democratic movement.

He charged that the restructuring was in response to the economic and political crisis facing the government.

The objectives of the government, he said, were to move as much of the existing public sector beyond the reach of a democratically elected government and to "tie the hands of a democratically elected government by putting in place new structures, institutions and processes that cannot be changed later".

Mr Sisulu also charged that by bolstering revenues in the run-up to the elections — in order to provide some visible improvements in services and infrastructure for the majority and "golden handshakes" to sections of the civil service — the government was effectively raising funds for patronage.

The golden handshakes to civil servants, he said, was clearly illustrated by the recent retrenchment of some 4 000 teachers.

One of the strategies employed by the authorities, Mr Sisulu charged, was the shifting of the tax burden from the corporate sector to individuals and from the upper-income group to other sectors of the population with VAT representing the most regressive of these measures.

Cosatu general secretary Mr Jay Naidoo said the authorities' scrapping of the zero-rate status of eight basic foodstuffs forced another confrontation. He demanded there be no VAT on basic foods — Sapa

Govt shares move gets big welcome

BIDay 30/3/92

(232)

WILLIAM GILFILLAN

THE move by government to consider allowing companies to buy back their own shares from shareholders has been widely welcomed in the financial community BIDay 30/3/92

A draft Companies Act Amendment Bill providing for such purchases has been issued by the Department of Trade and Industry for public comment. The draft legislation is more in line with restrictive UK and European laws than the less confining US legislation

"This is a move in the right direction which follows most of the rest of the world," Rand Merchant Bank executive director Reg Sherrel said last week

Standard Merchant Bank executive director Mark Barnes said "This development would give companies greater flexibility with their funding mix With a fixed amount of capital, companies would now be able to choose their own gearing ratio"

"But stringent parameters would need to be introduced to protect creditors and financiers," he said

Investec Corporate Finance head Clinton Wood said creditors were interested in a large capital base as security "By being able to buy back its own shares, effectively a company is reducing its capital"

The Bill contains provisions to protect creditors by stipulating a company cannot make any payment for shares if there are reasonable grounds to believe it could not meet its liabilities as they become due.

Wood said the main benefit of the new legislation was that if a company's shares were sufficiently inexpensive, it could invest surplus funds at a better return by buying its own shares, rather than by investing in any other project

He said buying back shares at the right price would increase the value of the outstanding capital.

Firstcorp's Graham Brinkwater said using debt to buy back shares was unlikely as the company would not be permitted to set off the interest charges for tax purposes

Sherrel warned that protection must be given against insider trading "If directors hold shares they should have to indicate what they propose to do with their own shares."

Wood said companies must not be permitted to buy back their own shares and release them again when the price went up The Bill has protected against this by stipulating that repurchased shares be cancelled and restored to the status of authorised and unissued shares.

Insider trading can also be covered by directors and shareholders agreeing in advance how many shares may be bought back, and within what price range

The Bill limits the number of shares a listed company can buy to 1% of its issued share capital a month, thus reducing the likelihood of a substantial change in the market price

The proposal could have large implications for the SA commercial and financial sector Allowing companies to buy up their shares could further entrench control situations or consolidate holdings unless provision is made to ensure they make an offer to all shareholders on a pro rata basis

Scrip on the market will also be reduced as those shares perceived to be cheap disappear from the board

If a company is going through a bad patch the legislation will allow it to protect its share price through the purchasing of its shares. Companies will now have another means of protection against hostile bids

W&A turns in solid performance

STAR 30/3/92 (232)

W&A turned in a sound performance, which saw attributable profit rise 14 percent to R128,9 million (R113,1 million) in the year to last December

This was achieved on turnover of R3,2 billion, with operating profit improving 5,9 percent to R335,5 million

It has announced the sale of its hosiery interests to South African Hosiery, a subsidiary of Durban-based Kiwi Brands (Pty), for R200 million in cash.

The sale, subject to approval by regulatory bodies, is reflected in the W&A accounts at last December 31

Had the transaction been in place for the whole year to December 1991, earnings per share would have increased by 4c to 83c

Chairman Jeff Liebesman says W&A had a successful year.

"The changes which began with the restructuring of the group in 1990, continued in 1991

"Certain non-strategic properties have been sold The majority of the shares in Elcentre have been realised

"The JD group debtors' book was sold without recourse and the sale of our hosiery division was concluded

"During the year, R157 million was invested in off-shore acquisitions and funded overseas," he says

"These actions were in terms of our stated goals of bringing greater focus to the group, investing in the growth of existing businesses, reducing domestic borrowing, and globalisation

"Our turnover, which reached R3,2 billion (R3 billion), is not comparable with that of last year because the sales of the JD group reflect only cash sales from July 1991 This is a result of the sale of JD group debtors' book to a consortium of banks in that month"

Earnings per share on a fully-diluted basis declined 17 percent to 79c (95c) as a result of the 37 percent increase in the weighted number of shares in issue.

Mr Liebesman says that as the disposal of non-strategic assets only took place late in the financial year, the beneficial impact on interest paid will only be felt in the new financial year.

"If the attempts at economic stimulation by various governments in our major markets are successful, and if there are favourable political developments in SA, the group will be well-positioned to take advantage of any resultant upturn

"In the interim, however, we continue to strengthen management at all levels, improve operating efficiency, enter new markets, increase our share in existing markets

"All this is being done within the framework of improved asset management and a further strengthening of the balance sheet.

"In view of the improved cash flows as a result of the restructure and the transactions undertaken late in 1991, we have decided to maintain the total dividend at 42c a share"

The dividends of W&A and its holding companies all remain unchanged. W&A's final dividend is 26,5c (total 42c); Waicor 10,5c (total 16,5), FSI 23c (total 35c), FSI preferred ordinary shares 36c (total 72c), FS group 11,5c (total 17,5), FSG preferred ordinary shares 18c (total 36c) — Sapa.

Investors warned of risks in futures

B/Day. 30/3/92. (232)

MATTHEW CURTIN

PRIVATE investors risk financial suicide if they dabble in SA's futures market through a third party, says Investor's Guide publisher Taco Kuiper.

Kuiper says that is the only conclusion he can draw after entrusting a R100 000 investment to the now defunct Greenwich Futures and Options He claims in mid-1991, his discretionary account was poorly and improperly managed by the firm

However, the SA Futures Exchange (Safex) has investigated Kuiper's allegations and has found that unless Kuiper can submit more information to substantiate his claims, there are no grounds for finding Greenwich acted improperly

And futures market sources said at the weekend discretionary accounts were a rarity in SA Futures were traded on principal basis — where clients are consulted on every deal — or as part of a wider investment portfolio

In the latest edition of the guide, Kuiper said "A watertight agreement existed between Greenwich and the Investors Guide Managing the account was in terms of a discretionary mandate, therefore, trading was to be done on an agency basis "

He said between May 24 and July 20 not only was his R100 000 investment whittled down to R34 000, but Greenwhich earned R12 600 on commission on 42 deals in managing the account, plus "thousands more" by doing deals on a principal basis as well

Kuiper said he discovered this after his position was closed and asked Safex to investigate the matter.

But Safex assistant MD Patrick Birley said yesterday the exchanges complaints and surveillance committee had investigated the matter in December last year and found "in terms of the documents submitted by Kuiper and Greenwich, the company had not acted improperly with regard to exchange regulations"

"Clients who lose money are often upset, but Greenwich acted in good faith and within the rules of the exchange What is clear is that the company made some bad trading decisions apparently with Kuiper's assent," he said

Birley said the committee found no evidence to support Kuiper's allegations that Greenwich had accepted a discretionary mandate, and the company had sought Kuiper's permission on every deal it had made on his account Kuiper had so far refused an offer of arbitration and failed to submit more information to support his claims

"That is where the matter now rests," Birley said

Former MD and founder of Greenwich Bryan Coyne, who sold his 49% stake in the company last month and left to join Investec's futures division, said the Safex investigation had vindicated Greenwich's position Greenwich had never accepted discretionary mandate from Kuiper

Kuiper was unavailable for comment on Friday

Tax burden shifts to individuals

GILLIAN HAYNE

IN the past 15 years SA's tax burden has shifted squarely onto the shoulders of individual taxpayers

In the 1992 tax year they funded more than 70% of the country's revenue, compared with 25,5% in the 1977 tax year

Speaking at a Budget and Tax Review, BDO Spencer Steward tax partner Matthew Lester said the recession and rising unemployment would soon make it impossible for individuals to meet government's demands

In terms of the latest Budget, taxpayers would have to pay personal tax of R35,511bn and VAT of R21,020bn to finance the bulk of the country's expenses

Within the same 15-year period, companies and mines saw their tax contribution fall from 28,8% to 17% of the total Budget

Seen in this light the concessions given to reduce the effects of fiscal drag for lower to middle income earners were meagre indeed

Lester said although the effects of fiscal drag were not felt in the short term, over a 10-year period they were substantial

For example, the pre-tax earnings of a man on a salary of R30 000 a year in 1983 (assuming annual increases of 15% and a constant inflation factor of 15%) could be 304% up in 1993, while his tax liability would have increased by 457% Taxpayers were getting poorer, Lester said

He said if taxpayers were unable to meet the tax commitments of the economy SA might have to approach the IMF for significant financial assistance

The current year's Budget exceeded R100bn for the first time, an increase of 8,9% on 1992 Lester said a frightening aspect was that taxes would be raised by R12bn or 16,4% while the Budget itself only increased by R8,7bn or 8,9%

Unidev turns loss into R2m profit

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MARCIA KLEIN

INVESTMENT holding company Unidev has turned an R86,8m attributable loss into a R2,0m profit in the year to end-December following a year of major restructuring and disposals

In nine months of reorganisation following the March takeover by Jon Brett Alan Chonowitz, Unidev has been consolidated and reorganised, and peripheral assets have been shed

In line with this strategy, Unidev raised R23m in a rights issue to repay borrowings, and holding company Unicon raised R13m to follow its rights

Household products company Prestige was made a wholly owned subsidiary and Unidev disposed of its interests in furniture group Rusfurn and property company Equikor.

Joint MD Alan Chonowitz said Unidev's shareholdings in Rusfurn and Equikor did not enable the group to have a meaningful participation in its management and this was in conflict with its objective of being an active investment holding company

The group now has interests in three companies, Prestige and associate companies Medicor health care group and the Hyperette and Bread Basket chains

Apart from these actions taken in financial 1991, Unidev has again cautioned shareholders that proposals with regard to Hyperette are still being considered

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Unidev

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Chonowitz said this did not relate to an acquisition or a disposal, so some form of reorganistion could be on the cards

Negotiations with Rembrandt-controlled hospital group Medi-Clinic, believed to have been for the sale of Medicor to Med-Clinic in return for shares, have been terminated

Turnover figures were not stated as two of the group's three operating companies were associates, so the turnover figure would have been distorted, Chonowitz said

At the operating level, the group showed a R3,5m profit compared with a R80,2m loss in the previous year Finance costs were reduced from R10,3m to R2,5m

Earnings were 2,0c a share — on nearly three times more shares in issue — compared with a loss of 280 4c a share in the previous year

The balance sheet takes into account an extraordinary loss of R21,9m incurred on restructuring the group, discontinued operations and the disposal of its Rusfurn stake No dividend was declared, as cash generated was being used to invest in capital projects

Chonowitz said Prestige's results had not been good, but many of the plans made last year were starting to come together

Hyperette's results reflected the difficulties in the food retail industry, but the hospital division's results had been satisfactory and it was planning to expand

He said the group's core businesses now operated in key growth areas in SA — household products, healthcare and food — and were being developed to take advantage of any upturn in the economy and SA's return to the international community

Unidev was looking for other opportunities, with an emphasis on consumer-related markets, Chonowitz said

Company credit ratings could shock JSE

B/Day 31/3/92 (232)

THE newly-formed KM Corporate Ratings, a joint venture between KreditInform and McGregors, believes that some JSE-listed industrial companies could be at risk of failure Over the past weeks, KM has assessed and rated all JSE-industrials

The term, "at risk of failure," generally indicates there is a possibility of bankruptcy, or that the company could be placed under judicial management, or that the dividend could be passed in three of five successive years

KreditInform MD Ivor Jones expects the rating to send shock waves through the JSE and the investment community, but points out that the ratings are from a creditworthiness point of view rather than from a potential investment position

"Nevertheless, for the first time, the entire industrial sector of the JSE has been rated on past and present performance," he says

The "brain" behind the exercise was Dr Gideon van Rhyn, D Comm and Associate of the Institute of Bankers

"The rating process uses six ratios each accorded a specific weighting," Dr Van Rhyn says "We experimented with the financial results of 52 companies, comprising two equal groups of 'failed' and 'non-failed' companies and found the model was capable of distinguishing between the two respective groups on an ex-post basis "

The ratios cover the conventional areas of liquidity, which include profitability, leverage, activity, working capital and management

Each was weighted individually to take the South African situation into account and all 522 companies listed on the JSE's industrial sector have been accorded a rating, drawing on information gathered over a three year period Ongoing research and monitoring will enhance the information to give a clear picture of trends within the industrial sector and the performance of individual companies

Through KM, KreditInform provides the credit information while McGregors undertakes the necessary "number crunching" using computer facilities under the direction of Dr van Rhyn Each of the rated companies has been provided with the information relative to its rating.

The information is presented in sectoral analysis format Industry and sub-industry categories relate a company to its industry sector and its competitors, while the sectoral average rates how a company is performing relative to its sector

Ongoing

McGregors director Simon McGregor says "Up to now, it's been difficult to give fund managers solid information about trends and real performance Now, we can give them an ongoing performance rating and comparisons on which they can make better investment decisions

"One of the major advantages of a rating is that instead of having to wade through financial reports, analyse balance sheets and income statements to identify true ownership to establish how solid a company is, it is possible to have all the information in a concise format which immediately shows whether a company is good, bad or average "

Dr Van Rhyn says the real advantage of the model is that it is a numerically-based system, rather than being qualitative, meaning that it is figure generated and thus consistent

"Frankly, when we started research on the model, we were amazed at the unscientific approach to rating companies which was usually undertaken by a panel of people expressing opinions without the benefit of solid information," he says

KreditInform's Jones believes the ratings will enable bankers, financial and credit managers to see if they are backing winners or losers, identify good or bad risks and extend or reduce exposure accordingly

"What will become very important is the industry overviews which will provide the investment community, corporate planners, marketing and financial managers with all the information required to identify a good company within a sector," he says

"Investors and suppliers will be able to reduce their exposure to a particular company or sector experiencing a downward trend "

The KM Corporate Rating package is available on a subscription basis Clients receive all the research on all JSE industrial sector-listed companies plus some 20 sectoral industry reports throughout the year

The reports include a brief company outline, ratios, rating, report outlook, and financials

KM is soon to undertake a similar programme for companies listed on the JSE's banking sector

Sara Lee may be 'buyer' in W&A sale

BDay 31/3/92

MARCIA KLEIN

THE overseas investor behind the R200m cash acquisition of W & A's hosiery division could be US company Sara Lee, various sources said yesterday.

Yesterday W & A said it had sold its hosiery division — Arwa and Burhose — to The SA Hosiery Company, a subsidiary of Durban-based Kiwi Brands which makes Kiwi shoe polish and Radox bath additives The announcement said Kiwi was supported in this investment by First National Corporate and Investment Bank

Sources said Sara Lee, with interests in the largest manufacturer of ladies' hosiery in the US, also had a large stake in Kiwi Brands. Known as a producer of cake mixes and frozen foods and desserts, Sara Lee was also involved in textiles

Analysts said the sale of the hosiery division was a strategic move for W & A One said any local buyer of the hosiery division would be faced with problems, as the SA market was limited (232)

The SA company would have to establish additional volumes overseas, either by establishing the SA brand name overseas or by exporting and selling under an international company's brand name

But it was likely that if this second route was taken, the overseas partner would reap the benefits of the added value of the brand name, and the SA company would become a commodity producer, an analyst said BDay 31/3/92

The disposal of the hosiery division meant it would have the opportunity to expand, but with another parent. "When seen in terms of the global market, the disposal makes sense and can be seen as strategic on behalf of W & A."

W & A said at the weekend the transaction had the effect of reducing gearing, and by selling less than 10% of its assets it had recouped "the entire purchase price of obtaining a controlling shareholding in the W & A Group in September 1987"

OWNERSHIP & CONTROL – 1992

APRIL — JUNE

ADB: Nationalisation not ANC doctrine. . .

CT 1/4/92 (232)

By BARRY STREEK
Political Staff

NATIONALISATION were merely one of many economic instruments that might be considered to correct imbalances and distortions in the economy, the ANC told an African Development Bank delegation, the bank said yesterday

The ADB said the ANC officials made it clear that nationalisation was not a matter of ideology or doctrine

ANC officials expressed strong concern at the spate of unilateral privatisations being sponsored by the government, the ADB said in a statement after talks between the two organisations in Johannesburg

The ANC also said the selection of industries to be privatised should be left to the democratic decisions of a future government

The ANC and the ADB held its first-ever working session in Johannesburg on Monday

In its statement last night, the ADB said its president, Babacar Ndiaye, and the ANC president, Nelson Mandela, had concluded their talks on the role the bank could play in the economic development of a post-apartheid SA

Ndiaye is leading a nine-member delegation of the bank, an Abidjan-based $33bn (R92bn) institution owned by 51 African countries and 25 non-African countries, on a private visit to SA

The delegation, which is meeting political, economic, financial, religious and civic communities, will visit Pretoria, Cape Town and Durban, apart from Johannesburg

SA's possible membership of the bank is conditional on it gaining membership of the Organisation of African Unity (OAU)

The bank said that among the issues discussed were the ANC's economic policies and plans, the bank's own operation policies, the circumstances under which SA could become a member of the ADB, and the kind of programmes the ADB could implement in a post-apartheid SA

Among other ANC participants in the talks were head of economic planning Trevor Manuel, and economic advisor Max Sisulu

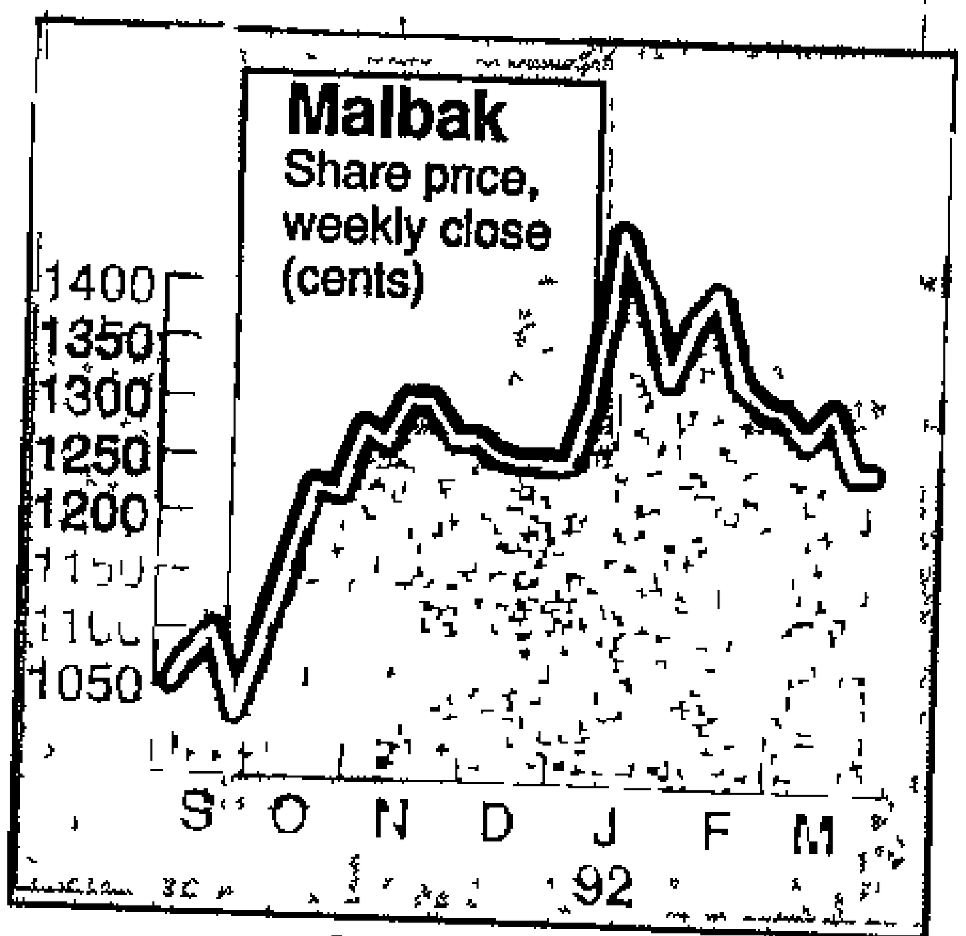
Revamped Malbak on track

B/Day 1/4/92 (232)

MARCIA KLEIN

THE restructured Malbak group reported a 29% rise in earnings from R118m to R152m in the six months to end-February after various disposals and acquisitions, a R430m rights issue, and reduced interest and taxation

Executive chairman Grant Thomas said results for the six months placed Malbak on target to reach its forecast earnings of 117c a share for the full year



Graphic LEE EMERTON Source I NET

The 29% attributable earnings rise was reduced to a 3% decline in earnings a share to 55,1c (57,0c) on a significant increase in shares in issue During the period, Malbak raised R430m in a rights issue, acquired Fedfood and SA Druggists, and sold its interest in Darling & Hodgson and 50% of its interest in Standard Engineering

Group turnover rose 27% from R4,2bn to R5,3bn, and operating income increased 10% to R393m (R357m), as margins were squeezed from 8,5% to 7,4%

But a 5% reduction in its interest bill to R85m, and a lower effective tax rate of 31,1% (35,5%), saw income after tax rise 23% from R173m to R212m The dividend was maintained at 12,5c.

Thomas said most divisions performed satisfactorily, but the branded consumer products division, including Tedelex, Ellerine and its motor operations, saw its earnings fall by more than 50% This division contributed R17m or 11% of group earnings, after contributing R35m in the

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Malbak

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previous year

The health care division contributed R17m, after a R1m loss was attributed to Malbak in the previous year

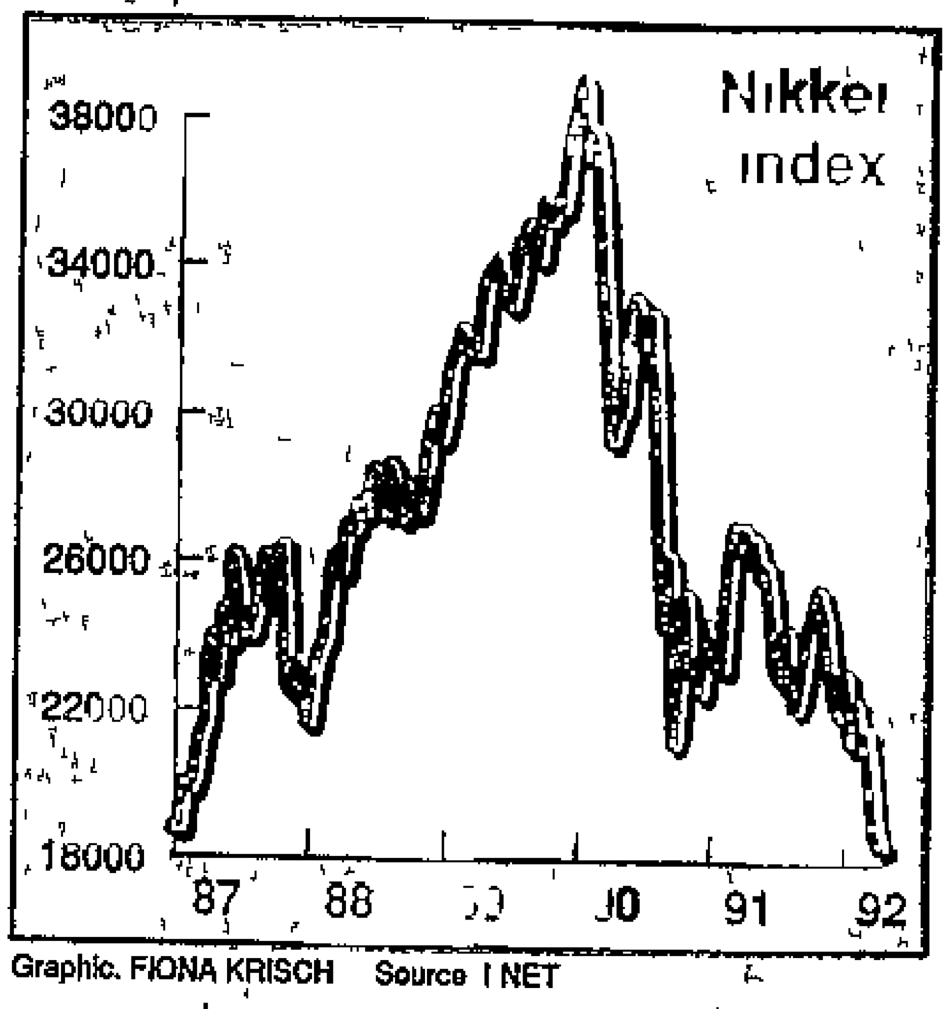
The acquisition of Fedfood resulted in the food division replacing the branded consumer products as the major contributor to group earnings The division, comprising Kanhym and Fedfood, increased its contribution to the bottom line from R15m to R36m, 24% (13%) of group earnings

The paper and packaging division, housed in Holdains, increased its earnings 7%, and its contributions to Malbak's attributable earnings declined from R29m in 1991 to R27m

In the engineering and mining supplies division, which contributed R17m (R25m) to group earnings, Standard Engineering increased its earnings by 6%, while Haggie suffered from low demand

The international division had done well, and MY Holdings (which returned to profitability), Eagle Freight and Protea International reported "exceptionally good results" Its attributable contribution grew from R3m to R12m

Thomas said the group did not expect any significant upturn in demand in the second half



Graphic: FIONA KRISCH Source I NET

Tokyo's fall sparks JSE selling wave

Bday, 2/4/92

MERVYN HARRIS

(232)

A SHARP 1,6% plunge on the Japanese stock exchange sent nervous tremors through global equity markets yesterday and sparked waves of selling on the JSE, pulling the industrial index down 1,3% or 61 points to 4 424

The 764-point fall in the Nikkei index of 225 shares to 18 582, its lowest level since January 13 1987, came in spite of a discount rate cut to stimulate business activity. The cut came a day after the government had announced emergency measures to prop up the economy.

The negative sentiment rubbed off on London where the FTSE 100 closed 31,5 down at 24 086, sent shudders through all sectors of the JSE in spite of firmer precious metal prices, and pushed Wall Street to a lower opening.

In London domestic factors also came into play, with panic over polls predicting an outright Labour victory in the April 9 elections Privatised water and electricity companies were hit hardest as three opinion polls gave Labour a straight-win lead of between 4% and 7%

The latest slump in Japan and indications that Wall Street was sharply overvalued have prompted investment analyst David Fuller to ring the alarm bells of growing risks facing global equities.

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Tokyo

Bday 2/4/92

(232)

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Fuller notes in his latest international newsletter that the valuation of the Dow Jones Industrial average recently reached its second highest level yet, after 1987 when earnings merely plateaued for a while at a high level

"Wall Street is now a red ribbon sell," he says, adding that the bear market will start before the November election in spite of hopes that Federal Reserve chairman Alan Greenspan will reappear as Santa Claus or in a cameo role as an Easter Bunny

Dealers on the JSE said some decline was expected among industrials yesterday after shares were ramped up on Tuesday at the end of the March quarter for unit trusts

But the selling spilled over to golds in spite of the metal firming nearly $2 to close in London at $344,15 The seven-point rise in the all gold index to 1 125 was partly on the back of a weaker finrand investment unit but continued selling of De Beers helped bring the overall index down 32 points to 3 518

Gold's uptrend came in the wake of improving platinum prices as the metal climbed nearly $5 to a London afternoon fix of $362,50 amid reports of tight supplies in the short term

World markets slump as Tokyo tumbles

STAR 2/4/92 STAR 2/4/92 (232)

By Magnus Heystek
Finance Editor

A sharp drop on the Tokyo Stock Exchange yesterday sent shivers throughout stockmarkets around the world.

Despite another cut in the official discount rate of money by the Bank of Japan the share market dropped 764 points or almost four percent to close at 18 581, more than 50 percent down from its peak just over two years ago

In Johannesburg investors headed for cover with the industrial index on the Johannesburg Stock Exchange dropping 60 points, or 1,3 percent

The continued strength of the financial rand added further pressure on share prices

"We will be watching New York keenly. If it doesn't fall sharply, the JSE could bounce back," a dealer told Sapa

However, stockbroker Dawid Meades from Meades and De Klerk said the market was artificially pushed up in recent days by fund managers of unit trusts and pension funds to improve their quarterly performance figures

Sapa-AP reported from New York that stock prices were lower soon after the market opened in response to the Tokyo selloff

The Dow Jones average of 30 industrials was down 10,51 points, to 3224,96.

In London the market was battered by a combination of concern about world markets and the uncertainty about the outcome of the general election next week.

Sapa-Reuter reports that shares only partly recovered from an early battering by market makers who slashed prices in a defensive move in the wake of latest opinion polls showing the opposition Labour party in a clear lead.

The FTSE 100 index opened 56 points down at a new 1992 low of 2384,1 but clawed its way back to 2440,1 for a 31,5 point drop on the day.

The FTSE index last broke under 2400 points on December 27 last year when it touched 2399,3.

"I would see buying coming in below 2400 on a long-term view," said Ian Harnett, equities strategist at Societe Generale Strauss Turnbull.

"At current levels the market represents good value — not for now, but for the longer term," another strategist said

On the JSE the industrial index was down at 4425 from Tuesday's finish of 4485 and the overall index closed 31 points lower at 3519

The gold index firmed slightly to 1125 from 1118 on Tuesday

Among leading industrials, SA BREWERIES dropped 200c to R54,50 and BARLOWS was off 100c at R57,25

Oil refiner ENGEN shed 100c to R43. Analysts are forecasting growth in earnings of 16 to 18 percent in the group's interim results due shortly

REMGRO lost 75c to R28 and, under pressure from the financial rand, RICHEMONT was down 85c at R34,85 Lonrho bounced off an early low of R3,50 to close at at R4,00 from Tuesday's close of R4,50

Market leader DE BEERS shed its early gains to post a 35c drop to R83,50 and ANAMINT, which holds a stake in De Beers and other diamond trading companies, was down 200c at R103

Gold shares were firmer on an improved gold price, but the sharp overnight gains in the platinum price failed to move platinum shares. Gold counter WESTERN DEEP LEVELS being 250c higher at R99 and OFSIL was up 100c to R66,50

In platinums LYDENBURG rose 100c to R49, but RUSTENBURG was off 25c at R71,75.

Safegrow turns in excellent performance

Finance Staff STAR 2/4/92

Safegrow Unit Trust's assets appreciated by 75 percent from R24 million to R42 million in the year to March.

"The total return (capital plus income) yielded 28,8 percent Capital growth of 23,5 percent was ahead of the increase in the JSE overall index and well in excess of inflation (232)

An income distribution of 5,23c has been declared

As a result of approval by the Financial Services Board, allowing unit trusts to increase exposure in R2 billion market capitalisation stocks from five percent to 10 percent, Safegro is adopting a more focused investment strategy

Pressure on blue chips

B/Day 2/4/92 (232) (888)

WILLIAM GILFILLAN

BLUE chip shares would face further upward pressure as a result of the recent relaxation of the rules relating to the holdings permitted by unit trusts, Safegro Unit Trust fund manager Len Olivier said yesterday in presenting its quarterly results.

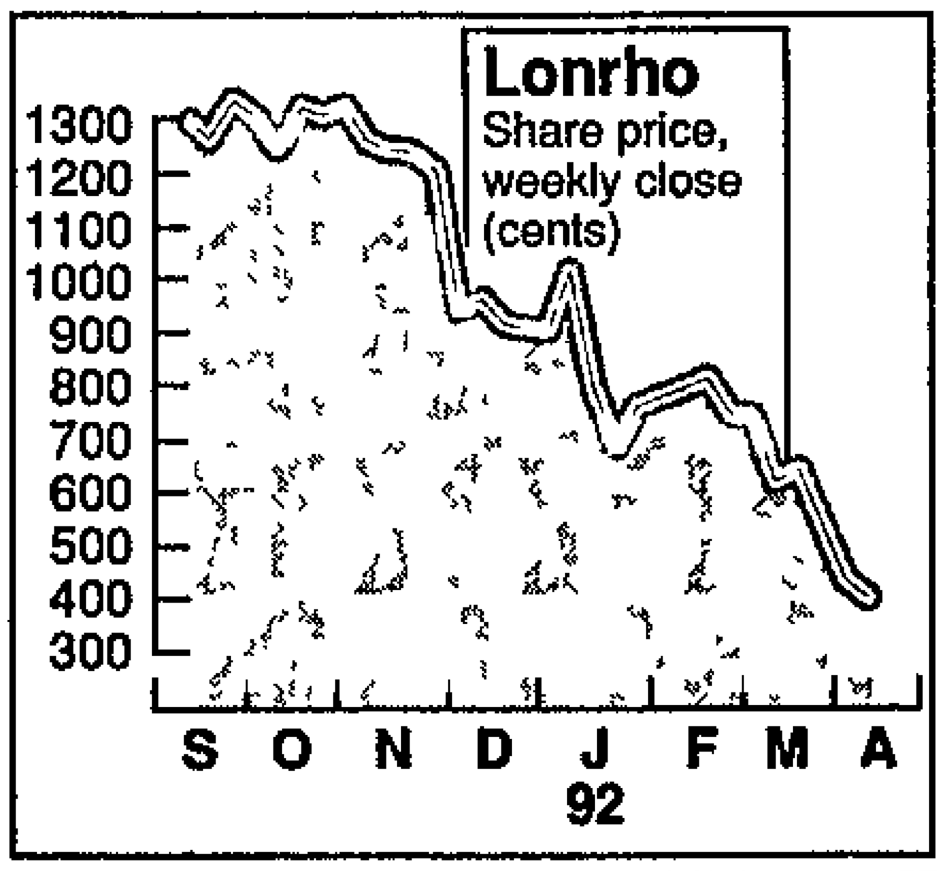
Helped by an 80% jump in contributions, assets increased 75% to R42m in the year to March.

An income distribution of 2,4c a unit for the second half gives a total distribution of 5,23c a unit over the year, yielding 4,3% on yesterday's closing price The total return for the year was 28,8%, of which capital growth comprised 23,5%.

As a unit trust was now allowed to increase its exposure in shares with a market capitalisation of more than R2bn to 10% of the trust's portfolio from 5%, Safegro was to further increase its holdings in the blue chips, Olivier said

Referring to broad strategy, Olivier said there was a clear move away from the traditional consumer sectors towards the fixed investment, export and tourism sectors.

Private consumption expenditure in SA was more than 60% of GDP, whereas the ratio was lower than 50% in Japan.



Graphic RUBY GAY MARTIN Source I NET

Lonrho touches an eight-year low

BDay 2/4/92

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MERVYN HARRIS

LONRHO — in which Old Mutual has built a 3,4% stake — was under renewed pressure on the JSE yesterday. The share touched an eight-year low of 350c before recovering some of its losses as selling dried up. The share closed at 400c for an overall drop of 50c on the day.

The latest Lonrho annual report shows that on January 22, Old Mutual was one of its biggest investors in the embattled conglomerate with 22,3-million shares. Analysts reckon most of the shares were bought at prices in the region of R15 This would indicate that the value of Old Mutual's investment had fallen from R335m to less than R90m at present.

Yesterday it could not be confirmed if any of the selling had been by Old Mutual itself. Old Mutual assistant investments GM Rowland Chute said the life assurer did not comment on individual investments "as a matter of principle".

Yesterday's plunge was a further reac-

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Lonrho

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tion to Lonrho's £177,5m sale of a 33% stake in its UK Metropole Hotel chain to Libya Analysts said the sale could permanently taint Lonrho The deal already has persuaded Lonrho's second largest shareholder, Fidelity Management & Research of the US, to review its 9,8% interest in the conglomerate

The current Lonrho share price compares with R13,50 last September and R16,40 a year ago when SA institutions were reported to be large buyers of the shares With holdings of other domestic institutions, SA interests in the group could be as high as 6%, according to some estimates

FSI/W&A FM 3/4/92 232

Asset sales boost the balance sheet

The market was getting impatient for decisive action from FSI, specifically the sale of either its wholly-owned hosiery interests, or part of Gentyre to Continental Though there was a cautionary more than six months ago, there is no sign of a deal with Continental yet, though it is believed that a technical agreement until 2005 has been signed FSI sources sigh that Germans take their time and the Continental board is happy to take up to 18 months on the deal

Another black mark, Edworks, seems to have been sorted out It has been renamed Safshoe and new management installed under Hilton Nowitz and Henry Ogus, who brought a team with him from the old Bata

And after government overruled the Competition Board's ruling to split up FSI's hosiery interests, allowing Burhose and Arwa to stay a single business, FSI was able to sell the lot to SA Hosiery Co, owned by Kiwi Brands, though there is speculation that US food company Sarah Lee is behind the deal

FSI's operating company W&A got a good price — R200m — which cuts net borrowings by more than R100m to R765m It's roughly double book value and values the hosiery division at about three times the market capitalisation of Frame Group

Deputy chairman Terry Rolfe says that, had the deal taken place at the beginning of 1991, it would have lifted EPS by 4c to 83c The buyer also took up about R37m liabilities The deal was signed on December 24, but announcement was deferred pending the Competition Board ruling

Gearing trimmed

The hosiery sale and a revaluation of plant will trim W&A's gearing from 58% to 42% FSI has been criticised for revaluing assets It brings higher valuations into its balance sheet, which increases equity and, therefore, decreases gearing

W&A has written down its Elcentre stake to market value, as it's accepted the offer to minorities, which contributed to a reduction in shareholders' equity from R765m to R717m There is R215m of convertible debentures, R300 000 preference share capital and R384m minority interests in listed subsidiaries JD Group, Gentyre and Macphail

Several other deals have improved W&A's balance sheet According to chairman Jeff Liebesman, some non-strategic properties have been sold and most of the shares in Elgro Group realised The JD Group debtors' book was sold for R414m to JD Sales, which is controlled by a consortium of banks

A further R157m was invested in offshore acquisitions and funded abroad The share of sales accounted for by foreign interests has increased from 8% to 16%

Liebesman ranks realising debt as one of the most important reasons for recent disposals, the first being to focus the business Degearing is a consequence On the manufacturing side W&A specialises in industrial consumables such as nuts and bolts, scaffolding and tyres, not in fashion or electrical goods On the retail side, JD Group is a good trader, but is not in the banking business — hence the sale of the book

Since July 1991, only cash sales from JD Group have been reflected in W&A's turnover, as JD Sales is not consolidated Rolfe says that though the operating margin has been maintained at 10,4%, on an apples-to-apples basis it has actually increased

W&A, with a p e of 5,1, is slightly better rated than pyramid FSI, which sits on a 4,2 p e FSI's income is convertible debenture interest and dividends from the bottom companies' income, funnelled through Waicor This is used to pay its own redeemable pref dividend and bank overdraft interest, then ordinary and prefered ordinary dividends

HOLDING UP

Year to December 31	1990	1991
Turnover (Rbn)	3,04	3,23
Operating profit (Rm)	317	335
Attributable (Rm)	113	129
Earnings (c)	95	79
Dividends (c)	42	42

Until July 1990 it also held the Form-Scaff scaffolding interests directly For this reason, management says that FSI's 1991 earnings of 47,2c are not comparable to the previous 110,4c

The balance sheet, widely considered risky before, is now in a far better condition W&A has made progress, but it may take time for the market to acknowledge this

Stephen Cranston

MALBAK

Timeous deals

Malbak's solid growth of 29% in attributable earnings over the past six months has gone largely against earlier market expectations and comes when a number of the group's subsidiaries have been feeling the full effect of falling consumer demand

Earlier interim results from companies such as Tedelex, which showed a bottom-line loss close to R6m, and lower earnings from Carlton Paper and Ellerine, seemed to indicate the downturn was finally catching up with the holding company Instead, earnings, at R152m, have grown by nearly five times the rate shown between financial 1990 and 1991

Of course, the structure of the company has changed a lot since last August's annual results Fedfood and SA Druggists have been brought on board and Darling & Hodgson and half of Standard Engineering were sold. Because of the March year-end, Fedfood's and SA Druggists' performance cannot be seen in Malbak's interim results, but the food division has now become Malbak's biggest contributor, adding R36m (24%) of group earnings

Executive chairman Grant Thomas says both Fedfood and SA Druggists will publish annual results for the last time in March, after which they will come into line with the group's August year-end

The acquisition of the two new companies seems to have sharpened the focus of the group Both are due to merge with existing Malbak companies and represent what could be a well-timed strategic investment in food and pharmaceuticals

Thomas says the mergers should take place within the next six months It seems clear the real value of both companies is in the critical mass they will bring to existing operations For example, Fedfood's results are not expected to be outstanding, but combined with the recent good performance by Kanhym, will give Malbak a significant player in the food industry — third in size after Premier and Tiger

Similarly, merging SA Druggists with Malbak's other health-care interests, could help to pull up what is now an underperforming division

The other division to take a knock in the past six months is branded consumer products, where earnings fell by more than half With the sale of certain interests and the R430m rights issue, Malbak is holding a cash balance of R673m (1991 R109m), of which about R550m is at the centre

This, with what Thomas says was tight control of working capital and success in turning non-productive assets into cash, has brought gearing down from 49% to 28%, leaving a pretty healthy balance sheet If cash is offset against borrowings, gearing falls to around 10%

Working capital control is also apparent in the reduced interest bill, down 4,5% to R85m Thomas says some of the cash pile will be used for specific projects, pointing to negotiations between Heinz and Kanhym

He is especially pleased about the forecast for EPS of 117c for the year still being on track, despite an increase of nearly 100m issued shares from the acquisitions This has

Continued P.T.O.

stream in late July with the comple- exports stood at 300-million litres, countries in the region, and in another five in East and Central Africa.

CU's unit trust in good shape

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WILLIAM GILFILLAN

COMMERCIAL Union's general equity unit trust, CU Growth Fund, recorded a 24,9% return on an income-reinvested basis for the 12 months to end-March BDay 3/4/92

Senior GM Roger Wanless said the fund had further added to its holdings in Anglovaal Industries (AVI) and Metropolitan Life and also followed its rights in Clicks, Gencor and AVI.

The fund has disposed of its holding in Absa in view of "a possible digestive problem arising from the Bankorp merger". Concern over the short-term prospects of platinum led it to lighten its holding in JCI.

Top 10 blue chip holdings at the quarter's end included Premier, Richemont, Barlow Rand, SAB, Rustplats, De Beers, Liberty Holdings, Anglo American, and NBS Holdings.

BoE achieves 30,4% return

LINDA ENSOR

CAPE TOWN — The Board of Executors Growth Fund's total return of 30,4% on a repurchase to repurchase basis, achieved in the year to end-March, compares favourably with an inflation rate of 15,8% and the 27,4% total return for the All Share index

In the last quarter a net inflow of R6,6m came into the fund, boosting its total market value to R61,5m The liquidity level was maintained at about 12% BDay 3/4/92

The fund moved into direct holdings of gold shares for the first time during the quarter About 58% of the Growth Fund is invested in industrial and financial shares and 30% in mining shares

Senior portfolio manager Ryk de Klerk said he believed gold shares were discounting a gold price way below the current price in dollar terms and represented good value

He was optimistic about gold's prospects later this year, believing that less gold would come into the market from the former Soviet Union, and industrial demand would pick up as the US and international economies turned

De Klerk believed industrial shares would provide better earnings over the next 12 to 18 months than the financial sector The switch in the interest rate cycle could exert pressure on banks later this year and early next year, De Klerk said The BOE fund had accordingly reduced its weighting in banking shares with the sale of its Absa holding

Another shift in the portfolio was the move away from fixed investment stock towards consumer counters Lonhro, Iscor and Malbak were sold and investments were made in Premier and SA Breweries

Capital gains tax could benefit traders

STAR 4/4/92

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FINANCE STAFF

A recommendation that a capital gains tax be introduced on share investment profits was recently made by the Johannesburg Stock Exchange committee to Finance Minister Barend du Plessis

The hope, said Colin Crowhurst, senior partner in the stock brokerage of Ferguson Brothers, Hall, Stewart, Co Inc, had been that the introduction of the tax as part of the latest Budget would have cleared away the vast amount of uncertainty currently surrounding the taxation of share deals

Arbitrary

Addressing a monthly meeting of The Investors Club he said the stock ex change had taken the view that it would have been better to levy a flat rate capital gains tax at a low level or perhaps 15 percent than to continue with the present arbitrary system in which revenue officers in the different centres all pursued their own individual approaches to the taxation of share profits

One of the most serious problems facing the Johannesburg Stock Exchange was, he said, its relative lack of liquidity The fear of individuals that they might be taxed at their marginal rates if they take capital gains on their share investments was responsible for the extremely low turnover of the JSE

PROPOSAL: Minister Barend du Plessis.

In the event, the Minister had compromised on the issue by lowering the time limit to five years, after which the holder of shares could be assured that he would not be taxed on his investment

Mr Crowhurst told investors that they need not necessarily be taxed as "traders" if they sold shares after holding them for a lesser period of time. Provided investors sold shares in order to reinvest in securities that resulted in a higher dividend, the Receiver of Revenue had shown no inclination to tax them on their capital gains.

Retraction

In a wide-ranging 90-minute question and answer session, Mr Crowhurst also

- Expressed the view that a short-term share market retraction was likely but envisaged steadily rising share prices in the year ahead
- Said that inflation was here to stay and doubted whether levels of less than 10 percent could be reached in the forseeable future
- Said that South Africa would attract substantial foreign investment capital in future provided a clear capitalist-orientated political policy was adopted in the future "We are currently shooting the political rapids but a very calm pool lies ahead" he predicted

JSE seeks liquidity solution

By ZILLA EFRAT

NEW JSE president Roy Andersen is tackling the lack of liquidity in the equity market. S/Times (B455)

He has initiated a JSE research project to examine why too much money chases too little scrip 5/4/92

Mr Andersen will also host a workshop on May 15 to discuss the problem (232)

Bankers and stockbrokers will be invited, as will representatives from institutions, large listed companies, the Reserve Bank and the Financial Services Board.

The intention is to identify the causes of the problem and come up with both short- and long-term solutions, says Mr Andersen

The macro issues to be discussed include foreign-exchange control regulations, tax uncertainties and the lack of discretionary saving in SA

On the micro side, the workshop will examine issues like marketable securities tax, pyramid companies, the costs of share dealings, share prices and the possible need for stock splits

Mr Andersen believes the project is important because SA is trying to attract foreign investment He expects everyone in the market to gain from any positive developments.

Sanlam trusts on share-buying spree

By Tom Hood (SS) (232)

STAR 6/4/92

Five unit trusts in the Sanlam stable went on a share-buying spree in the March quarter, drawing millions from their cash holdings to add to their portfolios And not a single share was sold

This left a sharp drop in liquidity levels — Sanlam Trust down to 7,9 from 8,1 percent, Sanlam Index 8,6 (12,2), Sanlam Dividend 12,4 (16,5), Sanlam Industrial 10,8 (15), Sanlam Mining 8,7 (11,5)

Purchases by Sanlam Trust were Absa (640 000), SA Breweries, Sasol and Tiger Oats

Absa (659 000 shares) was bought by Sanlam Index along with shares in Dries, Kloof, Gencor Beherend, Johnnies, GFSA, SA Brews, Sasol and Tiger Oats

Sanlam Industrial bought SA Brews, Tiger Oats and Lefic Sanlam Mining bought Harties

Sanlam Dividend bought Rusplats, Gencor Beherend, SA Brews and Foschini.

Top performer

Top performer was Sanlam Dividend, with a return of 34,5 percent for the year to March Sanlam Industrial's results were 32,9 percent, followed by Sanlam Trust with 27,9 percent, Sanlam Index with 24,4 percent and Sanlam Mining with 9,1 percent,

Two income distributions announced were Sanlam Trust, 26,8c on May 22, and Sanlam Dividend, 10,5c on May 15

Senior portfolio manager Stafford Thomas believes growth through industrial shares will now level off

"Although the JSE industrial index continued to be the top performer at the beginning of the year, it is not likely that the growth rate will be maintained at such a level

"The large number of rights issues expected will have a further dampening effect on the industrial index"

Sanlam believes present developments in the US economy will have a positive influence on unit trusts here

"We are confident that the market for commodities will make a valuable contribution to performance in future," says Mr Thomas

"The US economy is being stimulated, inter alia by short-term interest rates being at their lowest levels for 27 years, and monetary policy leading to expanded growth in the American money supply"

The results will be positive for South African commodities, he believes

"For example, copper, wood, paper and platinum will probably gain And Sanlam's two major general funds — Sanlam Trust and Sanlam Index Trust — are well placed to benefit from such developments"

Metlife

Metlife Trust's first full quarter yo March achieved a return of 4,8 percent, equal to an annualised 20,75 percent

Portfolio manager Philip Morrall says the fund grew from R13,6 million to R17,4 million and the number of unit holders more than doubled

Two Senbank trusts show improvement

B/Day 7/4/92

(232)

UNIT prices of Senbank's General Trust and the Industrial Trust improved during the first quarter of the year by 6,7% and 8,6% respectively

In the nine months since the conversion of the unit trusts to equity funds from fixed interest funds in June 1991, unitholders earned a return of 16,8% with the General Trust and 20,3% with the Industrial Trust.

The fund managers said in a statement yesterday the Senbank unit trusts performed satisfactorily, despite uncertain conditions on the JSE.

Funds invested in the Senbank unit trusts grew further in the quarter, those of the General Trust by 46,5% to R6,9m and those of the Industrial Trust by 57,2% to R2,4m — Sapa

, April 7 1992

Trusts 'dressed up' at quarter end

B Day 7/4/92 (232)

MERVYN HARRIS and WILLIAM GILFILLAN

INVESTORS wanting to go into unit trusts should make their investments at the beginning of each quarter if they want to get the best returns on their money.

Fund managers often window dress portfolios by ramping up share prices to indicate a better performance at the end of each quarter as part of the competitiveness of the unit trust industry.

As a result, the price of 17 of the 22 general equity funds increased on the last day of the January to March quarter reflecting the increased value of their underlying portfolios.

The share prices are often pushed up on very thin volumes.

But the prices of the units tend to tumble in the first day's trade in the following quarter, although part of this drop is sometimes explained by funds going ex-dividend.

For example, although NBS Hallmark's purchase price dropped more than 3% (28,2c) to 882,26c from 910,46c last Wednesday, the first trading day of the April to June quarter, part of this was explained by the 23,58c dividend payout.

Without exception the price of all the general equity funds dropped on Wednesday

On Tuesday last week, the last trading day of the March quarter, the JSE industrial index rose 30 points to 4 485 with most of the rise coming in the last bout of trading as fund managers lifted index-weighted shares

"There is always much activity that occurs at the end of the quarter which probably coincides with unit trusts' quarter ends," Unit Trust Association executive Ken Burns said.

Stockbrokers are said to phone fund managers a few days before the quarter ends to ask if they want share prices to be ramped up, especially on the thinly traded blue chip shares, an informed source said

However, the sharp falls in the indices last Wednesday were accentuated by the plunge on the Tokyo market which sent nervous tremors through all markets

Window dressing occurs in all markets throughout the world and is especially rife on the Tokyo market

"Tobashi is the name that Japanese give to the common trick of shifting investments from one account to another before the end of a reporting period," said an article in a recent issue of The Economist

However, the higher the quarter-end price, the higher must be the following quarter's entry price

As a result, boosting performance for one quarter will concomitantly reduce the performance for the following quarter.

JSE follows world markets down

MERVYN HARRIS

SHARE prices fell throughout a slow session on Diagonal Street yesterday to close sharply lower across nearly all sectors in thin trading, indicating more sellers than buyers in the market (232)

The overall index ended a nervous session 1,3% or 46 points down at 3 440 with share price losses outpacing gains by seven to one BDay 8/4/92

Dealers said investors opted to sit on the sidelines in the face of a wobbly gold price and jittery global equity markets Another sharp fall on the Tokyo Stock Exchange left the Nikkei index closing below 18 000 for the first time since November 1986.

After shrugging off the continued weakness of the Tokyo market, Wall Street opened softer last night, pulling the London market off its highs of the day

A JSE dealer said "There is a close relationship between Wall Street and our market and people here were very nervous as they wondered how the US market might react to Tokyo's latest 3,5% fall"

The JSE got off to a shaky start as gold looked as if it might pierce through support at \$337 on reports of producer selling But the metal recovered slightly to close in London at \$338,35, down \$1,20 on the day

A firmer finrand kept gold shares under wraps and the all gold index shed 3% to 1 056, its lowest in nearly a year The industrial index fell 1,5% or 70 points to 4 319

But trading on the futures market indicated that the week-long decline on the JSE could be nearing an end Futures tended to bottom out in thin trading with prices marked rather than sold down

National Futures and Options MD Brett Stacey said "The pattern of trading we saw on the futures market is normally associated with a bottoming of prices on the cash market"

US economy 'can aid SA unit trusts'

(232)

BDay 8/4/92

CAPE TOWN — Sanlam Dividend Trust has produced a return of 34,5% for the year ending March 31, according to the latest figures announced by the Association of Unit Trusts.

Sanlam Industrial Trust's results for the same period were 32,9%, followed by Sanlam Trust with 27,9%, Sanlam Index Trust with 24,4% and Sanlam Mining Trust with 9,1%.

Two of Sanlam's unit trusts declared income distributions for the six months to March 31. Sanlam Trust will pay 26,8c per unit on May 22, and investors in Sanlam Dividend Trust will receive 10,5c per unit, paid on May 15

Sanlam said in a statement yesterday it believed present developments in the American economy would have a positive influence on SA unit trusts "We are confident that the market for commodities will make a valuable contribution to performance," said Stafford Thomas, Sanlam Unit Trusts' senior portfolio manager

"The American economy is being stimulated, inter alia, by short term interest rates being at their lowest levels for 27 years, and monetary policy leading to expanded growth in the American money supply"

The results would be positive for SA commodities, he said

"For example, copper, wood, paper and platinum will probably gain And Sanlam's two major general funds — Sanlam Trust and Sanlam Index Trust — are well placed to benefit from such developments"

Thomas believes that growth through industrial shares will level off "Although the JSE Industrial Index continued to be the top performer at the beginning of the year, it is not likely that the growth rate will be maintained at such a level" — Sapa

Nikkei's plunge sends JSE sharply lower

STAR 8/4/92

Derek Tommey (232)

The complete failure so far this week of the Tokyo stock market to react to last week's stimulatory economic package — aimed at reversing the Japanese share price slump — cast a pall of gloom over most of the world's share markets yesterday, including the Johannesburg Stock Exchange.

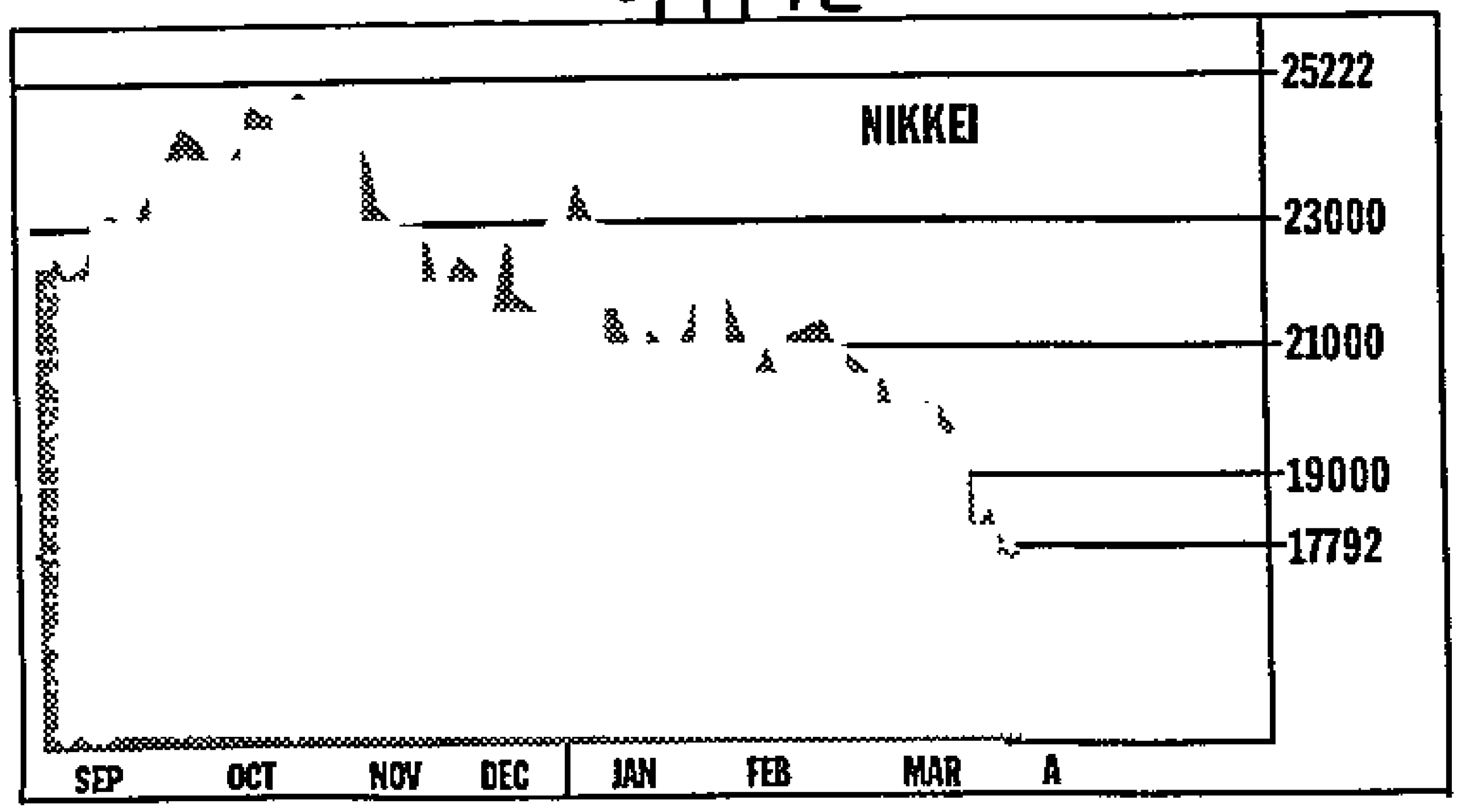
The JSE overall index dropped 46 points to 3440 This followed a 70-point drop in the industrial index to 4319 and a 33-point drop in the gold index to 1055

Initially, it appeared the economic package was having some effect The Nikkei-Dow index, which measures share price movements on the Tokyo exchange, dropped 97 points on Monday, which, after last week's fall of 1 000 points, suggested that perhaps Japanese investors were getting back their nerve

Hope gone

But yesterday's 645-point drop to a six-year low of 17 792 blew away all hopes that the Tokyo share market was stabilising and opened up fears that the slump in Japanese share prices could be landing the Japanese economy in serious difficulty

Those fears grew today when the Nikkei tumbled 602,27 points to close the morning session at



17 189,28

Some traders warned of a "meltdown" in stock prices in a mood of near-panic as market players unloaded bank shares and other corporate cross-holdings, Sapa-Reuter reports

"People in Tokyo have a feeling of total helplessness right now," Amy Yip of Baring Securities told Sapa-Reuter

"They are just sitting on the sidelines, watching the Nikkei hitting new lows Most prefer to be late (for the eventual recovery) than attempting to play the hero," she said

In the past two years the value of shares traded has more than halved, which means that Japanese investors have lost hundreds of billions

Apart from impoverishing ordinary investors and sharply reducing their purchasing power, the reduction in the value of assets has reduced the ability of Japanese banks to lend money

This is an extremely serious development because if industry is unable to get bank loans it could have difficulty raising money for the expansion needed to boost the economy

Although the Tokyo slide has not reached the proportions of the Wall Street crash of 1929, it is pretty certain that bankers and economists around the globe are wondering whether a repeat might be in store

South Africa is not immune to a Japanese economic decline Japan is a major buyer of South African coal, minerals and platinum

Buy gold

Judging by the way the dollar gold price follows the Nikkei index, it probably buys a lot of gold as well

So what happens in Japan in the next few weeks and months is likely to be of major importance to this country

Gold shares on the JSE were under pressure yesterday as the gold price dropped below $340 in London to $338,75 at the afternoon fix and the financial rand firmed further

Selective buying in the late afternoon helped lift share prices off their early lows but trading volumes were thin, reports Sapa

After trading as low as R183,50, Vaal Reefs recovered to R185 from R190 Dries also bounced off its early lows to close a rand down at R37,25

Western Deep Levels lost 100c to R97 and Kloof was also 100c lower at R26,75

Mining financials were tracking golds and leader Anglos closed 75c easier at R115,25, having traded as low as R114,75 Charter was 50c easier at R28,50 and Gold Fields was off 25c at R67,50

Market leader De Beers recovered from an early low point of R83,50 to close at R83,80

Industrials were weaker in thin volumes and leader Barlows lost 75c to R56,25

AVI shed 300c to R120 and Plate Glass, ahead of the closing of the rights offer on Friday, was down 375c to R47 Its nil-paid letters fell 300c to 400c.

Richemont rose from a low of R34,15 to close at R34,25, against R34,75 last Friday.

Among other counters, Remgro fell 125c to R26,25 and integrated energy group Engen was down 150c to R41,50.

Safegro investment strategy

B/Day 9/4/92 (232)

WILLIAM GILFILLAN

UNIT trust Safegro has adopted a strategy of investing in companies with exposure to the fixed investment, export and tourism sectors and away from those dependent on local consumers

Safegro fund manager Len Olivier said local private consumption expenditure as a ratio of GDP was currently over 60%, compared to under 50% in Japan.

Safegro management believed the local ratio would drop and had sold off stock in companies, like Woolworths, who were dependent on local consumers

About 70% percent of Safegro's portfolio comprised only 14 blue chip shares — Richemont, Rembrandt, De Beers, Anglo American, SA Breweries, Sunbop, Afrox, Murray & Roberts, Sasol, Engen, Safren, Anglovaal Industries, Saflife, and Investec

Safegro targeted Richemont because of its superior quality foreign assets and rand hedge value, Olivier explained, while Rembrandt was favoured for its strong ability to generate cash flow

De Beers was linked to the Dow Jones, which would remain firm for a year, and virtually controlled the world diamond market, Olivier said

And Anglo offered investors a good portfolio at a net asset value discount of about 24% Large expansions at Sunbop were expected to result in substantial cash flow benefits and earnings growth

Olivier said Afrox was probably the "bluest of blue chips", never having failed to increase its dividend since listing in 1964 Construction group M & R was selected for its ambitious expansion plans

At Engen, the doubling of the Genref refinery combined with the "attractive refining margins" boded well for earnings growth Safren, a typical "new SA" share, was totally geared for exports through Safmarine, while its link with Kersaf exposed it to local tourist growth

Anglovaal Industries held a "fantastic blue chip portfolio," Olivier said.

He said Safegro believed Investec was "one of the soundest banking groups in the country," while Safegro's affiliate Saflife, a life assurer, had been selected for its gearing to the black market

JSE decline seen as 'correction'

Stock markets battered by selling frenzy

(232)

BlDay 9/4/92.

MERVYN HARRIS

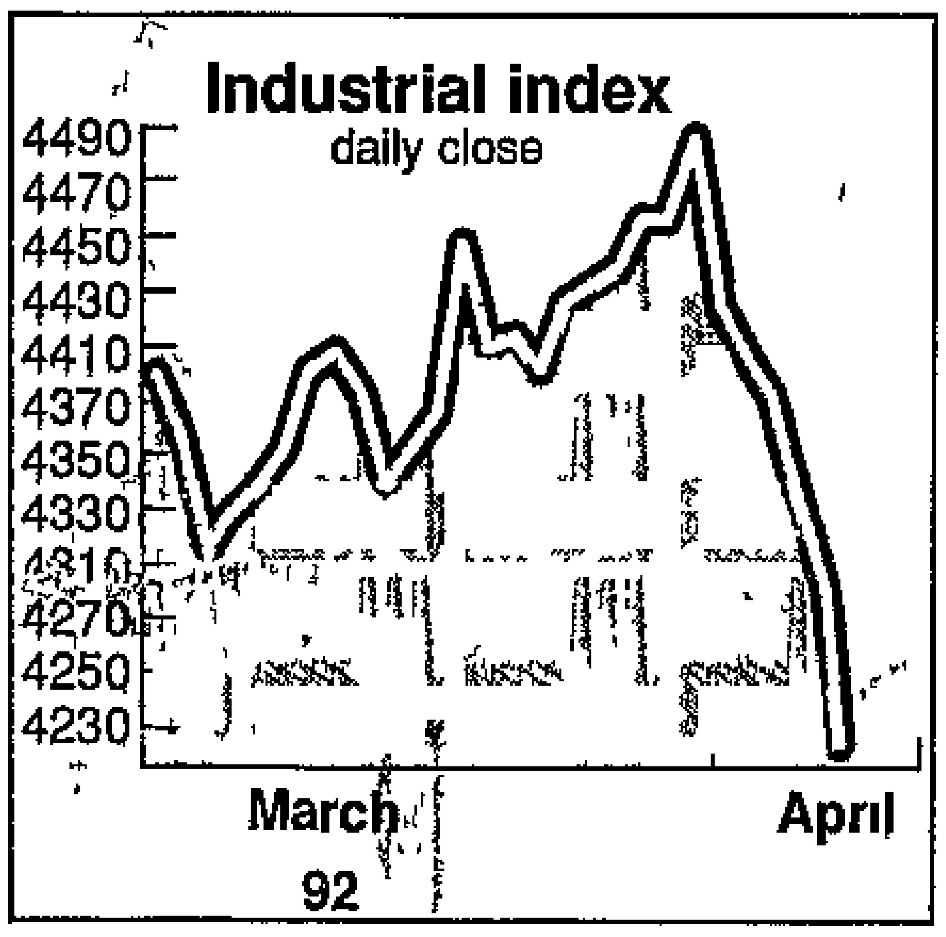
WORLD stock markets continued to crumble yesterday in a domino effect which also ripped through share prices on Diagonal Street.

The wave of selling started in Tokyo, and was engulfing Wall Street for the second successive session last night as concern mounted over the brewing financial crisis in Japan and uncertainty over the strength of the US economic recovery and corporate profits

At one stage on Wall Street yesterday, the "uptick rule" was brought into play to limit further losses after the Dow Jones industrial average fell 50 points

This followed the previous day's biggest one-day fall since mid-November.

Wall Street, in turn, added to the growing woes of the Tokyo stock market which plunged 3,4% for the second successive day yesterday



Graphic LEE EMERTON Source I NET

Reuter reports that the Nikkei index of 225 shares tumbled 614 points to 17 145 amid a mood of near panic and warnings of a "meltdown" as bank shares and other corporate cross-holdings were offloaded.

Ahead of today's UK general election, London's FTSE 100 index declined 11 points to 2 393, the Frankfurt market was down almost 21 points at 1 718, with other markets following on their heels.

The widespread downward drift of shares on the JSE included some shares which have not been regularly traded and the overall index declined 2% or 69 points to 3 371

Declines outpaced gains by 165 shares to 11 but dealers noted no aggressive selling and said share prices tended to be marked down as buyers withdrew orders from the market and retreated to the sidelines

Selective buying of blue chips by institutions at the lower levels enabled the JSE industrial index to come off the bottom after posting a loss of 105 points. It ended 96 points down at 4 223.

An analyst said: "Wall Street triggered this week's decline but we are now seeing the correction of share prices that has been on the cards for a long time

"After lifting prices at the end of the March quarter, mutual funds are not supporting shares and with no buyers around, the market is sliding down"

Investec futures trader Brian Coyne siad "We have now had the correction the market was waiting for. I believe the market is now

□ To Page 2

Markets

BlDay 9/4/92

(232)

□ From Page 1

looking very attractive and shares should be bought aggressively"

Observers were also encouraged by the resilience of the gold price, which closed 40c higher in London at $338,75 after earlier dipping below $337 on speculation that falling markets would lessen inflation

Platinum was also buffeted by expectations that falling markets would lessen demand for the metal and it slipped below the $350 level in London

Analysts said the market was writing off a big chunk of Japanese investment demand after Japanese sales of the metal to offset equity losses

● See Page 6

Doubts over dividend depress Rentbel price

232

BDay 9/4/92

WILLIAM GILFILLAN

THE share price of Rentmeesterbeleggings (Rentbel), which holds a 44% stake in Trek Airways — operator of Luxavia and fledgling local airline Flitestar — has dropped to a 12-month low of 415c

Analysts said the price, currently trading at a 64% discount to net asset value, reflected the market's pessimism over when next a dividend would be paid, as well as its concern about gearing which jumped to 78% at the end of December

Underperforming operations and a large rationalisation programme resulted in Rentbel becoming almost solely reliant on its life assurance subsidiary in the six months to end December, with bottom line losses of R737 000 in this period.

Rentmeester Versekeraars, a niche life assurer in which Rentbel has a 70% interest, and Flitestar were the only two operations to record attributable earnings in the six-month period

However as Flitestar's start-up costs had a negative impact on Trek, the equity accounted contribution from the associate dropped to R157 000 (1990 R2,1m)

Rentbel's remaining principle operation, 78% held netting operation Alnet, made a bottom line loss of R1,2m

In the past year the group sold off its steel and short-term insurance interests and rationalised the Alnet operation

Although this helped stem losses, bottom line results remained in the red

Rentmeester Versekeraars, constituting R18m of the R42m total turnover in the half-year period, and Alnet, constituting the remaining R24m, comprise Rentbel's two principle subsidiary operations

Although Rentbel made an operating profit of R2,3m against the previous year's loss of R8m, an interest payment of R2,6m meant the group had negative interest cover and a taxable loss of R281 000

Rentbel's poor results were exacerbated by its inability to offset losses in Alnet against profits. As a result tax of R433 000 was paid despite the R281 000 taxable loss

MD Johan Vermooten said the contribution from the airline operation was lower as Trek had written off most of the start-up costs in the six months to December

The costs would be capitalised and amortised over the initial lease period of the aircraft when final start-up costs were calculated during the second half year

33,6% reward for investors in unit trust

SYFRETS Growth Fund achieved an all-in return of 33,66% in the year to March — double the inflation rate of 15,6% and placing Syfrets among the front-runners in the unit trust industry (232)

But the investment team has turned cautious on the Johannesburg Stock Exchange. B/Day 9/4/92

The managers said yesterday they had increased cash and liquid assets to 20% of the portfolio, compared with 13,5% in September last year and 15% in December.

Much of Syfrets' concern centres on the US and Japanese markets.

Syfrets Growth Fund manager Tony Gibson said the US stock market continued to lead the pack after the sharply easier monetary policy instituted at the end of December 1991.

He added local shares could not remain isolated from the US and Japanese markets — especially given high current ratings

The Syfrets Growth Fund income distribution of 3,21c makes 11,66c for the past year.

The one-year return has been 33,66%.

Average compound rate of return for the three years to March was 27,03% a year, the fund managers reported

Syfrets Trustee Fund's income distribution for the past quarter amounts to 1,44c a unit.

Syfrets Income Fund's income distribution of 4,19c for the past quarter results in a total distribution of 16,20c for the past 12 months — Sapa

Boumat acquisition to put Saficon in 'the big league'

B/Day 9/4/92 (232)

EDWARD WEST

SAFICON's acquisition of a controlling stake in Boumat would take it into "the big league" on the JSE with combined annual sales forecast to exceed R2,7bn and total assets R800m, Saficon chairman Sidney Borsook said yesterday.

Following the deal with Sanlam guaranteeing a minimum 47% stake, Borsook was confident enough other shareholders would accept the offer to increase the stake to 51%.

Saficon subsidiary Sakers Industrial Holding announced the deal to acquire 27% of Sanlam's holdings in Boumat in February At the same time, Sanlam agreed to sell Saficon additional Boumat shares which, together with those acquired from the other Boumat shareholders, would lift Saficon's stake from 32% to not less than 47% and not more than 51%.

Saficon subsidiary Sakers Industrial Holdings offered to acquire 27% of Boumat's shareholder's shares Those shareholders who accepted the offer were invited to tender to Sakers Industrial any additional Boumat shares they wished to offer

Borsook said Boumat's change from an attributable to a consolidated accounting basis would see Saficon lift sales to R2,8bn from R1,5bn.

Saficon's updated earnings forecast to March 31 1992 is included in the offer document sent to Boumat shareholders today, which shows Saficon could expect to earn 51c a share and pay out dividends of 13c.

This forecast was revised from the previous forecast of 74c and 19c a share respectively at the interim period, which in turn was revised from the 94c and 24c forecast at year-end to March 1991

Saficon paid out a 7c a share interim dividend which means shareholders can expect a 6c a share final dividend while Sakers final dividend — with its 51,4% interest in Saficon — is likely to be 9c a share

Boumat shareholders were told the scheme had been revised and replaced by a dividend policy of 25% of earnings a share The offer document also revised Boumats forecasts to enable shareholders to decide whether to take up the Saficon offer Boumat expects to earn 42c a share and pay a total dividend of 10c a share for the year to March 1992

Reflecting the continuing recession, particularly in the building industry, Boumat previously forecast earnings of 50c a share and dividends of 12c at the interim stage At its year end at March 31 1991, it originally forecast earnings at 67c a share with a dividend of 16c a share for the year to March 1992

Initially, Saficon's increased interest in Boumat was not expected to affect Saficon's earnings in the forthcoming year Had the deal been effective for the year to March 31 1991, its net asset value a share would have declined to 550c from 564c because of goodwill written off on the acquisition and accounting policy changes

The basis of the deal was 12 Saficon shares plus six Saker's shares for every 27 Boumat shares Saficon will be obliged to accept all tenders, with the additional shares available from Sanlam, on a pro-rata basis

REVIEW: *Your money*

Liquidity the key for unit trusts

232

W/Mail 10/4-15/4/92

By REG RUMNEY

LIQUIDITY is the big advantage of unit trusts. You can cash them in at any time.

Unit trusts offer a way of investing directly in to the stock exchange for those (most of us) who don't have the money or expertise or both to buy individual shares.

For those unfamiliar with unit trusts, the idea is that you buy units in a trust, which then buys a spread or portfolio of shares on the stock exchange.

By law, the unit trust cannot invest more than five percent of its total assets in any company. This rule has recently been amended so that a unit trust can have up to 10 percent of a company with a market capitalisation of R2-billion, but the principle remains intact.

There are no tax advantages to buying unit trusts. But the dividend portion — for now, anyway — of income is tax-free and the capital gain on resale is also not taxed. This may change.

You can invest either lump sums in unit trusts or monthly payments. Making regular monthly payments gives the advantage of "rand-cost averaging" which very simply means market fluctuations are ironed out.

Another advantage of unit trusts is that while a broker's commission is built in to the premiums of endowment policies and contributions to retirement annuities (RAs), the cost of buying unit trusts is an initial charge, by the unit trust management company, of five percent of the selling price of the units. The management company also charges 0,75 percent of the market value of the trust a year.

Mostly, the money you invest in an RA or an endowment ends up in the stock exchange. This has for some years offered the best returns of all the investment avenues — interest-bearing investments or property being the others — open to the portfolio managers on whose decisions your eventual payout depends.

Many people have been wary of investing in unit trusts, because they regard the stock exchange as risky, and because many people burnt their fingers with some unfortunate experiences when unit trusts were first launched in South Africa.

Over time unit trusts have both redeemed themselves and shown excellent returns, in line with returns available from the stock market.

The assets of all unit trusts stood at R11,4-billion at the end of last calendar year, up by almost R4-billion on the previous year.

The general equity trusts achieved an average annual return (capital appreciation plus income distribution) of 34,2 percent over 12 months, and 19,7 percent over a five-year period. Both comfortably outstrip inflation.

It seems probable those kind of returns will continue, that inflation will stick at least in double digits for a while, and that stock market investments will keep pace with or outstrip inflation. But the high risk, high return axiom applies: stock markets are prone to fluctuations, corrections, crashes, booms and busts. So you have to take the long view.

Units can be cashed in at any time, though they are best regarded as medium- to long-term investments. Bank on keeping your units for three to five years before reselling them for any satisfactory sort of return.

BUSINESS DAY, Friday, April 10 1992

Property trusts active on JSE

PETER GALLI

PROPERTY trusts featured actively on the JSE yesterday, with Stanprop and Histone being the most actively traded shares by volume on a JSE that reflected thin trade in most other sectors. (232)

"Some institutions and vendors are obviously re-evaluating their portfolios, and in some instances are taking a defensive stance and increasing their exposure to property trusts, which are not regarded as equity but indirect property investments

"Others are obviously reducing their holdings," Frankel Max Pollak analyst John Rayner said.

Stanprop saw 813 800 shares worth R1,383m changing hands in six deals at an unchanged price of 170c a share, while 441 600 Histone shares worth R883 200 traded in two deals.

Capital was the eigth most actively traded share on a volume basis as 161 970 shares worth R437 305 traded in five deals. Metprop also saw 147 000 shares to the value of R330 750 change hands in five deals, 5c down at 230c.

Commenting on the turnover of 900 000 Cenprop shares worth R2,4m on the JSE on Wednesday, Rayner said this was unusual but was probably nothing more than the rationalisation of an institutional portfolio

Such volumes did trade on the property trust board from time to time, he added. "While there are buyers for these shares, the difference between the buyers and sellers price often makes trading difficult."

One source said Cenprop's acquisition of JHI House and its possible involvement in a proposed hotel next to the Mall shopping centre could be the reason for the sale.

"The acquisition of JHI House would have depleted its cash reserves, which means interest income will be lower and the share will not perform as well as it has over the past few years

"This could be the reason why an institution or shareholder would have decided to sell the shares now," he said.

The buyer would have taken a longer-term view on the performance of the shares, he said. Portfolio managers J H Isaacs said no information on the movement of the shares was available as yet, as the deal had not been registered

"In all probability, the shares were bought by an institution and sold by a smaller holder, but we do not as yet know who the buyer or the seller was"

10/4/92

Unit trust reaps benefits from 'yes' result

BDay 10/4/92 (232)

SOUTHERN Life Association has attributed a 35% annualised return for its Southern Life Unit Trust to end-March 1992 in part to the referendum result, an increase in the JSE All Share Index and the lower bank rate

The fund achieved a 26% compound return, beating inflation by more than 11% over the 30 months since its inception, GM, investments, Carel de Ridder said yesterday

The Mining Fund returned 14,6%

A total income distribution of R3m was declared by Southern unit trusts during the quarter, with a dividend of 4,34c a unit from the general equity fund and 3,4c from the specialist mining fund

The mining and equity funds both increased liquidity levels

EERSTELING FM 10/4/92

Expropriation (232)

Minority shareholders should reject the 1c share offer from Esor Establishment SA but face a tough choice between electing to stay in the company in its new form or trying to block the scheme of arrangement in hope of getting a better offer

As it stands, the offer is yet another example of minorities being left whistling in the wind while creditors are paid out almost in full and the assets go to new owners at a knock-down price

The proposal is to consolidate the existing capital from 80m to 800 000 shares and then issue 7,2m new shares to Esor in payment for Esor settling Eersteling's concurrent claims of about R6,5m If minorities approve the scheme but elect to reject the 1c offer and stay in the company their interest will be diluted to 10% of the new equity

An "expropriation" clause in the circular to members states that at least 10% of shareholders, or holders of at least 25% of the equity, must elect to remain invested or all shares will be forcibly redeemed There are some 9 000 shareholders

The circular contains errors concerning compliance with Securities Regulation Panel (SRP) and JSE rules. It states "Neither the offeror, nor any director of the offeror has any direct or indirect registered or beneficial shareholding in Eersteling," and "there are no arrangements with, undertakings by or agreements between the offeror and Eersteling and persons acting in concert with either of them in relation to Eersteling shares"

Those undertakings are not valid Clause 1.7 spells out that major creditor Standard Merchant Bank (SMB) has offered its R5,1m claims to Esor for 80c in the rand as well as its 26,8% shareholding for a nominal R1, and Esor intends voting those shares in favour of the proposals SMB is the major creditor and largest shareholder, having tak-

cont →

FOX FM 10/4/92 (232)

en over the block of shares held by Severin Mining as surety for a debt

Esor's sole director is Swiss businessman Max Glauser Management of Eersteling will be in the hands of a local board headed by Stefan Hayden, whose company, Industrial Brokers, operates as an agent in buying and selling surplus mining equipment

Steen and Franka Severin, who started Eersteling through their holding company Severin Mining, retain a 4% stake Steen Severin says they have no links to Glauser and are not among Eersteling's creditors

Hayden says the arrangement with SMB was made after giving the initial undertakings to the SRP and JSE and it was not practical to change the circular He says despite the error there is no inconsistency with SRP and JSE rules.

Hayden says he intends keeping the mine in operation if his deal goes through, adding that two of the proposed directors — Jack Muir and John Muir — have much experience running this kind of mine in Zimbabwe

Since it was put into liquidation on May 10 Eersteling has been running at a profit — though before interest on the concurrent claims, which total R6,5m

The mine is being run on a contract basis by Peter Cox, a former consultant to Eersteling. The report by liquidator Leslie Cohen of Westrust shows an operating profit of R900 000 for the period May 10-end-January after paying nearly R500 000 fees and costs to liquidators.

Eersteling seems viable if cut back to the correct small-mine size instead of pushing production too high, in terms of the policies of the Severins. Hayden believes the mine to be viable on his terms "Otherwise we would not be making this offer."

The report says fixed assets that could be realised in winding-up have a book value of R20,7m, though realisable market value is put at only R4,4m by an independent appraiser. If all shareholders accept Esor's offer its total outlay (including various other obligations) for full ownership of a debt-free Eersteling would be some R8m

Some minorities feel Esor is trying to railroad them into giving up their rights for almost nothing so it can delist the company Durban shareholder Edward Howard is trying to rally support for a scheme to hold a rights issue, chipping in 10c a share to pay off SMB and take things from there

Hayden says he is happy if minorities stay aboard for the ride and believes enough will do so to maintain the listing.

Asked about the fairness of the offer, Cohen preferred not to comment, pointing out that his responsibility as liquidator is the interests of creditors — who will come well out of the scheme, receiving 90c in the rand, apart from SMB, which has accepted 80c

Blame for Eersteling's demise lies with the Severins Shareholders can't take out their frustration about this on Hayden. However, at 1c a share, minorities have almost nothing to lose. If they are unhappy about being diluted to 10% they can try to block the

Eersteling's Severin *out of the picture*

FM 10/4/92 (232)

scheme of arrangement completely by voting against all proposed resolutions Hope then would be that Esor might sweeten the pot or that another bid might be forthcoming

There are rumours of another bidder but nothing concrete Hayden points out that while there have been many such rumours since May, only his money has been put on the table

Brendan Ryan

INSOLVENCY LAW (232)

Imperfect world

FM 10/4/92

The courts have delivered a blow to creditors who rely on one form of security to protect them in the event of a debtor's insolvency That is a pledge of movable property which has not been "perfected" (delivered to the creditor) but remains in the debtor's possession

In a recent judgment, the Appellate Division of the Supreme Court held that "special notarial bonds" (ie executed before a notary and registered at a deeds office), pledging specified items of movable property, don't

FM 10/4/92 (232)

confer any preference in the event of an insolvency

The Insolvency Act provides a ranking of various categories of debt (generally described as preferent) Any funds in the insolvent estate of an individual or company must satisfy preferent claims in order of ranking Once these have been satisfied, the remainder is used to pay concurrent creditors in whole or in part

The judgment read that the Act confers a preference only on categories specifically described These include "general notarial bonds," pledging the totality of a debtor's movable property, which would, of course, include his stock-in-trade. Other categories entitled to a preference include taxes, salaries and debts secured by pledge of immovable property (ie mortgage)

Werksmans partner Paul Winer says creditors will now have to exercise extreme caution and monitor the affairs of their debtors more closely. If insolvency seems to be threatening, a creditor secured by a special notarial bond should apply to court for an order against the debtor to deliver the property to him.

Significantly, the judgment has no bearing on the countrywide statutory preference accorded to claims secured by general notarial bonds. Winer notes that the position in Natal, relating to special notarial bonds, is different There the law does additionally recognise the creditor's right to a preference, secured through a special notarial bond but not perfected. He argues it might make economic and commercial sense to amend the law applicable to the remainder of SA to make it conform to the position in Natal. ■

Gilts, cash 'better bets than shares'

(232) LINDA ENSOR

CAPE TOWN — Gilts and cash were presently better investment bets than shares, Syfrets portfolio manager Rob Nichol said in the latest Syfrets Quarterly Economic Review.

"Economic recovery in SA is being delayed and high JSE ratings based on earnings growth expectations are premature," Nichol said. B Day

"We expect the capital market to perform well over the next six to 12 months." 10/4/92

Nichol believed the only factors limiting a strong bull market in bonds were the ability of a future government to maintain strict discipline in its monetary and fiscal policy and that a classical bull market required the potential for a large fall in short rates

Syfrets expected the inflation rate to decline to about 13,5% by year-end, the current account to halve as a result of the drought and growth in GDP to be minimal.

The diamond market was expected to remain in the doldrums for most of the year, gold was unlikely to exceed $365/oz because banks were still mobilising their reserves and coal export volumes were likely to remain unchanged with prices softening.

Lonrho ditched at high cost

BDay 10/4/92 (232)

WILLIAM GILFILLAN, LINDA ENSOR and MEREDITH JENSEN

PORTFOLIO managers who climbed into Lonrho for its rand-hedge attributes are nursing burned fingers and trading losses

Several have sold their investments for far less than they paid for them. Some have shuffled their shareholdings into different portfolios or into nominee companies, which are often a last resting place before a sale. Others, peeved at being landed with large chunks of a tumbling stock, have removed their business from the independent portfolio managers who landed them with it.

Basil Read is a case in point.

Its pension fund, advised by Allan Grey, found itself with an uncomfortable holding in Lonrho acquired at an average of more than R15 a share.

It has severed ties with Allan Grey for other reasons and taken its business to Liberty, where it feels more secure.

Grey's drive for rand hedges has worn thin, says a competitor. He believes Grey targeted rand hedges to provide better than average portfolio performances, but came short with Lonrho.

Jack Mitchell, Grey's manager in Cape Town, was reluctant to discuss his company's trading strategy

Sage's unit trusts ditched their Lonrho holdings in the March quarter, Sage Capital Managers MD Theo Greeff reported. The general equity and resource funds sold 360 000 and 68 000 shares respectively

Greeff said the shares had been purchased between March and December 1990 In the early part of that buying programme, Lonrho's share price moved from R15 to R22, subsequently fell to R13 and ended the period at R15. At an average price of R16, the unit trusts would have shelled out about R5,75m and R1m.

As the shares had dropped to an average of R7 in the March quarter, approximate losses of R3,2m and R600 000 would have been taken by the general and resource funds.

The asset bases of the general and resource funds were R990m and R58m respectively at end March.

"It was an investment decision which didn't work out," Greeff said. More attractive alternatives had become available The funds invested in a range of gold and mineral shares — including Freegolds, Harties, Driefontein, Western Deep Levels, Samancor, PPRust, and Gencor — during the quarter.

Greeff noted the trusts had sold the shares "ahead of the bottom".

Old Mutual's mining fund, which held 403 000 Lonrho shares in the quarter to end December, is expected to report its March quarter results next week Lonrho itself reported recently that Old Mutual owned 3,4% of its equity

Unit trusts managed by Liberty and Sanlam had not held Lonrho shares recently, spokesmen for the two groups said yesterday.

Nevertheless, Sanlam held 1,88% of Lonrho's equity until late January, when it transferred it to Central Merchant Bank Nominees (CMBN), a division of Bankorp.

McGregor's Online showed 10 445 929 shares were transferred from Sanlam to a CMBN account by February 7. Sanlam no longer appears as a direct shareholder in Lonrho, according to McGregor's.

Sanlam had bought the shares throughout 1991. At times, they were priced at more than R15. But in January the Lonrho shares plunged from a month high of R10 to 690c

Independent actuaries believe Sanlam paid between R18 and R15 for the shares, which are currently trading at about 485c

Sanlam portfolio management GM Dries du Toit said "A lot of our shares have been reorganised into our subsidiaries to save interest "

Sanlam had "transferred scrip from Cape Town to Johannesburg"

Du Toit confirmed the Lonrho shares were still controlled by Sanlam, not Bankorp

A fund manager from a competing insurance company said it was common practice for insurers to transfer shares out of portfolios into the name of nominee companies without transferring beneficial ownership This was often done as a prelude to selling without disturbing the market Sometimes, Sanlam's competitor added, it was done to avoid the embarrassment of having to disclose ownership of an investment that had turned sour.

Du Toit said "We haven't sold shares to Bankorp CMBN is our nominee company The shares are still ours We have the voting power." Sanlam controlled CMBN, he said.

CMBN portfolio management assistant GM Steve Meintjes contradicted Du Toit, saying Absa controlled CMBN However, Sanlam had chosen "to use the services of CMBN as a client", he said

Sanlam had signed a contract with Central Security Services — a division of Bankorp — making it custodian of its scrip

Anaylsts estimate Sanlam paid close to R50 000 in transfer fees to reorganise its Lonrho shares

The Board of Executors Growth Fund was another of the institutions which baled out of Lonrho, selling its entire stake of 78 000 shares during the quarter to end-March

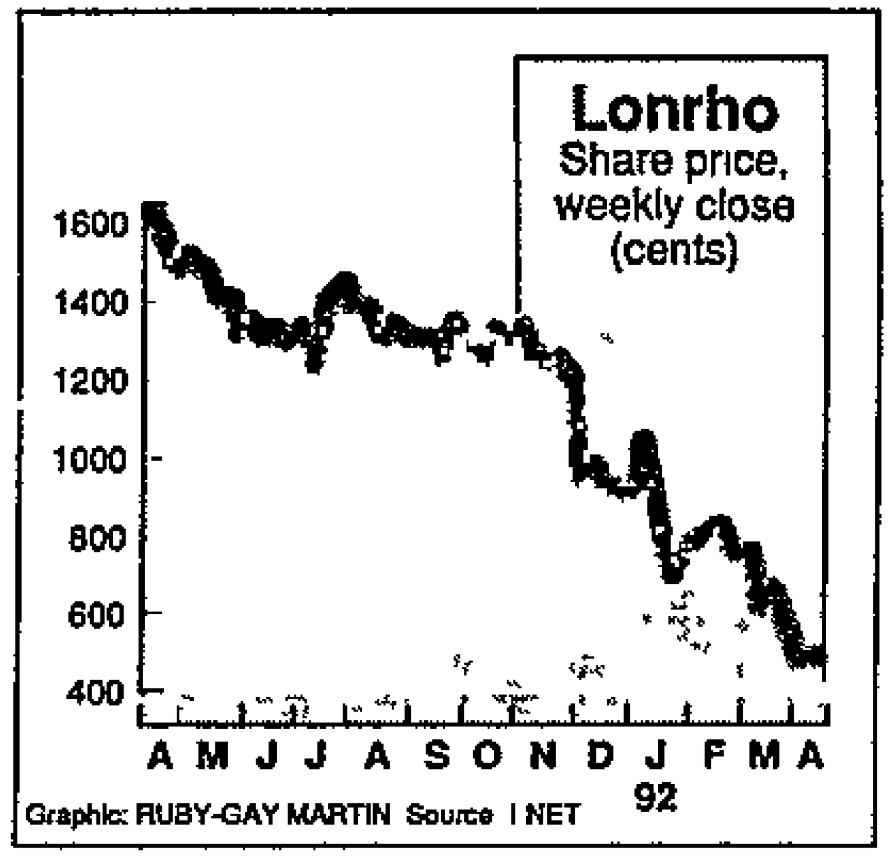
Senior portfolio manager Ryk de Klerk said the collapse of the Robert Maxwell empire sent shivers through the stock market, which feared a repetition in the Lonrho empire, also controlled by a single entrepreneur, Tiny Rowland

This had initiated a wave of selling from London, in spite of the fact that the Lonrho group was fundamentally sound

"We considered that the risk in the company was too high and sold out altogether," De Klerk said, adding that a deal with Libya — Lonrho sold a 33% stake in its UK Metropole Hotel chain to Libya for £177,5m — had enhanced the riskiness of the share

The question to be asked was who had accumulated all the shares in the wave of selling

De Klerk said Gencor had an option to purchase Lonrho's platinum interests He believed it likely that the conglomerate would consider whether to act on this option



LETTERS

Markets are not drowning but waving

Wlmail 10/4 - 15/4/92 (232)

Tremors in the Tokyo stock market sent ripples around the world — including the Johannesburg Stock Exchange.

By **REG RUMNEY**

HISTORY repeated itself this week and showed that these days no stock exchange is an island. A sharp fall in the Nikkei index, the barometer of the Tokyo Stock Exchange, rippled through the world's bourses Shares in New York, London, Hong Kong, and Johannesburg followed.

However, press reports may have been a bit misleading It may always happen of course, but words like "selling frenzy" don't accurately reflect the markets' mid-week mood.

Look at the percentage falls.

While Tokyo fell by around 3,6 percent on Wednesday, the Dow Jones index which measures Wall Street shares fell one percent after a stormy day, and the Financial Times Stock Exchange 100 index which measures Throgmorton Street was down by around half a percent.

The Johannesburg Stock Exchange (JSE) overall index fell two percent or 69 points to 3371,0 on Wednesday. Hardly a crash — yet, at any rate

David Shapiro, of brokers Frankel Kruger Max Pollak, notes the falls have been precipitated by Tokyo's slump. There is no out and out panic on the JSE, he says

So using the word "correction" here is for once not semantics

The puzzle is not that the downward shift happened but that it happened now

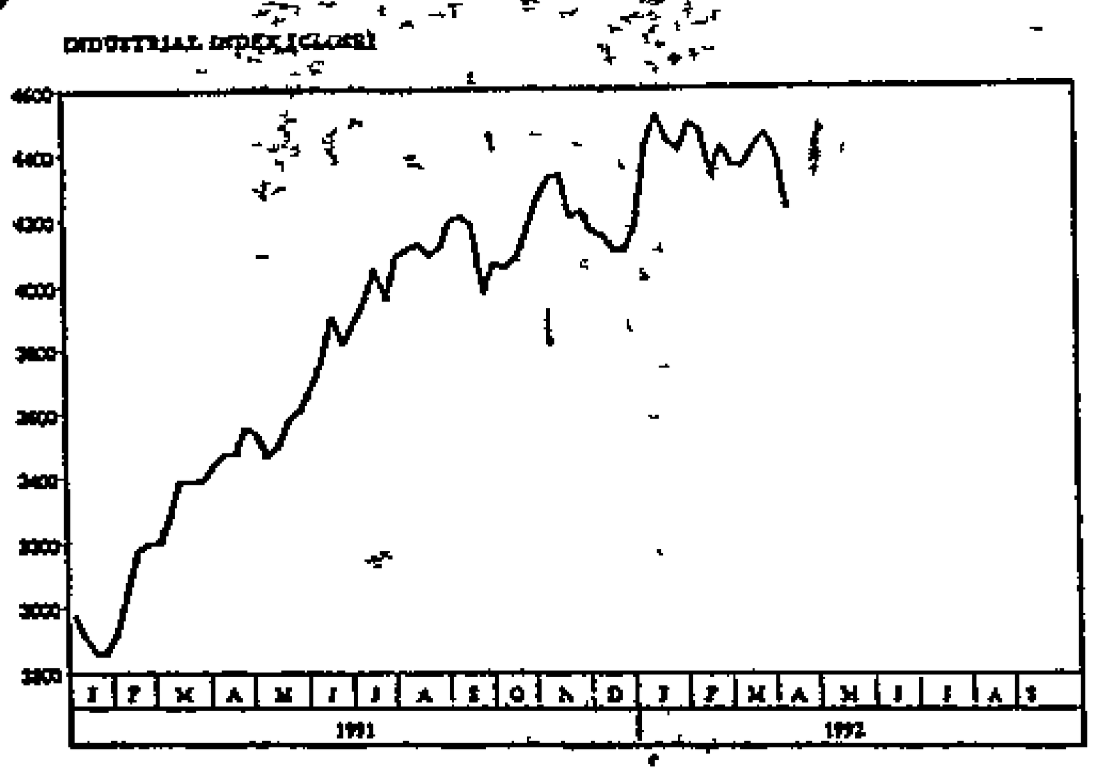
Stock exchanges of major countries have been indifferent not only to the plight of Japan's steadily falling share market — undermined by among other things the ramifications of a shakeout in its overvalued property market — but also to the underlying and continued weakness of their own economies

The Tokyo stock market, as measured by the Nikkei Dow, peaked at the end of 1989 at 39 500 By the end of 1990 it had fallen to 23 000. This week it fell to around 17 000

Before the latest fall, Tokyo had already fallen 26 percent in dollar terms over the past 12 months, while Wall Street had risen by 12,6 percent.

The Morgan Stanley Capital International index fell by eight percent this year — before the latest dip in world markets But that includes big falls in Tokyo, which makes up 28 percent of that particular index Share prices, particularly in Tokyo, have been high

World stock markets, as measured by Morgan Stanley, were recently at a price-earnings ratio of



The graph of the industrial index close, weekly over a year, shows the midweek dip still left the index pretty high.

22. The price-earnings ratio is simply the ratio of price to profits of the overall stock market. This is a widely accepted guide to fundamental value in stock markets

The ratio of 22 is near the peak reached before the 1987 stock market crash

What applies to the world applies to the JSE

"We've been saying for the last nine months the market has gone too far too soon," Sanlam assistant GM portfolio management Dries du Toit "We've followed our rights issues, but we haven't been aggressive buyers because we felt the value wasn't there"

The reasoning is that as recovery shifts ever into the future, it seems, and company profits slow so the market must adjust downwards

"It is a long overdue correction"

Du Toit talks mainly of industrial shares

Shapiro notes that one has to be specific about what industrial shares are overvalued. And what applies to sectors of the industrial market doesn't apply to gold shares. "I think the gold market is oversold," he says

"People have wanted this correction," says Frankel Kruger economist Mike Brown "Big institutions have become more selective about buying"

However, the fall in the JSE is more of a reflection of concerns about Tokyo than about the domestic economy.

And a massive fall in JSE shares is not on the cards, Brown believes "The market will drift along for a while The economy has been slow for some time We are shifting into some sort of recovery"

Dividend yields and earnings yields are not what is desired, he believes

The dividend yield overall on industrial shares has been around 2,6 percent, the earnings yield around 7,1 percent Investors would be more comfortable with a dividend yield of around three percent and with nearer a 10 percent earnings yield

Markets rally, but fears linger

S[Times] [Buss] 12/4/92 232

By CURT VON KEYSERLINGK and JOHN CAVILL

THE world's three biggest stock markets — and the JSE — rallied at the end of the week, but there is still anxiety about Tokyo. Its crisis may not be over.

There are also doubts that the JSE's recovery will be sustained The index has tumbled from a March high on referendum day.

Liberty Asset Management chairman Roy McAlpine says. "International markets look fairly priced, but there is always a possibility of a correction"

Stockbroker Dawid Meades of Meades De Klerk says "Our balance of payments has been weakening since the end of last year and has reduced liquidity Consequently the market started running out of steam in the second half of January

"The market will probably weaken sideways for the rest of the year If there is a crash on Wall Street, it will be felt here"

Mr Meades says that in the past few years, fundamentals such as profit prospects have become less important in determining share prices Instead, prices have been driven by surplus liquidity

Although Tokyo's 7,5% lift on Friday (see graphs which reflect price movements until the day before the rally) was the fourth biggest on record, it was not unexpected The Nikkei Dow index of 225 blue chips had been in free fall from 20 000 in mid March to Thursday's six-year low of 16 598 — a slump of 17%

Since the Tokyo bear market started at the beginning of 1990 the Nikkei has shed nearly 60%

Surplus

Barclays de Zoete Wedd said in London. "It looks like the bounce of a dead cat and a belated reaction to the Bank of Japan's three-quarter-point cut in the discount rate (to 3,75%) plus the government's reflation plans. Japanese stocks do not look cheap — the entire bull market bubble of the 1980s has popped

"But there are worries about forced selling which could still drive the Nikkei another 20% lower"

Tokyo was also reacting to Thursday's surge in New York where another cut in short-term interest rates lifted the Dow Jones Industrial index of 30 top shares by 43 points to 3 225

Mr Meades says "I do not believe the Dow will go higher than 3 600 But that will be the end and it could then fall to about 3 000 Like the JSE, Wall Street is driven by recessionary conditions which have led to surplus liquidity"

The Federal Reserve reduced the Fed funds rate — at which it lends to the banks — to 3,5%, signalling another attempt to boost the burgeoning economic recovery But the Dow's climb back to within 2% of the historic March peak of 3 290 was not matched by the broader-based Standard & Poor composite index.

The S&P's gradual decline since mid-January took it down by 6% at Wednesday's 1992 low — prompted by Tokyo — and although the day's gain of 1,6% pulled the index back above 400, that compares with 421

Investors remain cautious while they wait to see whether the expected profit recovery in the US warrants the high price-earnings ratio of 28

Swing

The knock-on effect into London was compounded by the Conservatives' surprise triumph in the general election In an unprecedented move London's leading brokers stayed open all night and when the outcome became clear after 2 30am on Friday, prices took off

It enabled to the Bank of England to make history by selling £800-million of gilt-edged stock in the early hours

Signs of a late swing to the Conservatives on Thursday raised the Financial Times Stock Exchange (FTSE) index of 100 stocks by 48 points. At the opening of official business it was another 160 up — a two-day leap of 8% — as privatised utilities threatened by Labour Party controls raced ahead

As Business Times went to press, profit-taking had trimmed the FTSE's advance to 138 at 2 575, almost where it was before the start of the election campaign

UK investor confidence has been now bolstered With fears of a run on the pound removed, sterling jumped by nearly 1% against the mark

British interest rates are likely to drop, in line with falling inflation, to fuel recovery

Two concerns remain as the other European and Pacific Rim equity markets reacted positively to Tokyo and New York

The problems of the Japanese banks — the source of 40% of international cross-border lending in 1990 — continue to cast a long shadow They own 22% of Japan's shares and the fall in the Nikkei has eaten a black hole in their capital backing and capacity to lend

The average capital assets ratio of Japanese banks is estimated to have fallen to 7,5% — below the 8% minimum agreed by central banks at the Bank for International Settlements which takes effect on January 1, 1993 Hence bank shares have fallen twice as fast as the Nikkei.

And Japanese investment abroad, the main international source of funding for the US Budget deficit, is falling. In February investment in foreign bonds was $1,4-billion against an average of $4,8 billion in the three previous months

In the US, where economic indicators have been picking up strongly since February, the worry is that the Federal Reserve's latest interest rate cut suggests it is not fully happy with the momentum of economic recovery

It is also being seen as a move to underpin bond prices to limit the impact of Japan's quaking financial markets

THE MONEY MARKETS
by SIMON WILLSON

New fiscal year's state spending raises liquidity

LIQUIDITY remains high in the money market in spite of the authorities' redoubled efforts to drain off the cash tide

BDay 13/4/92

The issuing of about R2bn in RSAs at the beginning of the month did not do the trick, neither did raising the weekly Treasury bill tender by R100m on Friday The main boost to liquidity is the traditional splurge of government spending at the beginning of the new fiscal year The market shortage topped R1bn only once during the week — on Tuesday, and then not by much at R1,05bn

The return on BAs was still about 20 points more attractive to investors than prevailing deposit rates, and this ensured steady demand for acceptances at rates as low as 15,50% at the major commercial banks and a reputed 15,35% at some of the niche institutions

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Capital market players expected bond prices to benefit from the scare in the equity market The theory was that the unsteady share market would frighten funds away from equities and into bonds In the event, however, the bond market came under some selling pressure midweek as cash-strapped dabblers in shares sold off long-dated stock to offset equity market losses

At the beginning of the week there were a lot of bond players long on paper in anticipation of easier rates After a week's low of 16,03%, however, the benchmark Eskom 168 ticked up again close to 16,15% in sympathy with the soft share market, and the bulls found their positions cut by stop-loss orders

Bad debt spiral 'will continue'

BDay 14/4/92 (232)

GERALD REILLY

PRETORIA — Debt judgments against businesses and individuals continue to mount, and economists warn the trend will continue for the rest of the year

International Trust Corporation CE Tony Leng said at the weekend there had been more than 37 000 judgments against individuals in January — a 5% increase on the same month last year The amount involved was R189m — an average of R5 000 a judgment.

Judgments totalling R41m were handed down against businesses in January — 9% up on January 1991.

Company liquidations in January totalled 196 — the highest number for the first month of the year since 1986

Leng said small businesses were particularly at risk and cash flows needed to be carefully monitored.

Business confidence had not reacted significantly to the "yes" vote in the referendum, said Leng.

However, businesses could comfort themselves with the thought that they could emerge from the current stagnant conditions leaner and stronger.

Absa economist Adam Jacobs agreed that the debt spiral would continue for the rest of the year

Indicators included the sharp drop in retail sales, the chronic slide in vehicle sales, the rise in unemployment and salary and wage increases that were lower than last year and, in many cases, below the inflation rate

"Add up all these factors, and include the fact that no personal tax relief was given in the Budget, and the result is lower disposable incomes, falling living standards and the inability of thousands to meet debt commitments," said Jacobs.

The decrease in demand for goods and services would mean company failures would continue.

Probe into market restructuring

JSE gears up for Big Bang deregulation

B|Day 14/4/92 (232)

MERVYN HARRIS

THE JSE is gearing itself for a UK-style Big Bang deregulation of financial markets.

This is the gist of a statement issued by the JSE yesterday saying it has formed a group to look into how it can adapt to changing circumstances in SA

It comes in the light of proposed amendments to the Stock Exchanges Control Act this parliamentary session to permit, but not require, corporate membership, negotiated commissions and dual capacity

JSE committee chairman Humphrey Borkum said in a letter to members last week, released to the media yesterday "The changes in the Act are being made in terms of official competition policy to create a level playing field While they will inevitably raise the level of debate about the future of the JSE, they will not require the JSE to change its structures unless it so determines "

It is nevertheless believed that incoming executive president Roy Andersen feels the broking community should take the initiative in shaping its future.

Andersen will co-ordinate a JSE sub-committee in a research project to be staffed by independent consultants.

"The aim of the research will be to determine as objectively as possible what should be the most efficient structuring of the market This will be in the interests of all South Africans, including the broking community," he said yesterday

Many JSE members believe there is a danger in simply following measures taken by the rest of the world in deregulating financial markets, saying circumstances differ They also feel overseas experience of the Big Bang showed it resulted in increased costs for the small investor

As a self-regulating body, only the JSE can determine its future. Analysts said yesterday a change in the Stock Exchanges Control Act would open the door for negotiated commissions, compared with the present minimum commissions, and make it possible for banks or other institutions to become corporate members It could also allow for dual capacity where brokers could trade as agents and principals

Pressure has been building up for some time for the JSE to be more in tune with free, competitive markets.

The Financial Services Board recommended to government last year that the changes now under consideration be effected in 1992. Board CEO Piet Badenhorst said at the time the moves were in line with foreign trends and widening interest in the SA financial market by overseas securities firms He said the local market suffered from low liquidity, low volumes and high operating costs. Increased involvement by foreign securities firms would alleviate some of these constraints

R15m plus can buy control of airline

B/Day 14/4/92 (227)

WILLIAM GILFILLAN

FOR a mere R15m — plus some premium in order to gain control — some aspirant local entrepreneur could have his dream come true and own his own airline.

Market capitalisation of Rentmeester-beleggings (Rentbel), which has a 44% stake in Trek Airways — operator of Luxavia and fledgling local airline Flitestar — is currently standing at R14,7m, giving a 65% discount to shareholders' funds of R41,9m

As no one party holds more than 50% of the group, control might not be watertight In fact, a 22% holding in Rentbel is currently under legal dispute after the sale to the Jan Lombard consortium of the interest previously held by Rousseau Snyman The Vermooten family, who already hold 22%, has disputed this sale

The De Muelenaere and Bremmer families each hold a 11% stake Further, the company has gearing of 78% and a negative interest cover which could weaken the current shareholders' bargaining position

Its three principal operations include subsidiaries Rentmeester Versekeraars (held 70%) and Alnet (held 78%) and associate Trek Being an associate, Trek is equity accounted and not consolidated, with the result only a small portion of Rentbel shareholders' funds would constitute its Trek interests

The R41,9m in shareholders funds at end December were split as follows share capital and premium accounted for R2,1m, non-distributable reserves, including revaluation reserves of R13,7m and R10m from profits on the sale of investments, came to R29,3m, and distributable reserves were around R10,5m

Rentmeester Versekeraars is a niche life assurer, while Alnet is a netting operation

About 57% of Rentbel's turnover of R42,4m in the six months to December was contributed by the netting subsidiary, with the remaining 43% accounted for by the life assurance operation

Although both Alnet and Rentmeester Versekeraars contributed to Rentbel's trading profits of R2,3m according to MD Joachim Vermooten, management gave no indication on the split between the two (Although Alnet made a positive contribution at trading profit level, it made a bottom-line loss of R1,2m) The equity accounted contribution from Trek fell to R157 000 from R2,1m over the comparable period in the previous year.

Vermooten said the sharp drop resulted from the write-off of start-up costs at Flitestar As Rentbel holds a 44% stake in Trek, and as Rentbel equity accounts the results from the airline group, attributable earnings at Trek dropped to about R356 000 in the six months to December from around R4,7m in the previous period

JSE takes first step towards the 'Big Bang'

STAR 14/4/92

By Magnus Heystek 232

The committee of the Johannesburg Stock Exchange has appointed a sub-committee under the leadership of Professor Michael Katz to co-ordinate research on proposed changes to the Stock Exchanges Control Act

Some of the most crucial aspects to be investigated include corporate membership, negotiated commissions and dual capacity

Sources suggest that the research is being done to prepare the JSE's own "Big Bang" some two to three years away

This could result in banks and other large financial institutions becoming broking members of the JSE and clear the way for these members to conduct screen-trading.

JSE committee chairman Humphrey Borkum said in a letter to members. "The changes to the Act are being made in terms of official competition policy to create a level playing field

Consultants

"While they will inevitably raise the level of debate about the future of the JSE, they will not require the JSE to change its structures unless it so determines"

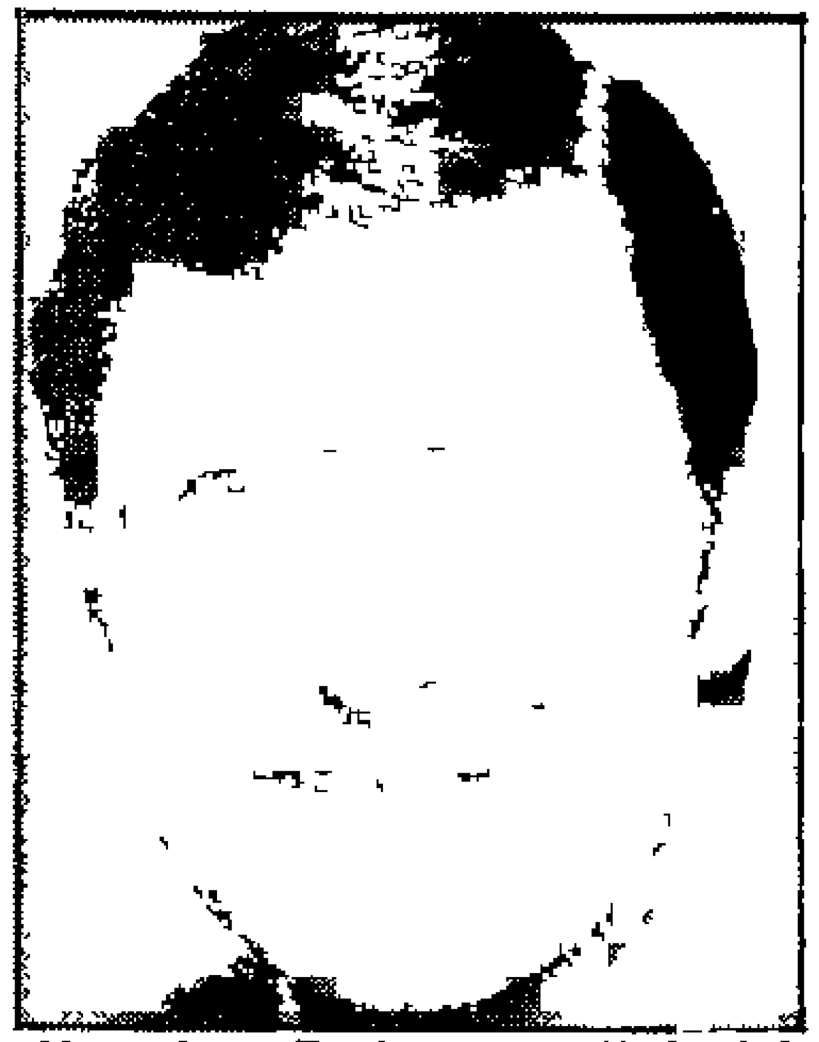
The research project, to be co-ordinated by executive Roy Andersen and staffed by an independent team of outside consultants, aims to ensure that user and participant needs are thoroughly researched so that any decisions are made on the basis of sound facts.

Mr Anderson said yesterday the JSE had an open mind on the proposed changes and would be guided by what the research disclosed

Deadline for the completion of the report was end-September.

Brokers have been urged to give the research team input and co-operation

Members would be advised of and consulted on all major developments, Mr Borkum said



Humphrey Borkum . . "official policy to create a level playing field."

JSE liquidity 'key to luring investors'

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B/Day 15/4/92.

SHERIDAN CONNOLLY

THE JSE was currently looking at unbundling certain of the concentrations of power which had built up during the years of isolation, JSE president-designate Roy Andersen said yesterday.

Speaking at the Institute of Directors conference in Johannesburg, he said the JSE was also addressing the need for improving the liquidity of the stock market in order to ensure that it would be more efficient and more attractive to overseas investors, he said

He said the future of SA was dependent upon sound and efficient markets "The role of the JSE, which is to make the savings of a nation available as cheaply, efficiently and securely as possible to the users of capital will become even more relevant over the next decade"

Andersen said SA needed free market policies which would have sustained long-term benefits Elimination of the financial rand and, indeed, all foreign exchange control regulations would be essential

He said government spending had to be reprioritised and borrowing had to be controlled

SA should avoid the temptation to grasp at short-term solutions to its existing social and economic problems but should rather focus on the long term solutions

Andersen said by remaining part of the First World and competing internationally, SA could create wealth for everyone and thus meet the expectations of the entire population It was therefore important to focus on exports, he said

It was necessary that confidence be restored "This will require a reduction in violence, ongoing progress at Codesa, a clearer indication of the economic policies of a new government and responsible economic statements by our leaders"

Andersen said high interest and tax rates remained a disincentive The timing of the stimulation of the economy and any material decline in the cost of capital had to be carefully planned to synchronise with an upswing in the world economy and the ending of the drought, he said

Certain social issues such as housing, health care, education and employment opportunities would have to be addressed before higher levels of economic growth could be attained

COMPANIES

Unit trust assets exceed R12bn

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WILLIAM GILFILLAN

THE combined value of assets in the country's 41 unit trusts topped the R12bn mark in the March quarter, according to figures from the Association of Unit Trusts (AUP)

The number of unit trust account holders broke the 1-million mark to 1 005 197, of which 811 227 applied to general equity funds. The combined value, which reflects the increase in the price of shares and new inflows of funds from account holders, increased 45,6% to R12,13bn over the 12-month period and 6,5% over the quarter

The general trusts, which consist of 81% of the industry's assets and accounts, reduced their liquidity levels during the quarter At end-March the average liquidity for the general funds declined to 15% from 16% at end-December.

The AUP figures showed the funds earned an average annual return, including both capital appreciation and distribution, of 29,2%, compared with the 27,5% rise in the All Share Index (including dividends) over the comparable period and an inflation rate of around 15,8%

"But investors should note there are a number of factors prevailing which would dictate a cautious attitude to the market in the short term," AUT chairman Clive Turner warned.

Consortium offer on Picardi

BDay 16/4/92

LINDA ENSOR

CAPE TOWN — A consortium of Johannesburg and Cape Town businessmen has made an offer to purchase a major share of the Pickard group

If successful, Picbel, Picardi Holdings (Pichold) and their operating subsidiary Picardi Appliances (Picapli), would probably be delisted and the pyramid structure collapsed The final structure of the new company, and the relative stakes of the consortium and the Pickard family, are still being worked out

An offer would obviously have to be made to minorities were such a deal to go through, but a source said yesterday the offer would be a fair one

Buying out the minorities — which own about 50% of Picbel, 31% of Pichold and 7% of Picapli — would cost about R20m at current prices

(232)

Pichold and Picbel issued a cautionary announcement yesterday saying negotiations were under way which could affect the price of the shares of the two companies and of Picapli

The intentions behind the deal were not clear yesterday but the source categorically denied an asset strip of Picapli was on the cards

He said the potential investors wanted to give fresh impetus to the business

Apart from Picapli, Pichold's only other asset is its highly geared and struggling

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Pickard group

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clothing business

An announcement on the deal is expected within the next two weeks should all the conditions precedent be fulfilled

Pichold, Picbel and Picapli minorities have long been dissatisfied with the running of the company and have had to suffer a long dividend drought Their complaints about the dissipation of Picapli earnings by its holding companies erupted at the last general meeting and the board of directors appointed a merchant bank to look into a restructuring of the group

The group is tightly held with Pickard Family Trust owning about 50% of Picbel, which has a 63,7% stake in Pichold, which in turn owns 94% of Picapli

The group has been through hard times Over the past few years it has sold Union Wine and sunk R18m into Cape Investment Bank Picapli was highly geared and it was unlikely that minorities would see a dividend for some time, the source said

More people invest in unit trusts

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Sowetan 16/4/92

By JOSHUA RABOROKO

SOUTH Africans continued to invest in unit trusts in the first three months of 1992 and now, for the first time, operate more than one million unit trust accounts.

Figures released by the Association of Unit Trusts reveal that there are 1 005 197 unit trust accounts, 811 227 in the popular general equity trust area.

The combined value of the assets in the country's 41 trusts topped the R12-billion mark, also the first time - reflecting an increase of 45,6 percent over the industry's asset base at March 1991

The increase in the past three months was R735,4 million or 6,5 percent, lifting the industry's assets to R12 132,5 million

The chairman of the association Mr Clive Turner, said during the last quarter a net R398,4 million was invested in unit trusts, after deducting R499,7 million repurchases from the three months' sales of R898,1 million

Turner said "After the record net inflow of R1,4 billion in 1991, it is encouraging to see the positive investment trend maintained, especially when the international investment markets are as uncertain as they have been in recent months

The continued confidence which investors display in unit trusts is testimony to the fact that they appreciate that unit trusts are medium to long term investments and the one sure way to outpace inflation over time "

He said that the general trusts again committed funds to equities and slightly reduced their liquidity levels during the quarter

"Investors are primarily attracted to unit trusts because of their excellent long-term performance which was confirmed again this quarter "

The general equity trust category, which constitutes eighty percent of the industry's assets and accounts, again notched up excellent returns These funds earned an average annual total return (that is capital appreciation plus distributions) of 29,2 percent for the 12 months to February

Turner added "Unit trusts have consistently outperformed inflation over time "

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FM 17/4/92 (232)

JSE PROBE FM 17/4/92 (232)

Looking ~~to the~~ new SA

For a long time, the JSE has been undecided about its future structure Now, in the light of changes scheduled to the Stock Exchanges Control Act, under new president Roy Andersen, the committee is launching an extensive research project to determine and evaluate its options

There has been protracted debate within and outside the JSE whether corporate membership and negotiated commissions such as exist in the UK since "Big Bang" should be introduced here Either way, substantial vested interests are involved

The committee has instigated the project to address the matter on a fair basis for everyone concerned and develop a structure that will best benefit the community as a whole Its objective is to determine "the most efficient and effective structure for a stock exchange in the new SA and establish what the inhibiting factors are in the present market," says Andersen

Andersen will co-ordinate the project, as executive head of the JSE But to be seen as scrupulously impartial, the consultants will report to Professor Michael Katz, who is to lead the consulting team and will, in turn, report to Andersen

The consultants will be outside appointments, some of which have already been made, says Andersen The team will be finalised once the full scope of the research and a budget have been determined by the JSE

Andersen expects the first report to be tabled by end-September It will incorporate the findings of both local and foreign research and he gives the assurance it will be published

Gerald Hirshon

FM 17/4/92

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JSE moves to address low volumes

Low volumes have plagued the Traded Options Market (TOM) since its launch in January JSE CE Roy Andersen ascribes this to a lack of liquidity and low volumes in the underlying equities market, and a lack of familiarity about TOM's hedging and speculative opportunities

But National Futures & Options' Brett Stacey says the problem of liquidity is inherent in the JSE. "This will persist while high costs prevent marketmakers (banks and institutions) from buying and selling shares Until they can short shares the underlying equities of TOM will remain illiquid "

Stacey says the issue of costs also deters potential investors Large brokerage fees and clearing costs are attached to transactions on TOM By comparison transactions on options on Safex are over-the-counter, so brokerage fees are negotiable Stacey says the high cost of dealing in the TOM is a result of the large amount spent on its development

This, about R16,2m, included among other things the purchase of hardware and software, software development, administration, foreign consulting fees and foreign research Much of it was caused by delays from constant amendments to work priorities during development. Stacey says these costs could have been avoided by buying into the systems used in, say, Chicago and London

JSE TOM subcommittee chairman Peter Redman says its clearing costs are comparable with those of Safex, while other unofficial options markets attract no clearing costs, they have no formal mechanism to ensure performance

JSE's Andersen *education and promotion will help*

The JSE is also considering a number of innovations to set its options apart A recent example is the decision to approve the listing of scrip-settled options on De Beers and Driefontein, as opposed to the normal cash-settled option

Redman adds that TOM's development costs were unavoidable "We wrongly assumed we could take foreign models and apply them here But every options exchange is unique and we have had to alter things substantially," he says He cites direct participation, the use of cash-settled options and the link with Standard Bank's CAT system as examples of TOM's uniqueness

Lack of education about TOM is cited by the JSE as a cause for concern Andersen says education programmes are being implemented for the public and specific needs of institutional investors Brokers will be used both to participate in the programmes and identify potential investors to target User groups, comprising representatives of different kinds of investors, will also be invited to give insights and proposals, says Andersen

In spite of the problems, the JSE sees signs of encouragement Redman says there has been significant movement of derivatives dealers between institutions, which shows an interest in the market The Reserve Bank has been approached to allow foreign investors to deal in financial rands, which would improve liquidity

Andersen says volumes should increase as these factors take their course "Experience abroad indicates that traded options markets experience exponential growth as the effects of education and promotion are felt TOM will be no different "

Patrick Lawlor

Low-profile Sechold makes light of omens

S|Times (BUSS) [redacted] 19/4/92

A FRIDAY 13th appointment in 1984 with the late Gerhard de Kock, Governer of the Reserve Bank, gave Arthur Kelly and a clutch of financial specialists the green light to establish a discount house.

The licence was granted on the Ides of March the following year and Sechold opened for business on April Fool's Day 1985 with share capital of R2-million.

In spite of the low profile — I am the first journalist in those seven years to interview Mr Kelly, who modestly declined to be photographed — Sechold has been a sterling performer

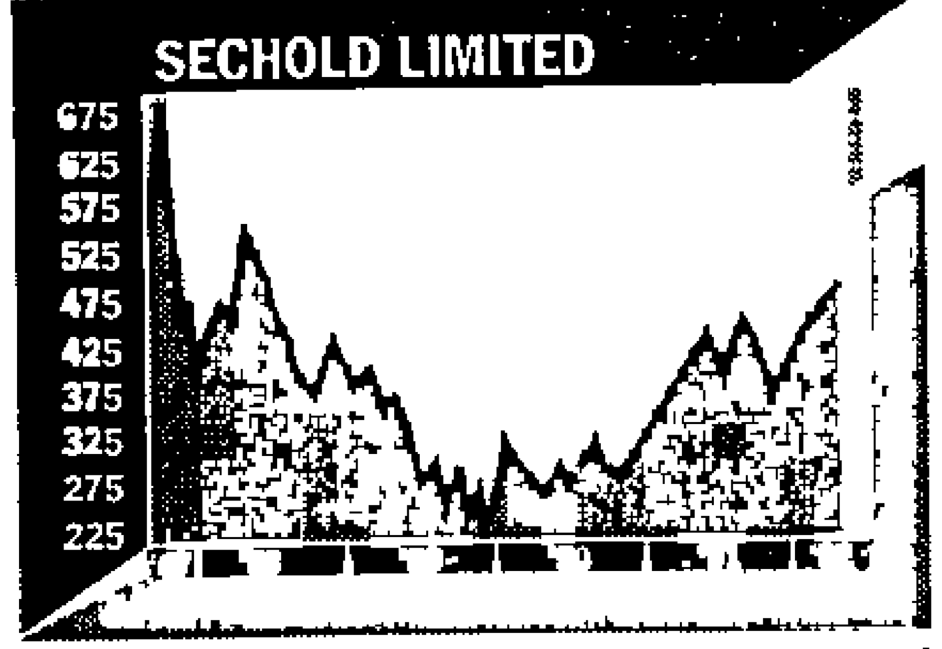
Mr Kelly is managing director of today's listed group, the holding company of four deposit-taking institutions and a portfolio management company

Its main operation is trading in the money, capital and derivatives markets.

Only Secfin Bank, formerly Interbank, lends conventionally, having lately entered the upper-bracket mortgage market and granting customers a preferential rate.

Mr Kelly estimates the asset base of the group at R7,5-billion. This large-sounding figure for such a little-known name is due partly to the nature of its business. Capital coefficients for trading Government stocks are lower than for many other types of banking.

"They are virtually non-risk areas," says Mr Kelly. "It allows us to run a much bigger book. The margins are small and turnover large. Our aim is to provide the best return on shareholders' funds.



"They are all you really have at the end of the day You do not have market capitalisation to play with, only a finite number of rands. You have to ask yourself what you have actually done with them."

There is of course a vested interest Management and staff own 34% of the group. Sechold's return on shareholders' funds is among the highest in the business in recent years and its portfolio management company has outperformed many better-known names.

Sechold s other shareholders are a solid bunch themselves. Old Mutual has 20% Sanlam about 8% — some by virtue of having sold the struggling Interbank to Sechold Absa has 15% and, perhaps surprisingly competitor Rand Merchant Bank has 10%

Sechold bought National Discount House from holding company NDH (itself taken over by CIB) "while it was struggling The introduction of our management style reversed its fortunes" says Mr Kelly

In partnership with Boland Bank it formed District Securities Bank a year ago adding to the core securities trading business in the Cape.

I asked Mr Kelly what was bought when another company was taken over He admitted that there was some overlap, although each bank was carving a niche.

"It is a licence essentially A discount house is basically a cash shell. So if it can be bought at a discount, there is an immediate advantage Many of these names are of long standing and have had their respectability restored with a new lease of life under Sechold management.

"They are only equity-accounted in Sechold, no value is placed on each bank licence. If we wished ever to list one or all of them separately, there would be significant immediate capital appreciation to Sechold.

"There are no immediate plans to do so We are merely laying the foundations should future officers of the company wish to unbundle Sechold."

When Sechold itself was listed in 1987, it raised R9-million. At last June, disclosed cumulative shareholders' funds were R50-million — and that was after R19-million had been paid in dividends.

This exceptional growth had its humble beginnings with Mr Kelly and company seven years ago.

"There were seven of us, but the Reserve Bank ruled that we could not own more than 10% of the initial discount house each, so we had to take on more partners.

"It's grown quite well," he says flatly

The share price would seem to support his view Finely pitched at R3 in 1987, the shares shot almost to R7 before collapsing with the rest of the equity market. It stumbled along at R3, but has risen from a 12 month low of 375c to 510c since October

On a price-earnings ratio of 7,6 times, Sechold might have the largest remaining potential in a heavily punted sector

DIAGONAL STREET by Julie Walker

30% failures on the DCM

S|Times [BUSS] 19/4/92 [redacted]

SINCE the inception of the Development Capital Market on the JSE in 1984, 113 companies have at one time or another been listed on it.

The present tally is 23 — about a quarter of the 1987 peak. Almost half of the companies have been transferred, either through growth or acquisition, to the main board.

Some have followed the reverse path, in the case of cash shells whose new assets have failed to meet main board requirements.

Six have been delisted for reasons other than financial difficulties, but the listings of 30 have been terminated because of money problems.

The JSE says the failure rate of 30% means there is no justification for lowering the listing requirements.

One of the problems that faced the JSE's listings department in the rush by companies to list in 1986 and 1987 was the checking of details in prospectuses.

Often, financial accounts were dressed up to show the prelisting performance in the best possible ligh. This was sometimes achieved by restating figures as though the equity capital to be raised at listing had been part of the company's capital base for the previous few years.

The JSE listing requirements for the DCM are adequate. The problem lies in knowing which company directors told the whole truth in their haste to grab plentiful investment capital.

Auditors, merchant banks, corporate finance houses, public relations consultants and directors readily condoned the fairness and reasonableness of the valuations of assets sold into companies in exchange for control of listed companies to which the minority often provided most worth.

Investors who followed small share issues have been belittled and maligned by the blue-chip brigade. But no matter how diligent the ordinary person might have been in studying a prospectus, he could not reasonably have been expected to see through the carefully constructed smokescreens endorsed by so many professionals.

R174 Lyntex raised R3m from its listing

S|Times [BUSS] 19/4/92 [redacted] 232

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Lyntex was liquidated in April last year and was later delisted.

The Receiver of Revenue, Johannesburg, confirms it is investigating Lyntex's affairs.

After questioning former managing director Tony Teixeira, the taxman found that at the time of the Lyntex listing, the total asset value after the deduction of loans outstanding was R174. It is claimed that no tax was paid on declared profits, but Lyntex declared a dividend of R644 000

The Lyntex prospectus, issued on October 28, 1987, after the stock market collapse, showed audited earnings for the 16 months to June 1987 of R5?6 000 before tax and said no dividend had been declared.

The balance sheet at June 30, 1987, reflected shareholders' funds of R940 000 as most of the R1,18-million capital employed. Share premium of R741 000 arose through the acquisition of subsidiaries for the issue of 9,94-million shares of 2c.

Unlisted investments totalled R200 000, explained as an investment in an export venture.

The auditor was Nicholas Meldau & Co, the sponsoring broker George Huyshamer and the attorney Eugene Marais, Attorneys. Mr Marais was also chairman when the group listed. Joe Berardo became chairman in August 1988 and resigned a year later

On March 21, 1991, Mr Marais and Mr Teixeira signed the financial statements on behalf of the board for the six months to December 1990

The results showed net income after tax of R552 000, net current liabilities of R408 000 and R4,27-million in unlisted investments.

Hardly a fortnight later, several creditors applied for the liquidation of Lyntex and it folded. The liquidation was before Mr Justice Margo, who was chairman of Joe Berardo's Johannesburg Mining & Finance Corporation.

Mr Berardo left SA abruptly three years ago and JMFC had to be rescued.

The joint liquidators of Lyntex Transport Exchange reported that only one of the directors gave them a statement of affairs, but they arrived at a figure for apparent deficit of R511 000

Liabilities totalled R2,24-million and assets R1,7-million.

They found the company's accounting procedures to be inadequate. The books had not been written up for five months before liquidation.

All financial and banking transactions were made by means of a trust account in the legal practice of Mr Marais. Auditors had to be brought in to reconcile the books.

The liquidators said: "The available financial records of the company appear to have grossly overstated the assets and debts of the group's companies, resulting in creditors and particularly shareholders and members of the public concluding a total misapprehension of the financial position an inquiry should be conducted into the affairs of the company and the conduct of its directors."

The liquidators took the view that the main cause of failure of companies in Lyntex was inadequate financial management and records.

The estates of Mr Marais and of Mr Teixeira have since been sequestrated.

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The sequestrator says Mr Teixeira has not replied to his questions and recommended a formal inquiry and he will arrive at his final conclusion in May

Debt help for farmers

S|Times (BUSS) 19/4/92 [redacted]

FARMGROUP the agroforestry management company featured in Business Times last week, has proposed a debt-for-equity swop to help relieve the debt crisis facing farmers.

The scheme, accepted by the Conservative Party, involves the issue of an equity land-bond bearing an 8% tax-free coupon. The bond should be either issued or guaranteed by the Government.

The debt held by commercial banks could be converted to equity bonds and accepted as part of their liquid asset requirements.

FarmGroup says that because insurers are being urged to invest in socially desirable investments they too should be required to place some of their cash flow in bonds.

The Government could even consider some additional form of tax relief whereby the bonds could be marketed to corporates and the public.

The terms of the bonds should be linked in some way to the farmers' performance, with the proviso that they can be redeemed at any time on payment of capital and interest. Fiscal control would be imposed on farmers involved in the scheme to encourage them to redeem their bonds early

Low-profile Sechold makes light of omens

S|Times (BUSS) 19/4/92

A FRIDAY 13th appointment in 1984 with the late Gerhard de Kock, Governer of the Reserve Bank, gave Arthur Kelly and a clutch of financial specialists the green light to establish a discount house.

The licence was granted on the Ides of March the following year and Sechold opened for business on April Fool's Day 1985 with share capital of R2-million

In spite of the low profile — I am the first journalist in those seven years to interview Mr Kelly who modestly declined to be photographed — Sechold has been a sterling performer

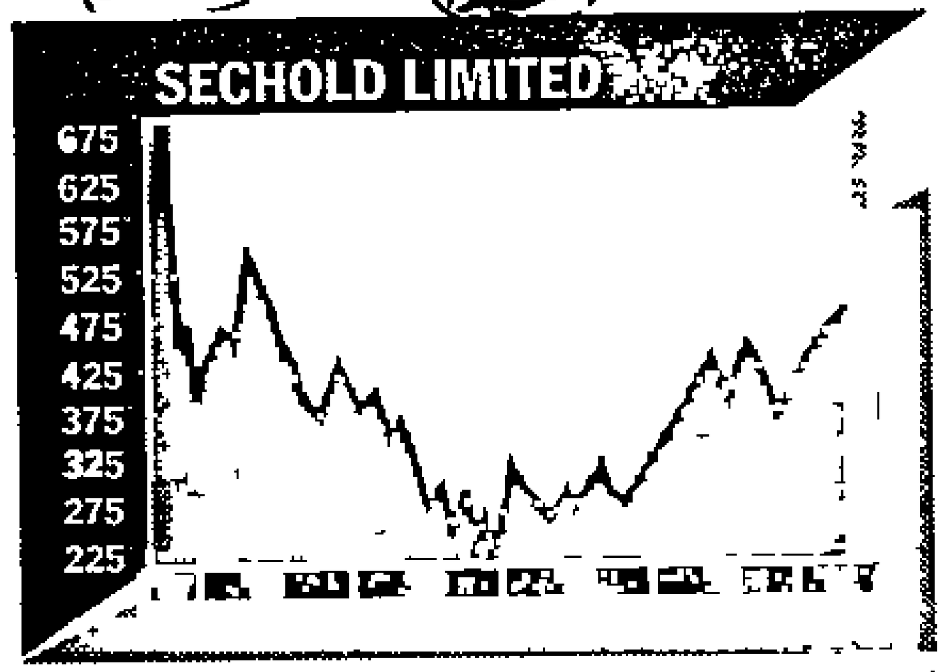
Mr Kelly is managing director of today's listed group, the holding company of four deposit taking institutions and a portfolio management company

Its main operation is trading in the money, capital and derivatives markets.

Only Secfin Bank, formerly Interbank, lends conventionally having lately entered the upper-bracket mortgage market and granting customers a preferential rate.

Mr Kelly estimates the asset base of the group at R7,5-billion. This large-sounding figure for such a little-known name is due partly to the nature of its business. Capital coefficients for trading Government stocks are lower than for many other types of banking.

"They are virtually non-risk areas," says Mr Kelly. "It al-



lows us to run a much bigger book. The margins are small and turnover large. Our aim is to provide the best return on shareholders' funds.

"They are all you really have at the end of the day You do not have market capitalisation to play with, only a finite number of rands. You have to ask yourself what you have actually done with them."

There is of course a vested interest Management and staff own 34% of the group Sechold s return on shareholders' funds is among the highest in the business in recent years and its portfolio management company has outperformed many better known names.

Sechold s other shareholders are a solid bunch themselves. Old Mutual has 20% Sanlam about 8% — some by virtue of having sold the struggling Interbank to Sechold

Absa has 15% and, perhaps surprisingly competitor Rand Merchant Bank has 10%

Sechold bought National Discount House from holding company NDH (itself taken over by CIB) "while it was struggling The introduction of our management style reversed its fortunes' says Mr Kelly

In partnership with Boland Bank it formed District Securities Bank a year ago adding to the core securities trading business in the Cape

I asked Mr Kelly what was bought when another company was taken over He admitted that there was some overlap although each bank was carving a niche

"It is a licence essentially A discount house is basically a cash shell. So if it can be bought at a discount, there is an immediate advantage Many of these names are of long standing and have had their respectability restored with a new lease of life under Sechold management.

"They are only equity-accounted in Sechold, no value is placed on each bank licence. If we wished ever to list one or all of them separately, there would be significant immediate capital appreciation to Sechold.

"There are no immediate plans to do so We are merely laying the foundations should future officers of the company wish to unbundle Sechold."

When Sechold itself was listed in 1987 it raised R9-million. At last June, disclosed cumulative shareholders' funds were R50-million — and that was after R19-million had been paid in dividends.

This exceptional growth had its humble beginnings with Mr Kelly and company seven years ago.

"There were seven of us, but the Reserve Bank ruled that we could not own more than 10% of the initial discount house each so we had to take on more partners.

"It's grown quite well," he says flatly

The share price would seem to support his view Finely pitched at R3 in 1987, the shares shot almost to R7 before collapsing with the rest of the equity market. It stumbled along at R3 but has risen from a 12 month low of 375c to 510c since October

On a price-earnings ratio of 7,6 times, Sechold might have the largest remaining potential in a heavily punted sector

DIAGONAL STREET by Julie Walker

30% failures on the DCM

S|Times (BUSS) 19/4/92 232

SINCE the inception of the Development Capital Market on the JSE in 1984, 113 companies have at one time or another been listed on it.

The present tally is 23 — about a quarter of the 1987 peak. Almost half of the companies have been transferred, either through growth or acquisition, to the main board.

Some have followed the reverse path, in the case of cash shells whose new assets have failed to meet main board requirements.

Six have been delisted for reasons other than financial difficulties, but the listings of 30 have been terminated because of money problems.

The JSE says the failure rate of 30% means there is no justification for lowering the listing requirements.

One of the problems that faced the JSE's listings department in the rush by companies to list in 1986 and 1987 was the checking of details in prospectuses.

Often, financial accounts were dressed up to show the pre-listing performance in the best possible ligh. This was sometimes achieved by restating figures as though the equity capital to be raised at listing had been part of the company's capital base for the previous few years.

The JSE listing requirements for the DCM are adequate. The problem lies in knowing which company directors told the whole truth in their haste to grab plentiful investment capital.

Auditors merchant banks corporate finance houses, public relations consultants and directors readily condoned the fairness and reasonableness of the valuations of assets sold into companies in exchange for control of listed companies to which the minority often provided most worth.

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JSE looks to Big Bang for new life

ST Times (BUSS) 19/4/92 (232)

By CIARAN RYAN and JULIE WALKER

DEREGULATION of the Johannesburg Stock Exchange will breathe new life into a broking community faced with static trading volumes and falling revenue

Deregulation — also known as the Big Bang — will not improve liquidity in the market unless exchange control is relaxed, allowing institutions to invest abroad, say fund managers

Genbel managing director Anton Botha says "The problem with the JSE is not the level of prices, but its illiquidity Institutions cannot sell shares once bought because of the shortage of scrip and this is a function of exchange control

Private

"Another reason for low liquidity on the JSE is that brokers are agents and may not act as principals"

In terms of the Stock Exchanges Control Act, brokers are obliged to charge fixed commissions They may not deal with customers as principals — selling shares from their broking portfolios

Only private individuals may be stockbrokers, a rule which debars institutions or corporations from the JSE

The JSE is investigating deregulation ahead of likely changes to the Stock Exchanges Control Act later this year

The amendments are expected to allow corporate membership of broking firms, negotiated commissions and dual capacity,

ANTON BOTHA Exchange control is to blame

whereby brokers act as both principal and agent in transactions with customers

There are fears, however, that deregulation in SA will be a repeat of the 1986 Big Bang in London where large institutions swallowed independent broking firms, many of which no longer exist.

UAL investment chief Alister Colquhoun says "None of the respectable institutions or brokers here wants to see a repetition of what happened in the City (of London)"

Brokers were insufficiently capitalised to act as both agent and principal, compelling them to seek shotgun marriages with institutions, one supplying the expertise and the other the money

Mr Colquhoun believes the JSE's steps are overdue and welcomes the opportunity for everyone with a different point of view to discuss the proposal without commitment

"In normal business, the supplier looks after its customers and financial institutions are the biggest clients of the JSE More interface between the two should be encouraged"

SA taxation does not encourage the retention of capital by brokers in their firms and few are handsomely capitalised

Mr Colquhoun does not believe that London-style ties between SA market players would necessarily help marketability of shares The JSE encompasses a much narrower range of players than does London and trade might be a good deal smaller

Unfair

But changes to the Act need not translate into a deregulated stock market Provided stockbrokers remained within the law, they could continue to charge fixed commissions and keep corporate members out

But brokers suggest this could be construed as an unfair practice by their biggest customers — the institutions — raising the possibility, however remote, of another stock exchange in a deregulated environment

After the Big Bang, opinions differ on the brokerage fairly due on large deals Broadly speaking, it seldom takes five times more effort on a broker's part to secure a deal of R200-million compared with one of R40-million — but he receives five times the commission

ALISTER COLQUHOUN Please, not another London

Mr Colquhoun believes negotiated commissions would increase the number of large deals and cause a change in perceptions about JSE liquidity

Head of investment at Sanlam, Ronnie Masson, says deregulation does not necessarily imply that brokers will start lining up with institutions

"I would prefer to continue dealing with several broking firms I don't see the need for institutions to get involved in broking

"But what happens when a broking firm we have been dealing with gets into bed with a competitor?"

Squeezed

Deregulation might be good for small brokers reliant on individual customers rather than institutional investors Large brokers acting on behalf of institutions are likely to be squeezed for lower commissions under a negotiated arrangement

Some brokers suggest private customers would be charged higher commissions to offset the loss of revenue from institutions Small brokers could do well in such a situation

Committee expels broker from JSE

BDay 20/4/92

MERVYN HARRIS (232)

STOCKBROKER Koos Bosman was expelled permanently from the JSE yesterday after being found guilty on charges of making profits which prejudiced clients.

The sentence, which included the expulsion of his now defunct firm J Bosman & Co, was made at a special meeting of the JSE general committee in the morning

In a statement authorised yesterday afternoon by president-elect Roy Andersen, the JSE said Bosman was found guilty of a series of offences involving two clients, the NGK Synod Pension Funds and the NGK Officials Pension Funds. The JSE said Bosman sold his own shares through a series of bookovers to the NGK funds The sale prices were always higher than those prevailing on the open market and thereby prejudiced the NGK 30/4/92

The offences, which were prejudicial to the clients and benefited Bosman, were committed between March 1991 and January 1992 They were detected by the JSE inspectorate's surveillance division.

The JSE added that Bosman was found to have abused his client relationships and contravened the JSE's rules relating to the agency capacity of the broking members Bosman's penalty was expulsion on nine counts and a four-week suspension on a 10th The penalties imposed on the firm

☐ To Page 2

Broker

Bl Day 30/4/92

(232) ☐ From Page 1

included on one count suspension as a corporate member for two weeks and on two counts expulsion as a corporate member

Bosman has given notice of his intention to appeal If an appeal is made, it will be to a board appointed by the Finance Minister and made up of an advocate, an accountant with at least 10 years' experience and a third member selected because of his knowledge of the stock exchange

JSE chairman Humphrey Borkum said "Although this case is unfortunate, it is reassuring to note that our systems are identifying breaches This demonstrates everything possible is being done to eliminate malpractice The overwhelming majority of stockbrokers are honest and their interests and the interests of investors must be protected The JSE will not hesitate to continue to take disciplinary action against offenders"

The JSE has yet to decide whether the matter should be referred to the police

● Comment. Page 16

JSE will act to boost options market

B/Day 21/4/92

SHARON WOOD

THE JSE would implement a strategy to boost the illiquid and low-volume Traded Options Market (TOM), JSE executive president-designate Roy Andersen announced at the weekend

The proposed action plan would indentify the inhibitions to trading and provide an education programme to potential market users

Andersen said the problems in the market could be ascribed to the lack of liquidity and low volumes in the underlying equities market, coupled with a lack of familiarity about TOM's hedging and speculative opportunities

(232)

The education programme would be presented to brokers initially and then public courses would be offered

The JSE would consult directly with the 15 broking firms involved in the initial training and testing of TOM to determine their needs

Overseas experience indicated options markets grew on an exponential curve, as the effects of education worked through to investors, said Andersen

JSE in bid to improve TOM trading

STAR 2/4/92 (232)

The Johannesburg Stock Exchange has formulated a strategy to address the problem of low volumes on the Traded Options Market (TOM) since its launch in January

JSE executive president designate Roy Andersen ascribes the problem to a lack of liquidity and low volumes in the underlying equities market, coupled with a lack of familiarity about TOM's hedging and speculative opportunities

"The matter of illiquidity in the equities market is being separately addressed by the JSE As regards our TOM strategy, there are several major factors on which we are focusing immediately," he said.

"The stock exchange is currently implementing an education programme which will provide basic orientation to potential market users This is being presented firstly to the brokers, but regular public courses will be offered later".

The exchange would also create formal "user groups". At these sessions representatives of potential classes of investors on TOM would be invited to make proposals and suggestions for the improvement of the market.

"We will attempt to accommodate these where external factors do not prevail A current example is the informal request for the introduction of scrip-settled options to accommodate certain hedging strategies."

The JSE Committee had approved the listing of scrip-settled options on De Beers and Driefontein. and "we are confirming the current system and procedures' ability to handle these options and will introduce them as soon as possible"

Stokvels stock up on shares

CPress 19/4/92

MONEY TALK

232

HUGE sums of money are still pouring into the unit trust industry, according to the latest quarterly reports of the individual trusts.

Gross purchases of units during the three months to the end of March reached a record of just under R900-million – or 55 percent up on last year's figure

Repurchases of R497-million show many people are taking profits or becoming wary of the high price of industrial shares on the Johannesburg Stock Exchange

Unease has been fuelled by the drought in so many parts of the country which is taking a heavy toll.

Economists estimate the meagre growth rate of one percent predicted for 1992 will be slashed to 0,5 percent because of the drought, while any upturn in the economy has probably been postponed for at least six months.

Industry spokesmen say a surprising number of stokvels now invest in unit trusts on behalf of their members. Just over one million individual unit trust accounts are now being operated by the industry.

The 40 or so unit trusts provide South Africans with a variety of options.

General equity funds, which invest over the spectrum of the stock market, have been the most popular to date.

The least popular are the fixed interest funds specialising in investment in fixed securities. Yet even these funds secured a capital profit for unitholders during the past year because of declines in interest rates.

More adventurous investors can put their money into the specialised gold funds. Gold is going through a rough patch, as evidenced by the closure or partial closure of so many mines.

However, some experts believe it is a question of time before the gold price recovers, with spectacular returns in its wake.

The high risks involved in gold investment are decreased through unit trusts because of the emphasis on a spread of quality shares.

An investment in the depressed mining sector shares will be rewarding when world commodity prices recover. A regular monthly investment in one of the mining funds, which normally includes gold shares in the portfolio, can be worthwhile

Be cautious with trusts specialising in high-priced industrial shares, as the current downward trend is likely to deepen.

INSOLVENCY LAW (232)
FM 24|4|92

Unsettling judgment

A long-standing commercial practice has been overturned by a recent judgment in the Witwatersrand Local Division of the Supreme Court The judgment, delivered by Judge Michael Stegmann, has created an untenable state of affairs in the Transvaal for many companies that are technically insolvent but potentially viable with backing from shareholders

In the past, says Oshy Tugendhaft, a senior partner in Moss-Morris Mendelow Browde, "subordination agreements" between a company and its shareholders gave concurrent creditors preference over shareholders This was generally considered as a restoration of solvency provided the company's assets exceeded liabilities minus shareholders' claims This interpretation had the strong support of accountants

The judgment holds that subordination agreements are invalid in terms of insolvency law This brings the Transvaal courts, yet again, into conflict with the Cape and Natal courts — which continue to accept the validity of subordinations in relation to corporate solvency

The issue arose in the case of De Villiers and Carbon Developments (Pty) The liquidators of the company applied for leave to convene meetings of creditors to consider a scheme of arrangement Concurrent creditors were informed that they would receive nothing if the company were wound up as insolvent, while the proposed scheme would give them a small dividend

It was also argued that creditors could not recover from the directors personally on the ground that the company had been trading

Continue →

FM 24|4|92 (232)

while insolvent — because there was a subordination agreement Judge Stegmann rejected this argument He held that a subordination agreement could never cure insolvency because it could always be cancelled before all creditors had become aware of it and had accepted its benefits (A third party's knowledge and acceptance of an agreement between two other parties, for his benefit, is a technical requirement to validate the agreement)

The *Guide*, issued by the SA Institute of Chartered Accountants (SAICA), recommends that auditors give full weight to subordination agreements — provided only that they remain uncancelled at the time of the auditor's report and provided that assets exceed liabilities minus shareholders' claims SAICA holds that a subordination agreement absolves an auditor from the obligation to qualify a company's accounts

But Judge Stegmann said subordination agreements are mere window-dressing to the detriment of creditors and SAICA's *Guide* is therefore unsound Subordinations cannot absolve auditors from their duty to qualify the accounts of a company by noting a "material irregularity" in terms of the Public Accountants & Auditors Act

Tugendhaft considers the judgment has seriously impaired the position of directors As a result of the conflicting decisions of different divisions of the Supreme Court, a director's liability for company debts will depend on the jurisdiction within which it operates

This is an untenable state of affairs which the authorities need to address urgently To restore consistency and certainty, amending legislation is needed One solution would be to validate the back-ranking of shareholders' claims through subordination agreements, subject both to registration (perhaps at the office of the Registrar of Companies) and to notification of all outstanding creditors at the time the subordination agreement was signed ■

How to protect yourself against the possibility of a world-wide 'adjustment'

STAR 25/4/92 (232)

FINANCE STAFF

MUCH has been written recently about the Dow Jones and Nikkei movements and it is now clear that the worldwide recession may last longer than expected

The JSE overall index, too, has shown a 9 percent decrease since the beginning of the year

These symptoms are a good reason for reassessing the security of one's capital should a major adjustment occur in Tokyo or New York. Johannesburg financial advisor Graham Schneeberger, from Professional Money Management, says

"In the rapidly changing investment world the lead time between event and reaction is critical. Even more vital is the ability to pre-empt the event These factors are the difference between making large profits and missing the boat"

Everyone is warning against a correction in world markets. But how can the investor protect himself?

Too many people believe that because we are a closed economy and the JSE is supported by the weight of institutional funds, it is better able to cope in such a situation Events in 1969 and 1987 when the markets fell by 75 percent and 47 percent respectively proved this view to be a fallacy

The good news, says Schneeberger, is that one can protect one's investments by selling 10 percent of the value of one's portfolio and using the proceeds to protect the remaining 90 percent with the sophisticated use of put options on the futures exchange, with no risk to one's capital

In SA there is a marketing-induced perception that money in unit trusts and insurance portfolios is secure against fluctuations and that growth of 30 percent and upwards is the norm Neither belief is true and many people are exposed through unduly large investments in these areas

A good example of what can happen can be seen in the following drop in value of four top shares between October 1987 and February 1988 R100 000 split four ways into De Beers, Anglo Am, Barlows, Kloof would have shown the losses illustrated in the accompanying table

Capitalising one's profits and hedging against a fall in the market will provide liquidity to reinvest at a later date

The cost of the option must be seen as an "insurance policy" against a marked drop in equity values Should the market not correct and rise in fact, the capital appreciation on the rest of one's equity portfolio will make up the opportunity cost of the option

It's like taking out an insurance policy on your life Only in the case of your death does the policy pay out However, should you not die, you cannot hope to get your premiums back

● Schneeberger can be contacted at (012) 880-6408)

	Oct 87	Feb 88	Diff	%	Shares	Loss
De Beers	5 825	2 280	−3 545	61%	429	−15 215
Anglo Am	9 300	4 450	−4 850	52%	269	−13 046
Barlows	2 850	1 850	−1 000	45%	877	−8 770
Kloof	5 050	2 950	−2 100	42%	495	−10 396
						−R47 427

Value of R100 000 portfolio of shares after correction R52 573,00, that is a 47,50 percent loss in 17 weeks

JSE takes a step on the journey to a brave new world

BDay 24/4/92 **MERVYN HARRIS** 232

THE JSE has taken the first tentative steps in a process of reregulation which will bring it in line with the changing domestic environment and SA's re-entry into the global financial arena

Incoming executive president Roy Andersen will co-ordinate a subcommittee to determine the most efficient structuring of the market The subcommittee will be chaired by Prof Michael Katz, and outside consultants have been approached to ensure that an impartial and objective view of the JSE's current and future role is obtained

It comes after proposed amendments to the Stock Exchanges Control Act this Parliamentary session to permit, but not require, corporate membership, negotiated commissions and dual capacity They are part of a drive by the Financial Services Board to enhance competition

As a self-regulatory body, the JSE has the option to choose the direction in which it will move But opinion among players and observers indicates that there is no simple solution to a complex issue The transformation of the market is therefore likely to be phased in gradually rather than in a one-time Big Bang deregulation as happened in the UK

A major trend of overseas equity markets has been the replacement of the open outcry system on the trading floor by computerised screen trading The most advanced form of screen trading is fully automated without the intervention of dealers and where all data are computerised in a paperless market which makes the delivery of scrip redundant. More common is the system where dealers operate from screens at trading desks in their firm It is some form of this latter system which is being advocated in SA

Frankel, Max Pollak, Vinderine senior partner David Shapiro, who has just returned from visiting overseas markets, says "With world markets moving rapidly towards computerisation and higher technology, it will be difficult for the JSE to buck this trend in the longer term"

But there is widespread support among brokers for the retention of the open outcry system They claim that SA differs from overseas markets in that the JSE is a regional market imprisoned by foreign exchange control which forbids the free outflow of capital

"The advantage of an open outcry system is that shares tend to be exposed to a central market place This enables trading in large lines of shares, such as bookover deals, to be challenged by other dealers," says Richard Stuart of stockbrokers Martin & Co

The questions of corporate membership and of moving away from fixed to negotiated commissions, and from single to dual capacity trading, are interrelated And they are all connected with improving liquidity As Rand Merchant Bank chairman G T Ferreira, who has been in the forefront of calls for JSE deregulation puts it. "The most important thing for any market to operate efficiently is liquidity This is the basic flaw in the JSE Allowing corporate membership, negotiated commissions and dual capacity will open the way for market-making which will enhance liquidity"

Regarding fixed commissions, the present sliding scale ranges from 1,2% on small deals of R1 500 to 0,2% on deals of R1,5m or higher A criticism of the UK's Big Bang was that it resulted in higher minimum charges for smaller investors The virtual disappearance of the smaller investor on the JSE since the collapse of share prices in October 1987 might make the issue seem less relevant in SA But then the small investor could always return in the next listings boom More important, according to Stuart, is that there must be an element of cross subsidisation between blue chip and other shares "The JSE is a national market and it is necessary to cater not only for the 20 or so blue chip shares but the other 750 shares as well"

The present single capacity system means that brokers act only as agents on behalf of clients, whereas in dual capacity they are also principals The gilt market operates with dual capacity, and in certain cases a broker might buy shares and sell them at a higher price to another broker or in arbitrage dealings on overseas markets

A shift to a dual capacity system would enable brokers to act as principals and hence market-makers Instead of commission, the fee would be the difference between the buying and selling prices of the shares

☐ ANDERSEN

But capital is needed to act as principals Some observers see a partial solution to this problem in a gradual phasing in of corporate membership by initially allowing financial institutions only a 20% or 30% stake in a broking firm Most stockbroking firms on the JSE are relatively small and, being agents, they don't have to be well capitalised

The deregulation of the UK market resulted in merchant and other banks swallowing broking firms and there is concern this may happen here But some of the big banks might not favour becoming principals, as a conflict of interest could arise. Would Anglos, for instance, give the bulk of its share dealing business to Firstbank in which it has a major stake? Many financial institutions are understood to prefer an agency rather than a principal system where they could be more easily ripped off by being charged much higher prices for shares than the broker originally paid

Stuart says it could be demonstrated that the call by small pressure groups, especially merchant banks, for a revamp of the JSE was not necessarily in the national interest "Only the big companies with their blue chip shares would benefit from those who want to make markets in a few tradeable stocks Experience in the UK since Big Bang has shown that the problem is how to improve the liquidity of untradeable stocks" Ferreira concedes that corporate members such as merchant banks would only want to make markets in blue chip shares

"But smaller shares will always be less liquid than bigger-type shares"

To many observers, the problem of liquidity starts with foreign exchange control which has resulted in the dominance of the market by institutions because of their inability to invest offshore The pre-eminence of institutional investors on the market is much greater than overseas, where private investors still play a big part The problem would not be solved by opening up the JSE to outsiders but rather by allowing offshore investments Once exchange control was abolished, screen dealings could come into play for overseas investors "What worries people is not change on the JSE but how it will be implemented," a broker says

High level technology is a feature of major overseas markets, and for SA to catch up will need major investments in this field Shapiro says broking firms would not, on their own, be able to afford high technology costs "Information is flowing more rapidly across global financial markets which have become increasingly more volatile and prone to shifts from derivative markets These factors make it even more imperative to have the intervention of a market-maker, someone who will be the last resort as a buyer and seller of shares to ensure continued liquidity," he says

Stuart cautions, however, that changes to the market must be made in the context of the new SA. "The ANC will not support a market which mainly serves the big companies It will want a market that also supports smaller companies Changes on the JSE must go hand in hand with changes to the whole corporate ownership structure. It must take place as part of the transformation of the country The restructuring of the financial environment will entail the democratisation of business as well as of politics"

After years of being seen as a closed shop determined only to protect vested interests, the JSE's initiative in accepting that change is inevitable must be welcomed Only by involving all the major users of the market, and adapting it to meet SA's specific needs, will the JSE be able to determine its own destiny

T&N's set to prosper after stable cleaning

S Times (Buss) 26/4/92

T&N Holdings is poised to do well in what is expected to be a tough year

A year ago, management was faced with a major challenge to profitability

It responded in fine style, earnings a share doubling to 70c and the dividend rising from 13,8 to 24c in the year to December 1991 The company's performance in the previous year was poor

Group financial director Christopher Good says 1990 was particularly difficult because customers destocked and there was a serious strike. As a result management looked at its strategy from top to bottom. Everything was covered. production, labour relations, asset management, marketing and distribution and other factors which affected efficiency

There were no sacred cows.

It was important that management was able to take a flexible and self-critical attitude. In particular, managers were able to react to lower as well as higher demand.

All too often management and labour fight for a bigger share of the cake. It does not occur to them to get together and bake a bigger cake, but this is what happened at T&N's Ferodo division

After a fairly lengthy strike, management insisted on improved productivity as part of the deal to increase wages. As a result, profitability was higher than ever

Ferodo also gained greater market share.

Mr Good says it is best for every country to specialise in what it can produce most cheaply

T&N plc, the UK parent, has adopted a policy which has helped exports considerably There are certain niche market products which T&N SA can produce more cheaply than others in the T&N international group.

The SA company will produce them and export for the entire group. Exports now make up more than 10% of turnover and are expected to increase at competitive prices.

With its recently discovered flexibility, management has learned to cope with increased imports.

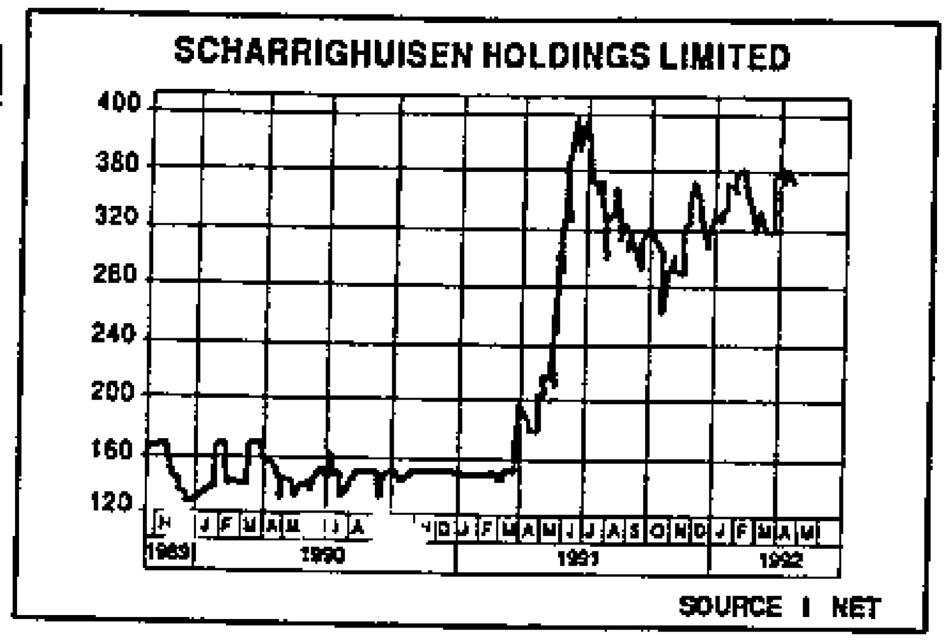
Although debt is too high and interest charges are not well covered, better asset management and favourable cash flow from operations are steadily remedying the situation.

A total of 64% of the automotive division's turnover supplies the replacement market and only 22% original equipment. The average age of the national car park has increased from five to eight years and can be expected to lengthen further This must benefit T&N

Mr Good is cautious about prospects for 1992 because motor-vehicle sales are well down and trading conditions are expected to remain difficult.

However, customer destocking, which has continued longer than expected, appears to be more or less over

Loss areas are being tackled and are expected to benefit from changes implemented in 1991



THE secret to Scharrighuisen's success in tough times lies in the efficient use of plant in profitable niche markets.

Scharig increased earnings a share by 85% to 70,8c and the dividend by 138% to 25c in the year to December 1991

Few listed companies can claim such a record in these times.

Joint managing director Laurie Fisher says the company's main activity is in open-cast coal contracting and rehabilitation of collieries for Gencor, Rand Mines and Sasol, among others.

Scharig key to success

S Times (Buss) 26/4/92

Because Scharig operates for third parties, it avoids the risk of trading for its own account. Asset management is simpler It consists of the judicious buying of plant for expansion without running up too much debt. This is an important advantage, particularly in a recession.

The lifting of sanctions has reopened France and Denmark to SA collieries, so that even if domestic demand is static, exports should grow SA coal exports are concentrated on Europe, where ageing collieries are becoming more expensive to run and are thus reducing output.

Environmental legislation in SA is being more strictly enforced, so Scharig is enjoying more rehabilitation contracts. Last year it put out an underground fire which had caused major environmental problems from a closed-down mine near Witbank.

Scharig's basic operating procedure is the most profitable use of plant in any area where it has the expertise. This means that it can expand into related plant based activities, and can follow a judicious policy of acquiring other businesses.

Mr Fisher says the recession gives the opportunity to buy such businesses cheaply

Scharig's favourable rating on the JSE often gives it the choice to pay for an acquisitions either with cash or shares. This gives the advantage of flexibility

Because Scharig last year bought two subsidiaries of Frigate, and not Frigate itself, it is free of the controversy surrounding that company However, it enjoys a substantial tax loss from its acquisitions.

Scharig has issued a warning. In spite of the purchase of the Frigate subsidiaries last year, the company is in a position to make additional takeovers. The warning suggests that such a deal will be announced shortly

Scharig announced its results at a time of market weakness and was not given full credit for them and its shares did not rise. At the current level, they look cheap

The astute way to 30% returns

S Times (Buss) 26/4/92 232

THIS year I have concentrated on shares which commentators have tended to overlook and which appear to hold hidden value.

In my reviews of T&N and Scharrighuisen I continue this policy

However, because many brokers have expressed doubts about the market, at least in the short term, I canvassed some opinions.

Tim May, joint editor of the new City News, is one whose views I respect.

Mr May says the market comprises four categories blue-chip industrials; the rest of the industrial market; gold shares and other mining.

He knows of hardly anybody who has made profits on gold shares and sees no reason to hold investments where the price of the product is uncertain.

Mr May believes investors can achieve returns of 30% from companies whose profits are not too difficult to forecast.

So why hold golds and miss these opportunities?

Even if the gold price rises, the cost-cutting process on the mines has more or less done its work. From now on costs must be expected to resume their steady rise.

It is doubtful if exchange control will be relaxed to allow institutions to invest abroad. So in view of the weight of funds, demand for blue chips should remain strong in the longer term.

Rights issues will absorb some institutional cash, but not enough to relieve the market.

Mr May says blue chips often look expensive, but good quality is worth paying for

He sees no reason for this to change.

However, there is a broad industrial market where excellent value can be found because institutions can deal only in highly marketable shares. Astute private investors are realising that they can turn this to advantage and achieve returns of about double the market average.

Mr May says lower interest rates are needed urgently because too many people are being driven out of jobs or into bankruptcy When interest rates eventually fall the economy should improve and profits and dividends rise.

The time is right to seek value in the market and be ahead of events. Investors who are not in the market should be returning to being fully invested.

The essential ingredients of successful investment are sound research and advice. With the economy perhaps approaching an upturn at the same time as most blue chips are in high ground, this is now particularly true.

It should be stresed that Mr May is taking a longer-term view than many market commentators, including chartists, who are cautious about the immediate future.

Fast food is the spur

S Times (Buss) 26/4/92

SPUR Steak Ranches has an enviable profit record.

Earnings rose by 43% and the dividend 31% in the six months to August 1991.

It appears that customers who seek the convenience of eating out are trading down instead of having a meal at home.

Spur's core activity is franchising of sit-down, fast-food restaurants. It earns its profits from royalties paid by franchisees The source of income is important, particularly at a time of high interest rates.

Spur does not bear the risk of carrying large stocks, financed by overdrafts The opening of franchises should be limited only by the ability of franchisees, essentially small operators, to find the capital to open a steakhouse.

This means that Spur can maintain a strong balance sheet. In addition, dividend cover can be much lower than for a company trading for its own account.

In the past year or two, there have been unfortunate examples of retail chains which have expanded too fast and come to grief as a result. The basis of Spur's operations avoids this.

In February 1991, there were more than 100 retail outlets, of which most were steakhouses. Spur has diversified into franchised pizza houses and this experiment appears to have been successful.

Assuming slower growth in the second half-year to February 1992, Spur could earn 30c and pay 23c share. The low dividend cover means that Spur can be rated on dividend yield rather than PE. At the current price, the shares look interesting.

DIAGONAL STREET

by Robin Pegler

Engen as a rand hedge

S Times 26/4/92

ALTHOUGH I wrote about Engen in January the good news since then makes it worth a second look.

The European Economic Community has lifted its oil embargo on SA and it is hoped that the UN will follow soon. This could result in Engen's being able to buy crude oil more cheaply

In addition, the interim report for the six months to February 1992 is much better than expected. Earnings a share rose 20,6% from 111c to 134c and the dividend 19,1% from 42c to 50c.

This is at a time when many companies are battling to improve profits and also in a year when Engen's earnings a share looked like falling after the 40-for-100 rights issue diluted the share capital.

In fact, the cash raised at that time has been profitably invested until it is needed for expansion and actually contributed nearly a third of total earnings.

Financing income will fall as spending on plant gathers pace, but from next financial year Engen will have 30% greater capacity That should more than offset investment income.

Although the second phase of expansion will be completed only in 1995 Engen will then have doubled its present capacity

Contrary to expectations, profit margins improved in the six months to February 1992. Turnover was up 4,4%, mainly because of higher exports.

Tax took 19,5% of profits. The capex programme means that tax should be lower still for some years.

The first oil from the Alba project in the North Sea is due to start production late in 1993 Looking further ahead, the Britannia gas field in the same area is targeted to begin production in 1997

These earnings, together with increasing exports could make Engen an interesting rand hedge in the long term.

Management forecast that second half earnings should be similar to those in the first half. So Engen could earn 268c and distribute 130c for the year to August 1992.

Kenyans look at JSE

S/Times (Buss) 26/4/92

By ZILLA EFRAT (232)

THE JSE and a delegation from the Nairobi Stock Exchange (NSE) this week discussed jointly sponsoring a conference of African stock exchanges.

The Kenyan delegation was on a three-day mission to assess trends on the JSE. It is believed to be the first official delegation from an African stock exhange to visit SA.

JSE president designate Roy Andersen says a conference of African stock exchanges could take place before the end of the year.

He will discuss the issue at a meeting of the International Federation of Stock Exchanges in London next week.

Stock exchanges from sub-Saharan Africa, as well as Nigeria, will be invited, but a venue has not been agreed on.

Mr Andersen says common areas of interest could include technology interchange. The JSE could also learn much about operating in an emerging economy and an African stock exchange was a long-term possibility.

NSE chief executive Job Kihumba says the delegation's meetings with experts in SA's financial market were fruitful.

Visiting stockbroker Lawrence Sutcliffe says the NSE has undergone major changes in the past few months. The NSE, which has six broking members and about 60 listed companies, has moved to a board system Deals were previously struck on the phone and at daily 'mettings.

Assistance

Foreign investment in the NSE has been inhibited by foreign exchange control and the depreciation of the Kenyan currency in recent years.

Another visiting broker, Chandulal Shah, said there was a possibility that the Kenyans would ask the JSE for assistance in developing the NSE in the future.

The delegation will also visit the Gaborone and Harare stock exchanges

Nationalisation won't happen in new SA - Anglo

#232
ARGT 25/4/92

DUMA GQUBULE
Weekend Argus Correspondent

ANGLO American has completely ruled out nationalisation as part of a future South African government's economic policy.

Its announcement of a new R1,7-billion gold mine in the Free State served as confirmation, says gold and uranium division chairman Clem Sunter.

He hoped the announcement had also sent a clear indication to foreign and local investors of the degree of confidence Anglo felt in the future course of the country

He was equally confident about the future of the gold price, predicting that there would be a major shortage of gold in the late 1990s when the mine reached full production

Mr Sunter believed a future South African government would not resist the worldwide trend towards a market economy

"The arguments for nationalisation are growing weaker by the day The evidence against it is overwhelming, experience shows that market economies deliver the goods.

"If we didn't have confidence in SA's future we wouldn't be investing R1,7 billion in a new mine."

He hoped other local and international investors would note that Anglo American, SA's biggest corporation, had faith in the country's future

"Foreign investors in particular will realise that SA has the skills and competence to handle such a major project This will hopefully attract overseas investors"

Mr Sunter stressed the decision to proceed with the mine had been a straight commercial one

"The project shows a satisfactory real rate of return, even when using the present gold price and current working costs"

The mine's original estimated cost had been close to R3,5 billion — a risky investment.

"We then took the present gold price and calculated the capital outlay which would make the project feasible. This gave us a figure of around R1,7 billion

"The next step was to design the mine to meet this cost We downsized the shaft's capacity and simplified the design"

Mr Sunter said the project showed a healthy profit margin, using the current price of around R32 000/kg and working costs at a shaft of comparable depth of R16 000/kg. It was not unrealistic to assume this healthy margin could be the same in 1997, when the mine reached full production

"We're hoping to keep working costs constant for the next two years"

Despite using conservative gold-price estimates, Mr Sunter expected a much higher price in 1997

"Gold production will remain constant during this decade and should be around 2 500 tons a year in the late 1990's

"Jewellery consumption demand alone should reach 4 000 tons by then Add to that industrial demand of 400 tons and the shortage of gold could be close to 1 500 tons

"The shortfall will have to be met by hoarders — central banks and private investors — who will require a significantly higher price to part with their gold holdings"

Surcharge expected to have little impact

(232)

MERVYN HARRIS

A SURCHARGE from today of 2,4% on brokerage charges is expected to have a negligible effect on share trading on the JSE, according to market analysts

B|Day 27|4|92

The surcharge had been approved by the Registrar of Stock Exchanges to compensate for irrecoverable VAT input taxes, a statement issued by the JSE said

"The JSE Committee, conscious of the increasing financial strain on broking firms due to low market turnover, initiated research into the effect of irrecoverable VAT input taxes

"Findings showed there is considerable impact on the community who currently absorb these additional costs."

The surcharge will not apply to the R30 minimum fee on share transactions Brokerage is charged on a sliding scale from 1,2% on a transaction of R5 000 to 0,65% on a transaction of more than R150 000

Nairobi Stock Exchange CE Job Khumba, who led a three-member delegation from the exchange to SA last week, held talks with JSE officials and leading local business and finance figures. Picture ROBERT BOTHA

Conference of bourses suggested

BDay 27/4/92 (232)

MERVYN HARRIS

A CONFERENCE of stock exchanges in Africa was among the suggestions mooted during a visit to the JSE last week by a three-man delegation from the Nairobi Stock Exchange. 27/4/92

JSE executive president designate Roy Andersen said he would be taking up the matter of such a conference when he meets officials of the International Federation of Stock Exchanges on a visit overseas in May

Plans to establish a stock exchange in Namibia would bring to seven the number of stock exchanges in Africa.

Nairobi Stock Exchange CE JK Khumba said: "In the past, we travelled to Europe and the US to keep in touch with the latest developments on financial markets.

"But I believe we can learn more from SA. We are closer to home here and we have similar problems whereas the US market, for instance, is too big and complicated for our needs."

Khumba said the delegation had met a cross section of people involved in business and finance and the possibilities had been discussed of investment between Kenya and SA

He said the delegation had been impressed by the JSE's standards, its efficiency and technological development

Consortium in Pickard bid named

BIDAY 28/4/92

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LINDA ENSOR

CAPE TOWN — Former Altron deputy chairman Neill Davies, Johannesburg businessmen Simon Koch and Mike Pfaff and Cape Town commercial attorney Brett Kebble are the members of the consortium involved in talks to buy a majority stake in the Pickard group.

The consortium includes a few undisclosed financial partners.

Davies is a non-executive director of Mathieson & Ashley Holdings (M & A), Koch and Pfaff are involved with Johannesburg-based Sovereignty Investment Trust, while Kebble is an attorney with Mallinick Ress Richman & Closenburg.

None of the consortium members would confirm their involvement yesterday.

Davies is acting in his personal capacity. This was confirmed by M & A chairman Winky Ringo, who said the group was not involved in the takeover talks

Koch was involved in the December 1990 bid — rejected at the time as too low — for the Pickard group by Urquhart Motor Group chairman Gavin Urquhart. Urquhart denied yesterday that he was involved in the present bid.

Koch was also involved in the scheme of arrangement which resulted in the takeover of Issues & Investments by the Urquhart group and the delisting of Issues.

Until mid-1990 Koch was MD of Sinclair Holdings which subsequently became the Urquhart group and Pfaff was until fairly recently a director of the Urquhart group.

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PHILLIP VALLET

Advisory role for attorneys on JSE

232
B/Day 29/4/92

THE role of attorneys acting for clients in stock exchange matters should be an advisory one on all aspects of the transaction

This is according to Fluxman Rabinowitz Raphaely Weiner partner Phillip Vallet

"Our firm has for several years been involved in the legal work relating to listings, mergers and acquisitions on the Johannesburg Stock Exchange, Vallet says

"In the case of listings, it is necessary for the attorney to advise on the disclosures required in a prospectus in terms of the Companies Act and the rules and regulations of the JSE

"Following on recent amendments to the Companies Act, attorneys are also called on in cases of mergers and acquisitions, to advise and comply with the requirements of the Securities Regulation Panel"

Knowledge

Vallet says it is important for the attorney to be have a good knowledge of the nature of the business of the company to be listed

"It may well be that there are occasions where a listing would not be the appropriate route for the company to take

"It should be remembered that 'equity finance' is the most expensive form of financing as the company never stops paying"

Vallet says Fluxman's clients in this area range from companies seeking a listing to those already listed on the JSE which are acquiring other companies or restructuring their own activities

The firm's client base also includes companies which have grown to a certain level and wish to raise capital throught the JSE for the next stage of their development

Norton reflects on his time in hot seat

B/Day 30/4/92. (232) 30/4/92.

MERVYN HARRIS

TONY Norton leaves the JSE today after serving in the hot seat for six-and-a-half years as its first executive president.

The appointment of Roy Andersen to succeed him bears ample testimony to the success of the experimental post

"We did not know then where the frontiers were. We have now established them and this should benefit my successor," Norton said in an interview in his office.

His last days in the job were as busy as it has been throughout his tenure with a constant steam of meetings and appointments. "The job has been enormous fun but at times the work has been hectic. It has certainly challenged every ounce of my energy," added the man who is known as a hard worker among colleagues and staff

When Norton came to the JSE in the mid-1980s the market was in a bullish phase which raged until October 1987, and management was becoming more complicated.

His assignment was to introduce professional management to the JSE which would be independent of the stockbroking community

The computers and the systems were so out of date that essential services broke down during the 1987 trading boom Norton spearheaded the drive to redevelop resources and today the buildings, the systems, the hardware and the trained people are all in place Back-up computers have been introduced to ensure security and continued operations for users

Today, Norton hopes the efficiency of the whole market has improved

"I do not worry about the long-term future of the JSE, which is now properly re-resourced

"It is the stagnant present with the main problem of low volumes that bothers me."

But he knows that markets can change their nature and become very different in a matter of months

"The JSE is ready for the upturn The market is prepared for 10 times the current volumes and in time the market will turn and there will be business," says Norton who saw a bull market during his first two years on the job and a bear market during the remaining four.

Getting the market in shape cost money, and Norton has come under attack for the escalation of costs on the market over the last few years

"I am not bitter about the criticism By and large, those costs were necessary for the future and will be justified over time. It would have been cheap and dangerous to do nothing"

He added "When a lot of people were merely talking about a new SA in the mid and late '80s the JSE went out and put its money where its mouth is and invested in the future.

"The nature of our society and economy is such that an economic recovery is on the cards The JSE has to be ready to play its full role as an efficient agency of the economy," said Norton.

"But the nature of the market — the open outcry auction market with members dealing in single capacity for fixed commissions and individual membership — has not changed"

Nor does he consider that any change is necessary, unless the research project under way by the JSE to look into the matter indicates a need for evolutionary change.

He believes it was essential to retain the single capacity system of agency dealing in SA to avoid a conflict of interest.

A dual capacity system of brokers acting as principals would, he said, allow a manipulation of share prices to take place more easily. This would be to the benefit of the broker against the interests of the client

REVIEW

BUSINESS CONFIDENCE (232)
FM 1/5/92

The burden of the JSE

Private, unlisted companies are much more confident about SA's economic future and show a far greater degree of innovation and long-term thinking than most of their big-business brethren, which seem to be locked into a "gloom and doom" syndrome

This is one of the findings of a recent survey by the Decision Makers Group, a Randburg consulting firm "The pervasive wait-and-see attitude prevailing among listed public companies could do substantial damage to SA's long-term economic future," says the firm's executive director, Tony van der Schyf

The survey found that the smaller, unlisted businesses, being more flexible and fleet-footed, are far more concerned with finding niche marketing and exporting opportunities during the current lull before the economy picks up and a new government takes over Meanwhile, it discovered, bigger companies are either treading water or cooking up more schemes for the government to stimulate the economy and protect their businesses from competition

The differences between the two types of companies turned up by the survey are often striking While the more optimistic, smaller companies see opportunities in deregulation and freer markets, and improving customer service and product quality, the more pessimistic, bigger companies see opportunities in more government assistance, government investment in social upliftment and a higher gold price (US$450/oz was mentioned).

"The biggest stumbling block to public companies' innovativeness, preventing more risk investments in the current political and economic climate, is the short-term profit orientation enforced by their listing on the Johannesburg Stock Exchange," Van der Schyf says "SA is basically a Third-World, developing economy with a tremendous need for job-creating investment — but we are in danger of falling into the short-term-profit trap that has hamstrung the massive First-World US economy"

The exchange *generating profits but how much growth?*

The survey's findings are based on interviews with 85 executives — with about 75% from bigger, listed companies, and the rest from smaller, unlisted companies — and they're contained in a 57-page report

"The clear distinction in business perceptions is not only between small and big," he says "Some bigger, unlisted groups such as Bell Equipment (which makes haulage, earthmoving and other types of heavy vehicles and exports a large proportion of its production) also fall into the innovative category"

Malbak director Denzil McGlashan says he has read the report, though his company was not part of the sample, and agrees with many of the findings. "While it's true that the investment confidence horizon of many listed corporations is restricted by the link between their share prices and their quarterly and half-yearly reports, the current limits on the demand side of the economy is another negative factor that militates against long-term investment

"But I am concerned about the short-term attitude prevailing on the JSE and that local business tends to follow the US in this direction If the major institutional investors were prepared to reward their investment managers on the basis of a longer-term performance rather than on half-yearly or annual results, this would reduce the pressure on listed companies to render consistent short-term profits But the whole system feeds on itself and restricts longer-term investment decisions"

McGlashan also says the fact that many of the big, listed companies are intimately involved in discussions on the country's political and economic future may cause them to be a bit more cautious "Smaller groups are blessed by having less political information and may therefore have more gut-feel confidence that everything will come out in the wash"

Barlow Rand director Evert Groeneweg, whose company was also not included in the survey, takes a different view He says he doubts that a listing restricts investment decision-making — even in the current business climate And, he adds, mega-groups like his own are far more involved in high-risk exporting to competitive markets than the smaller, unlisted companies, which he says tend to look for niches in the local market alone

"Our group has budgeted R1,8bn for capital expenditure in the current financial year, and we still find plentiful export opportunities, even in a global market that is faced with recession"

SA Chamber of Business chief economist Ben van Rensburg says the global experience over the past two decades has shown that "the widest possible spread of smaller enterprises is vital for economic growth and job creation"

But, he says, rather than "hammering" the big groups, one should encourage small business development "You need a healthy balance of big and small Big groups have the clout to invest in research and development and to compete on a global scale, while smaller groups obviously benefit the local economy by creating jobs and providing competition that benefits consumers"

If the big, listed companies are indeed falling into this low-growth, risk-averse trap, what accounts for it? Van der Schyf fingers exchange control, which forces institutional funds to bid up prices in a limited "hot-house" stock market. Another reason is the temptation for smaller, unlisted companies to "take their money and run" by going for a listing

The result is missed opportunities "By looking for a buck for today, we are losing the potential of far bigger long-term rewards," he says. "SA therefore needs tax cuts and other measures (such as abolishing the two-tier rand and exchange control) to create the climate for long-term investment growth" ■

UNIT TRUSTS

Assets still rising

Unit trusts continue to increase in asset value, topping R12bn for the first time last quarter, and comfortably outpace the inflation rate, but individual portfolio performance fell on an annualised basis in the first three months of the year

At December 31 average annual return for general equity trusts, 81% of the industry's assets and accounts, was 34,2% By end-March the figure dropped to 29,2% All funds except UAL, which maintained a 30% return rate, fell

The more volatile specialist equity trusts reflected a similar pattern, though naturally the divergence was greater The only funds in this category to do better were the two specialised gold funds, Old Mutual Gold and Standard Gold But both came off low bases, Old Mutual from a previous negative decline of eight percentage points and Standard bettering its previous almost static performance by seven percentage points

Whether the latest results reflect a correction in equity markets is hard to gauge over such a short period, though Association of Unit Trusts executive committee member Bernard Nackan believes something of a correction is taking place

He emphasises, however, what the association continually points out — that unit trust performance must be viewed in the long term

Liquidity for general and specialist equity remains 14%, down slightly on last year Industrial shares continue to account for the bulk of portfolios, up in total from 44% at December (September 43%) to the present 45% in the general category At 29%, industrials also make up the main part of specialist equity portfolios

Increased exposure to industrials, though small, reverses the trend seen in September when some bigger funds began to move out of industrials in anticipation of a correction The timing of the correction seems to be causing some confusion, as can be seen in a contradictory move into recession-hedge financial shares

The bigger slice accorded to industrial and financial shares comes, with some exceptions, at the expense of mining counters

Repurchases, at R500m, are significantly up from the previous R403m, and could represent some profit-taking after the good performance by most funds in 1991 Nackan says this is one of the facilities provided by the industry when markets perform well, some investors start to take profits *Shaun Harris*

Association's Bernard Nackan *take a long-term view*

General Equity	Liquidity	Gold	Mining finance	Other mining	Financial	Industrial	Other assets	1 yr to Dec 91	1 yr to Mar 92	5 yrs to Mar 92	Dec 91	Mar 92
	% of Portfolio							Performance %			Mark value (Rm)	
Old Mutual	10	3	20	11	6	50	–	37	34	19	3 125	3 312
Sanlam Trust	6	7	16	11	7	51	–	34	27	17	516	560
Sanlam Index	9	8	16	15	3	49	–	31	25	18	858	906
Guardbank	13	4	14	7	20	36	6	33	26	19	1 385	1 482
Standard Mutual	40	2	12	4	12	30	–	32	27	18	517	552
UAL	23	–	16	14	19	28	–	30	30	17	585	626
Sygro	15	4	9	7	7	53	5	42	34	–	459	548
Syfrets Trustee	21	–	14	8	9	48	–	–	–	–	337	354
Sage	15	3	11	7	8	52	3	37	29	18	950	990
Momentum	9	12	11	5	9	54	–	38	27	–	53	55
Southern Equity	14	1	17	12	12	42	2	42	35	–	95	106
NBS Hallmark	8	4	16	10	8	46	8	31	24	–	31	34
Norwich NBS	8	7	23	26	8	28	–	25	20	–	21	21
Metfund	12	3	–	22	13	50	–	36	31	–	28	30
Senbank	21	2	16	5	12	44	–	–	–	–	4	7
CU Growth	13	5	13	11	16	42	–	26	25	–	26	27
Safegro	8	2	8	1	7	74	–	32	29	–	39	43
BOE Growth	6	7	9	13	4	54	7	37	31	–	53	62
Fedgro	12	3	18	7	9	40	11	28	25	–	25	31
Volkskas	17	11	13	5	6	43	5	–	43	–	28	36
Metlife	21	5	21	6	7	40	–	–	–	–	14	17
Specialist equity												
Old Mutual Mining	6	14	40	35	–	5	–	9	7	–	122	115
Old Mutual Gold	10	71	19	–	–	–	–	(8)	6		46	46
Old Mutual Industrial	7	–	–	–	21	72	–	43	36	–	90	102
Old Mutual Top Comp	27	–	8	8	14	43	–	–	–	–	59	96
Sanlam Mining	9	22	30	35	–	4	–	17	9	6	99	93
Sanlam Dividend	12	4	12	7	9	56	–	45	35	15	72	76
Sanlam Industrial	11	–	2	–	7	80	–	45	33	20	214	215
Guardbank Resources	14	15	23	25	–	16	7	22	20	–	54	53
Standard Gold	22	50	28	–	–	–	–	1	8	(4)	224	205
UAL M & R	14	8	37	39	–	2	–	26	16	10	226	221
UAL Select	19	2	4	4	10	61	–	43	27	–	107	115
Sage Resources	14	19	26	19	–	19	3	17	15	–	57	58
Southern Mining	12	14	38	31	–	5	–	16	13	–	23	23
Senbank Industrial	25	–	–	4	15	56	–	–	–	–	2	3

Nationalisation like 'dropping bombs'

232

ARG 2/5/92

ROY COKAYNE
Weekend Argus Correspondent

PRETORIA — A wide range of alternatives to nationalisation — both good and bad existed — but the ANC never listened when they were offered, says author and political commentator Mr Don Caldwell

To understand what policies the ANC were likely to embark on, you had to look at what their goal was with that policy, Mr Caldwell told a "Outlook For South Africa's Economy In Transition" conference here.

"If the ANC's goal is to destroy the economy — a logical consequence of nationalisation — then attractive alternatives include tripling all tax rates, banning foreign investment and dropping bombs on selected industrial sites

"If the goal is to help the poor something nationalisation does not do, then I suggest the ANC calls for total privatisation of State assets with all proceeds going to the needy," he said

Mr Caldwell called on business leaders to respond forcefully to Mr Nelson Mandela's repeated requests for alternatives to nationalisation with five options

They were destructive laws and taxes, including a restriction on local and foreign investment, the overstaffing of government departments to create a gravy train for ANC supporters, privatisation by giving away shares in State companies or selling the shares and using the proceeds to pay for redistribution; economic liberalisation, including tax cuts, and democratisation by putting all proposed tax increases to a popular vote.

Mr Caldwell said the ANC's support of nationalisation as a policy option presupposed it benefitted the poor. Businessmen should reject that premise and tell the ANC they had lots of ideas on how to destroy South African industry without resorting to nationalisation, he said.

"If the goal of nationalisation is 'jobs for pals you can achieve it without any new nationalisation The ANC could simply overstaff the government departments and nationalised monopolies it inherits from the National Party," Mr Caldwell said.

"The ANC says it needs to nationalise as a quick and visible step to placate supporters. But if that is the goal, privatisation is the positive alternative. By letting poor people benefit from privatisation, a new ANC government would strengthen its support and make the economy more productive

"The only way to help the masses is to encourage investment and job creation. That means undoing apartheid economics by slashing tax rates, eliminating agricultural boards, lifting exchange controls, deregulating labour relations and breaking down State monopolies," Mr Caldwell said

"Again, the question must be asked Does the ANC actually want a more competitive economy?

"If the goal is to 'democratise the economy' there are much better ways than nationalisation, which in fact encourages any state to be authoritarian and wasteful I suggest real economic democracy.

"I support a constitutional plank that prohibits any level of government from increasing taxes without 51 percent voter approval in a referendum.

"Pretoria's powers must be curbed as part of the democratisation process. Tax and labour policy should be set by regions and cities, not the central goverment, to bring the policies closer to ordinary people.

"Boosting the power of the central government, as nationalisation does, is a step away from democracy," he said.

Diamond find sparks big rush in northern Canada

Weekend Argus
Foreign Service

LO[N]DON — [illegible]

cause each claim area is so large — more than 1 000 hectares in most cases A device fitted to the helicop[ter] [illegible]

Kimberlite pipes usually occur in clusters of 10 to 40 spread over an area of 100 sq km or more So there [illegible]

trade in rough diamonds.

The Northern Miner reports that the joint venturers have transported 200 tons of material from Lac de later this month.

Sandton"

New unit trust fund launched

STAR 5/5/92

Finance Staff (232)

A new unit trust fund was launched yesterday — but this is a fund with a difference.

The new fund, called Community Growth Fund, is for trade unions and will invest in JSE-listed companies only with the approval of the trade unions.

Trade union members' pension and provident fund contributions will be made into the new fund.

Companies that wish to be included in the fund's portfolio will have to comply with certain union-defined criteria of social responsibility

These include fair employment practices, job creation, union recognition, safe working conditions, equal-opportunity policies, black advancement and protection of the environment.

The Community Growth Fund will be administered by Syfrets Ltd in conjunction with Unity Incorporated and the Community Growth Management Company.

Speaking at its launch, ANC secretary-general Cyril Ramaphosa said: "I give this fund overwhelming support. The support of the ANC will be forthcoming"

● See Page 16

R12 000 fine for copyright offender

Staff Reporter

the record industry mil-

Timing is vital with unit trusts

STAR 25/7/92 (232)

AS I illustrated last week, some funds are clearly better than others

There is also a right and a wrong time to buy them and to identify the right investment times requires a simple understanding of South Africa's economic cycle.

There are always times when money is in short supply, and times when it is freely available.

Money shortages lead to rising interest rates

And, because share dividend yields always bear a relationship to prevailing interest rates, share market prices must fall at such times in order to bring their dividend yields into line

Since investment into a unit trust fund is really the purchase of a share in a big portfolio of shares listed on the Johannesburg Stock Exchange, it is obvious that the value of each unit trust fund will fluctuate with the fluctuating value of the shares that it is composed of

Crop

Timing your ideal point of entry thus involves identifying the point when money again begins to enter the money market and the interest rate pattern of the country peaks out, for as interest rates fall, share and mutual fund unit prices will rise.

South Africa's economy has traditionally been controlled by the agricultural crop and consequently the weather, by the international prices of the minerals we produce and, of course, by the price of gold — the latter for many years represented nearly half of our export earnings.

Picture then a time of good rains and bumper crops, hopefully at a time when the rest of the world has had harvest failures

Assume that the rand is weak in its relationship with other overseas currencies and that we are consequently able to competitively export our food surplus at a profit, that our national balance of payments situation accordingly moves strongly into credit and that farmers, as a result of these export sales, have a lot of money to spend

Our mineral producers and our exporters of processed goods benefit also from being in a position to undercut their competitors in foreign markets and at the same time make handsome rand profits for themselves

But to continue with our description of the economic cycle, while the farmers are out spending their money on new cars and tractors and so forth, the industries that supply these goods are obviously working at full capacity and paying out a lot of overtime money to their workers.

Good

Industrialists seek to cash in on the booming market by expanding their factories.

They borrow money to build and to import machinery and, because our balance of payments position looks good, overseas lenders deduce that the rand is strongly underpinned and are happy to lend us money.

However, as this cycle develops further, we begin to run out of skilled labour.

Firms compete for staff and push up wages

This process puts more money in the pocket of the man in the street who can in turn afford to spend it on luxury goods

Soon the point must be reached when, despite all its efforts, local industry cannot supply all the desired goods

Retailers then start switching to imported goods.

But with all this importing of luxury goods and machinery, our balance of payments position moves into deficit

The rand starts looking weak and overseas investors become wary of lending money to South Africans

As money dries up, companies which have committed themselves to capital development programmes are forced to start outbidding one another to raise enough cash to meet their obligations

Interest rates rise and share prices tumble in sympathy.

As this cycle is, with minor variations always, repeating itself, it is clear that one should be able to buy every few years when shares are cheap and sell when they are expensive

This way one can obtain maximum capital growth

Prosper

By contrast, if one simply buys and holds on forever, one will only gain by the amount that the nation and more specifically the unit trust one is invested in, grows wealthier

The latter does, of course, assume that both do prosper for, quite obviously, if you sat tight in a diminishing economy you would grow steadily poorer.

One should note that recently foreign trade and investment sanctions tended to disrupt the cycle somewhat in the late 1990s, but the cycle itself remained intact.

Unions launch unit trust to invest workers' funds in JSE shares

BDay 5/5/92

DIRK HARTFORD

SEVERAL of SA's biggest trade unions have formed a unit trust to invest portions of workers' pension and provident funds in "socially responsible" JSE-listed companies

The trust — the Community Growth Fund (CGF) — hopes to attract local and foreign investment through its social conscience focus

It will be managed and administered by Syfrets, which said yesterday the CGF could quickly become one of the biggest unit trusts in the country

The trust, which will start operating in June, was unveiled at a news conference yesterday by NUM spokesman Monoko Nchwe and Syfrets representative Ian Hamilton Also present were ANC secretary-general Cyril Ramaphosa, NUM general secretary Kgalema Motlanthe, Nedcor MD Chris Liebenberg, Unit Trust Association chairman Clive Turner, Registrar of Unit Trusts representative Gerry Anderson and Prof Anthony Asher of Wits University's actuarial science department

Asher will initially chair the joint union-Syfrets board controlling the fund

Representatives of participating unions — including Cosatu's NUM, Construction and Allied Workers' Union, Transport and General Workers' Union, Paper, Printing Wood and Allied Workers' Union and Nactu's National Union of Food, Wine, Spirits and Allied Workers Transport and Allied Workers' Union and Metal and Electrical Workers' Union of SA — were also present

The union-controlled fund will invest in mainly blue chip companies which have strong capital and earnings growth and which comply with the unions' social responsibility criteria "The aim of the fund is to marry high returns with socially responsible investment. Members' pension contributions will be carefully protected and the fund will not be used to influence the outcome of day-to-day labour disputes,' said Nchwe

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The social criteria include active support for job-creation projects, recognition of trade unions, fair levels of pay, affirmative action programmes and the promotion of health and safety

Companies privatised after the fund comes on stream will not qualify for investment, nor will companies which manufacture arms, pollute the environment and have offshore investments with little benefit for SA workers

Nchwe said there was no blacklist of companies The unions had devised a point system to measure companies' social responsibility and investment decisions would be influenced by the number of points a company had

Hamilton said Syfrets had matched its choice of potential investments with the union choice and found they fitted almost perfectly Socially irresponsible companies were usually unfavourable investments in any event

Ramaphosa, who put down a R30 deposit to invest in the fund when it opened, called on all provident and pension funds to invest in the CGF He said the fund meant workers were no longer spectators in the economy, but active participants in determining their own economic destiny

☐ To Page 2

Unit trusts

BDay 5/5/92 232

☐ From Page 1

'The silent giant (the working class) is awakening and will start challenging those companies who ride roughshod over the interests of workers

Ramaphosa said the ANC still had to discuss the fund but he was sure it would support it

Other unionists welcomed the fund as a powerful tool in the hands of workers which would also help educate workers about this aspect of the economy

Many other unions are expected to support the fund In addition to pension and provident funds, union subscriptions — which run into millions of rands every month — could be invested Political, civic, church and funding agencies are also potential big investors

Syfrets will put R2m into the fund initially and some provident funds, including two in the mining industry, have indicated they will invest If 30% of the annual cash flow of one of these mining funds was invested it would exceed R100m a year

The fund will be managed by the Community Growth Management Company, consisting of Syfrets and the union Unity Inc

Decision-making will start with recommendations from Syfrets according to its normal share selection criteria The unions will then select shares according to social criteria and Syfrets will make the investments after deciding on the portfolio structure, asset mix and the market risk

Trade unions set up unit trust fund

STAR 5/5/92

[redacted] [redacted] 232 [redacted] [redacted]

By Mike Siluma
Labour Reporter

Major trade unions have launched an investment fund to deploy a part of their workers' pension and provident fund contributions into socially responsible JSE-listed companies.

The Community Growth Fund (CGF), a unit trust fund to be administered and managed by Syfrets, was unveiled yesterday by Syfrets executives and officials from the seven participating Cosatu and Nactu unions.

The fund could eventually attract about R15 million a month in pension and provident fund contributions by union members as well as individuals.

Union criteria

Union spokesperson Manoko Nchwe emphasised that although the fund — initiated by the union advisory group, the Labour Research Service — would seek to invest in companies which provided strong growth in earnings, such companies would have to meet union-defined criteria for social responsibility and not act in conflict with union interests.

The criteria included fair employment practices, job creation, union recognition, safe working conditions, protection of the environment, equal opportunity and affirmative action policies

Ms Nchwe added that unions would not invest in companies which were involved in the production of arms or allow workers' money to be used to finance the privatisation of companies which were government-owned.

Companies involved in offshore investments would also be excluded.

However, said Miss Nchwe, as the unions saw investment in the fund as a long-term decision, they would not attempt to use the fund to influence the day-to-day labour disputes of companies in which they invested.

Syfrets has already put R2 million of its own money into the fund, which is expected eventually to receive up to 30 percent of the cash flow of participating unions' pension and provident fund contributions.

The fund, which begins to operate next month, will also be open to individuals in the same way ordinary unit trusts are.

Although neither the unions nor Syfrets would put a figure on the amounts of union money likely to flow into the CGF, it is understood that provident fund contributions on behalf of members of a key union in the venture, the National Union of Mineworkers, amount to about R25 million a month

Independents

Union officials involved in the project are confident that more Cosatu unions, as well as a number of independents, will eventually participate in the fund.

Cosatu unions taking part in the initiative are the National Union of Mineworkers, the Paper, Printing, Wood & Allied Workers' Union, the Construction & Allied Workers' Union and the Transport & General Workers' Union

The Nactu unions are the Transport & Allied Workers' Union, the Metal & Electrical Workers' Union of SA and the National Union of Food, Wine, Spirits & Allied Workers.

Syfrets chief executive John Cragg said: "We are delighted that the unions chose Syfrets' expertise in this bold investment venture, which could over time become one of the largest unit trusts in the country."

First step

ANC support for the CGF was pledged by former NUM secretary-general Cyril Ramaphosa, who was involved in the initial stages of the fund before moving over to the ANC.

"This is a fund which represents a break with the past, the first step into a future where workers will no longer be mere spectators, but active participants in shaping their economic destiny.

"The formation of the fund should send a very clear message to companies, especially those with bad employment policies, that the silent giant is awakening and will challenge those who have ridden roughshod over the interests of workers," said Mr Ramaphosa.

The Registrar of Unit Trusts has in principle approved the fund, which is scheduled to start operating on June 1

The interests of the fund will be looked after by a joint board to be chaired initially by Professor Anthony Asher of the Department of Actuarial Science at the University of the Witwatersrand.

The board will make its decisions after receiving investment advice from Syfrets and acceptability research from Labour Research Service.

Countries can't afford *not* to privatise — Thahane

CT 7/5/92

(232)

FEW governments had embarked on privatisation for ideological reasons although it might have been opportune in some cases to gain political support, the vice-president and secretary of the World Bank said yesterday.

Timothy Thahane told the annual conference of chartered accountants experience showed most governments — including those in Sub-Saharan Africa — undertook privatisation to raise efficiency and stop the financial haemorrhage from loss-making public enterprises.

"State enterprises, far from fulfilling the expectations vested in them, have been inefficient, overstaffed and poorly controlled financially

"Many countries, not just developing countries, cannot afford the losses incurred by their state owned enterprises."

The state was often unable to raise the capital needed to modernise and expand its enterprises It lacked entrepreneurship, management and marketing expertise while at the same time international competition intensified.

The private sector had proved to be the most efficient generator of incomes, employment, managerial expertise, and technological innovation.

Turning to the question of privatisation and employment Thahane said that if an enterprise was loss making, then reversing the situation by making it efficient and profitable might result in worker lay-offs — regardless of whether or not the enterprise was state or privately owned.

"There is no necessary correlation between privatisation and worker lay-offs but it is essential to recognise that in the process of enterprise restructuring lay-offs may and often do occur.

"Provision must be made as part of the sale process to arrange for retraining, severance payments, and retrenchment by attrition, and possible sale of shares to the workers," Thahane said.

These safety nets were important if workers were not going to oppose privatisation of public enterprises.

Four critical ingredients or conditions were essential for the success of privatisation: a favourable investment climate, transparent and efficient management of privatisation, thorough preparation of the enterprises, and political will

"Privatisation is complex and requires persistence, conviction and public support Privatisation is not a panacea and cannot be separated from broader questions of economic policy reform and management But I have no doubt that worldwide privatisation is here to stay." — Sapa

Alexkor, Abakor are next on privatisation agenda

BIDay 7/5/92 (232)

BILLY PADDOCK

CAPE TOWN — Government's privatisation policy was not on the backburner and was going ahead in a controlled and responsible manner, Public Enterprises Minister Dawie de Villiers told Parliament yesterday.

Opening the debate on his vote he said legislation would be introduced during this parliamentary session on the further commercialisation towards privatisation of Alexander Bay State Alluvial Diggings (Alexkor) and the Abattoir Corporation (Abakor)

De Villiers said transforming public institutions into viable business undertakings, with the state as the sole or majority shareholder, was a necessary first step to their eventual privatisation

The initial phases of commercialisation had already been taken at institutions such as Transnet, Telkom, Abakor, Alexkor and the state commercial forestry operations

He refered to National Sorghum Breweries as the good example of successful privatisation, not mentioning any other successful exercises

Abakor was a good candidate for privatisation

He said the establishment of smaller business units within public enterprises offered better opportunity to calculate profitability and promoted a challenge to employees to perform better and to convey to private sector undertakings functions which were not part of the core business This gave smaller undertakings in the private sector an opportunity to become involved in activities which had been the sole preserve of large enterprises

Dividends

He said government was considering management buy-outs, whereby employees took over specific business activities altogether, as a further option Other private sector interest groups also would be allowed to make offers in these instances should this proposal be accepted

Sapa reports that De Villiers said Transnet's pension fund deficit had placed a substantial burden on that undertaking ~~and had~~ made it impossible to declare the dividends which had been expected It was unrealistic to expect an acceptable return on capital in the short term

The chairman of Transnet's board had been asked to implement an accounting system making it possible to ascertain the profit or loss of each of the company's division

De Villiers said Eskom had made a "massive contribution to the fight against inflation" by undertaking to cut the real price of electricity by 20% during the next five years This followed a 14% cut in the real price of electricity during the past five years

Alexkor had recorded net profits of R40m and R75m respectively during the 1989/90 and 1990/91 financial years The company enjoyed no preference over other mines

De Villiers said the latest addition to his department was Denel, established on April 1 1991

"Denel must hold its own in a competitive environment and co-operation and partnerships with private sector companies must be thoroughly considered by Denel where necessary," he said.

Unions become players in the game of growth

BDay 7/5/92. 232

STEPHEN MULHOLLAND

IT IS difficult to overstate the importance of the formation this week of the Community Growth Fund (CGF), a unit trust backed by militant trade unions

Whatever gloss is put upon it, and however many investment criteria are laid down, the simple fact is that these unions are now embracing market mechanisms Their move is an acknowledgment that markets are here to stay as a permanent part of our economy and these unions have decided to become players in the great game of growth

Collectivism has collapsed around the world while markets have emerged triumphant as the most efficient means for the allocation of scarce resources and the generation of the greatest economic good for the greatest numbers This is not to say that markets are perfect In this life nothing is But, to paraphrase Churchill, it is the best economic system man has yet devised, calling as it does on men and women to strive individually to better themselves and thus, through Adam Smith's invisible hand, adding to the wealth of all of society

This might all sound very lofty and far removed from a decision by unions to launch a unit trust But what do unit trusts do? They accept cash from the public which they then invest in the money markets and on the stock exchange If they are to succeed they must try to maximise the growth of the capital and income of those who hold their units Unless they satisfy their investors they risk losing the funds they have under control to competing unit trusts.

That will certainly be the case with the R1m which the trustees of the Times Media Limited Pension Fund this week invested in the CGF We made the investment in order to achieve a competitive return for our employees who own the fund — and our pensioners who are its present beneficiaries

We have a fiduciary duty to try to maximise the growth and income of the fund and will take decisions to invest or disinvest on this basis, as will other investors

Through the CGF, members of the unions and — more importantly, for they must take the decisions — those who manage the affairs of the unions, will be exposed to the demands of the real world in which, however hard men try, the natural forces of the market cannot be denied. The Soviets tried for 70 years to do so, ruining their people in the process There is perhaps no better illustration of the futility of the efforts of the communists than the fall in the rouble from the old official 1 1 parity with the dollar, dictated by the party, to the present market rate of 120 roubles to the dollar.

The CGF's criteria are predictable and understandable, particularly in regard to the labour policies of companies in which they invest They should enter into debate with the managements concerned and it might be instructive for them to learn that if their investments are to grow, it is often necessary, for example, to pay the wage which clears the labour market rather than some artificially high minimum which has the immediate effect of destroying job opportunities

Another area where criteria might crumble in the face of reality is the stricture against investing abroad This makes little sense Certainly the desire to diversify political risks is one spur to overseas investment by SA firms But there are distinct advantages for the nation as a whole to build a healthy portfolio of foreign investments

In this way special SA skills, such as we have in mining, can be exploited for our benefit in foreign countries which need such skills Overseas investments provide us with dividends in hard currencies They also keep us connected to the latest technological developments and provide opportunities for training and development of staff

We call for foreign investment in SA We must remember that, like trade, investment is a two-way street in which funds seek out the best opportunities to maximise performance The less governments interfere, the better for the people

This week's huge investment by Sappi in the European paper-making market is a case in point Not only has SA joined the world leaders in this critical industry but, because of the way in which the deal was structured, Sappi will be placing millions of its shares in foreign hands Thus our links with the developed world are strengthened, which can only benefit all our people.

The formation of the CGF flies in the face of the policy of nationalisation It is tacit acceptance that the way to influence the affairs of companies is to own shares in them This is a really remarkable breakthrough and it deserves widespread support from the business community, in the interests of the business community, for that is how the world works people act in their perceived best interests to improve their postions

☐ **Mulholland is TML MD**

LETTERS

Dividend yields can be misleading

By Jacques Magliolo STAR 7/5/92

Investors using dividend yields as a guide to trading shares could be committing financial suicide, an industrial analyst warns

Market pundits are strongly advising investors not to use statistical information as the sole basis for buying shares

"Many shareholders have made grave mistakes when using this type of system," says a portfolio manager, adding that some of believe that DYs have reached the bottom, but that rates of return have plenty of room to move up

Compared with a host of other rates, DYs certainly seem to be at a turning point While the industrial index DY is at a low of 2,6 percent and the overall index DY 3,4 percent, the 12-month bank deposit and the all bond rates are at a high of 14,3 percent

Is it logical that, because yields are low, they have to increase in the near future?

MAGLIOLO on the MARKET

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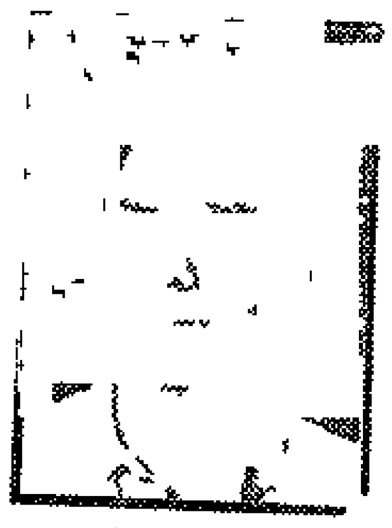


The problem stems from technical analysts' excessive and inaccurate use of ratios and formulae.

While the calculation of DYs — dividend per share (DPS) expressed as a percentage of current price — is arithmetically correct, it avoids fundamental realities

It starts with two assumptions Firstly, that prices will fall this year. A look at the JSE indices over the past two months reveals a general decline and, thus, this hypothesis has a strong foundation

However, the second assumption is not so realistic It is the belief that, despite the abundance of negative factors in the market, companies will be paying a dividend this year

An industrial analyst says "The rationale is that formulae don't lie and that, because rates are low, the cost (to the company) of paying a DPS is negligible"

To make matters worse, investors are inundated with conflicting information Technical and industrial analysts often dispute market trends and movements

A technical analyst says "It's now time to buy shares, as all short-term indicators are showing that industrial shares have reached a lower trading band"

He points to a 30-day market tracker — a technical use of trading volumes and prices to show market values — which indicates that shares should be bought, despite low yields

Industrial analysts disagree

"Where is it a written rule that companies must pay a dividend?" asks an analyst, citing US Steel's debacle as an example The company, widely renowned as a widows and orphans stock, shocked investors when the directors passed a dividend payment

Industrial analysts advise shareholders to find out what the true financial state of a company is and whether it has the ability to pay future dividends

Many analysts believe that companies are currently paying dividends which are not consistent with their financial profiles They say that the rest of the year should see financial and business risks worsen Already 100 companies have not declared a dividend this year

Whether one uses technical or fundamental factors, or whether yields are cheap or expensive at present prices, the reality is that a vast number of companies will simply not have the funds to declare dividends

AIRLINE DEREGULATION

No more free rides

FM 8/5/92 232

Government's liberalisation of its international air policy is a clear signal that SA Airways is no longer a sacred cow That's good news for the would-be flying public and tourism officials who have always complained that the protection surrounding SAA hurt them

But don't rush out and try to buy a cheap seat yet The new civil aviation policy announced last week has a "double disapproval" clause that kills a proposed fare if both SA and the country at the other end of a flight agree to reject it So SA and the UK can veto the promotional R500 SA-London one-way tariff that Richard Branson says he will offer when Virgin Atlantic Airways gets off the ground here

Yet there's no doubt that increased competition and a higher supply of seats will help to bring down prices and bring in more tourists Transport Minister Piet Welgemoed's announcement on international deregulation is a follow-up to last year's policy that broke down the barriers guarding SAA against competition on the domestic market That encouraged the creation of Flitestar, which is already operating on several major routes Later this year Bass Air will fly the Midrand-Durban route

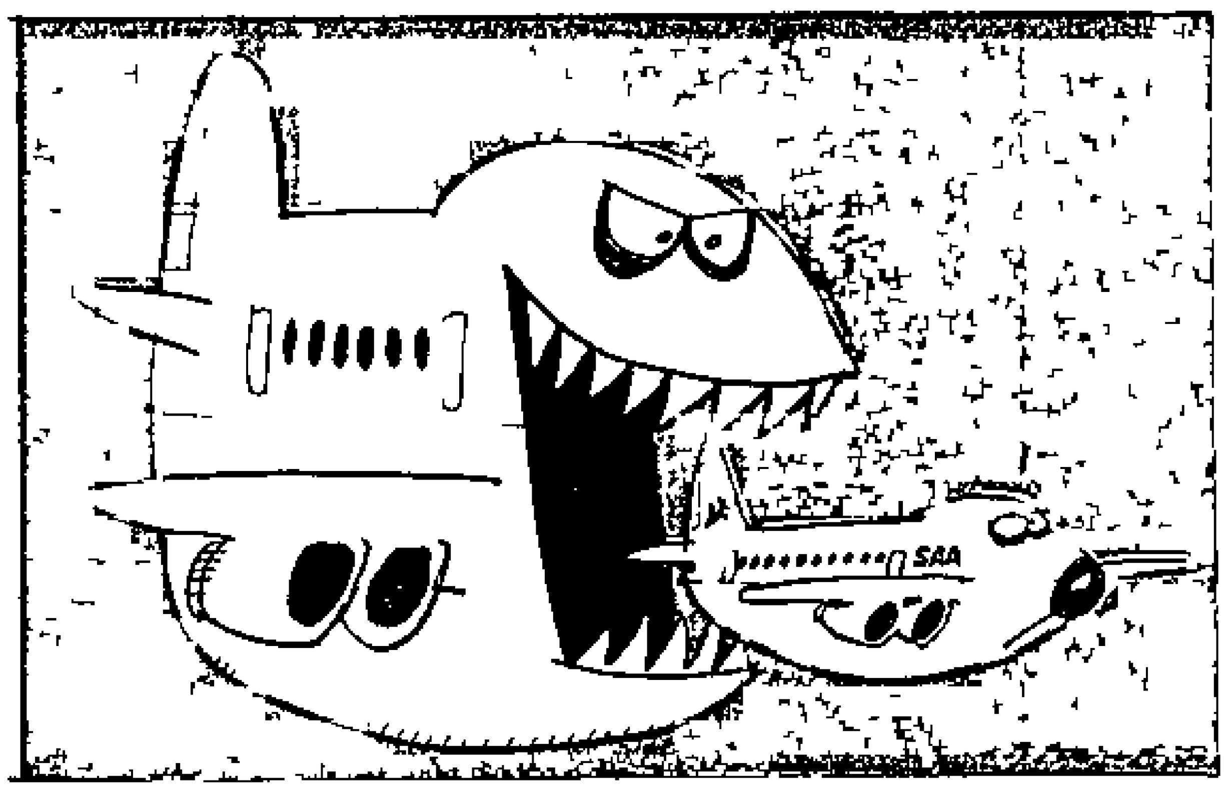
Welgemoed's policy, which has been approved by the Cabinet, has removed the last barrier protecting SAA against the cruel outside world Parts of the policy will be implemented immediately, the rest will be encapsulated in an Act to be tabled in parliament next year

SAA's survival now depends on how it copes with competition It can no longer rely on the one-on-one clause in bilateral agreements, which mandated that it would operate the same number of flights per week that its pool-partner airlines operated All new agreements will contain the 60-40 clause, which will give government, and any other government with which it has signed a bilateral agreement, the right to increase the frequencies of their carriers' flights by 50%, without having to consult the other

For example, the British government will be entitled to increase British Airways' present number of weekly flights from the UK to SA from 10 to 15, or allow Virgin, for instance, to operate those extra five flights — even if SAA decides to stay with its 10 flights per week

SAA, a subsidiary of government-owned Transnet, will also lose its status as the country's sole national carrier Welgemoed aims "to allow all SA airlines to enter the international market freely on new and existing routes, subject to economic conditions "

Despite the double disapproval rule, tariff control is also greatly deregulated This will allow airlines more room to compete on fares and should spur traffic SAA has also largely lost its battle against charter flights, which had been allowed in only when SAA and its pool partners could not meet demand Welgemoed agrees that "the current policy is far too restrictive "



He is prepared "to freely allow charter flights for the transport of tourists within a broad upper limit, to stimulate trade and tourism, and to freely allow charter flights for the transport of cargo and passengers to and from countries between which no scheduled air services are now being operated, to stimulate the development of new air links "

The commercialisation of SAA is certainly being handled very differently to the privatisation of Iscor Iscor kept its almost airtight protection from imports, which enabled government to collect a handsome price in the sell-off two-and-a-half years ago But exposing SAA to competition could cut its market share and may lose government a fortune if it is ever privatised Of course, the jobs and other economic benefits of deregulation far outweigh any money lost in an eventual sale

In any event, it's possible SAA might not survive deregulation though it is stronger than many government-owned airlines around the world, which exist on subsidies SAA isn't subsidised and it has lost R60m in each of the past two years, which it attributes to the recession, increased competition and deregulation

Even private airlines flounder when suddenly faced with deregulation Of the top 10 airlines in 1978, when the US deregulated its domestic air industry, three have gone out of business, two are in bankruptcy court, and two were swallowed up by rivals The No 1 US airline, United, has fallen to fourth

SAA's competition isn't as fierce, but it's growing Apart from several local airlines, including Flitestar, that want to fly internationally, there are already 30 carriers flying into SA, and government is negotiating with another 25 who want to descend

SAA can fight back by becoming a leaner, fitter operation Does it really need to employ 800 or so people at a 21-storey head office in Johannesburg, in addition to its personnel at the coalface, such as pilots and flight attendants?

Welgemoed has exposed SAA to this threat because he is looking at tourism, which has the potential to earn vast amounts "I have done everything I can with the new air policy to stimulate the economy and tourism It's now up to the other players to take the ball and run It's up to the people in Cape Town and Durban to take full advantage of their cities being declared ports of entry "

Will his policy pay off in the long run? Most definitely, says Jenny Kearney, of Singapore Airlines' Johannesburg office "Singapore is a tiny island with a population of 3m We believe in a completely open-skies policy and allow 52 foreign airlines to fly in and pick up passengers Our ratio of tourists to population is 8 1 "

Chris de Kock, of the Southern Sun-Holiday Inn group, says "It must increase foreign tourism All new airlines flying in will have to market SA in their own countries if they want to survive "

Protea Hotel group MD Arthur Gillis says "The hotel industry will be able to cope with an influx of tourists It's operating with a 51% vacancy factor, and foreign tourists account for only 8% of its occupancy And for the first time in years new hotels are coming on the scene, in Midrand, Sandton and Rosebank " ■

FARM IMPORTS FM 8/5/92

Droughts and windfalls

The drought has knocked farmers flat on their backs, threatened rural economies and raised prices for consumers But, amid all the losers, there is one winner government

The fiscus could collect a windfall of more than R200m from imports of maize and soya oil-cake needed to offset the crops lost to the drought Government could make R138m by importing maize at the cheap world price and selling it at the higher local price, which is set by the Maize Board for all maize sold in the country

And it should collect another R70m-R80m from the tariffs it charges on imports of soya oil-cake for the animal feed industry The R200/t tariffs were imposed a few years back to "protect" local soya producers Little, if any, soya cake is ever imported But now government and local oil expressers,

cont →

Bank backs privatisation

BIDay 7/5/92

LINDA ENSOR

CAPE TOWN — World Bank vice-president and secretary Timothy Thahane came out strongly against nationalisation yesterday, saying experience in sub-Saharan Africa showed cumulative losses by state-owned enterprises reached 5% of GDP between 1989 and 1991.

He noted, however, that privatisation raised a country's economic efficiency

Thahane told the SA Institute of Chartered Accountants annual congress "State enterprises, far from fulfilling the expectations invested in them, have been inefficient, overstaffed and poorly controlled financially"

He said there had been a worldwide trend towards privatisation to raise efficiency and stop the financial haemorrhage from loss-making public enterprises which lacked entrepreneurship, management and marketing expertise.

"Many countries, not just developing countries, cannot afford the losses incurred by their state-owned enterprises In 1989, transfers and subsidies to Poland's state enterprises cost 9% of GDP" 232

Thahane said state-owned enterprises were inefficient because governments found it hard to resist meddling with them through granting financial subsidies, controlling product or service prices for political reasons and rewarding their friends with positions

He said privatisation was a crucial element in striking a balance between the state and the market

However, Thahane said the World Bank

☐ To Page 2

Privatisation

BIDay 7/5/92 232

☐ From Page 1

was not dogmatic in making its loans conditional on an absence of a policy of nationalisation This was a question for a sovereign government to decide

World Bank involvement in SA would depend on the achievement of consensus about the governance of the country, Thahane said, as lenders and investors needed certainty It would also be necessary to discuss World Bank policies and their implementation with the new government

Responding to criticism that the World Bank had been tardy in lending to SA, Thahane said bank procedure was to undertake a full analysis of the economy and its problems before getting involved and devising a package This normally took 18 months to two years to complete

As the bank had not been involved with SA since the early '60s, there was a need to build up knowledge about the country and its economy World Bank missions had visited the country and spoken to government and non-government people, the ANC and universities.

"A picture is emerging of an economy which has not grown as it should have. The economy is facing large-scale unemployment, has an income distribution which is very skewed, and a backlog of education," Thahane said. He added that the public service was very large and there was a multiplicity of educational authorities

Unions move into the boardroom

W/mail 8/5-14/5/92

WANTED Potentially massive unit trust fund seeks socially responsible company with healthy profit margin for long-term relationship For further information contact the Syfrets/Cosatu/Nactu alliance

FERIAL HAFFAJEE *reports*

232

UNIONS affiliated to both the Congress of South African Trade Unions and the National Council of Trade Unions this week catapulted themselves into the boardroom

They launched the Community Growth Fund, a unit trust which will invest in companies "that provide strong growth in earnings and capital and at the same time satisfy certain union-defined criteria of social responsibility"

High on the list of criteria are progressive labour relations, union recognition, good safety records, job creation, equal opportunity policies, black advancement and environmental protection

According to one of the architects of the fund, Gordon Young, of the Labour Research Service (LRS) — a trade union service organisation — Syfrets has been inundated with interested investors

This week, Times Media Limited (TML) pledged R1-million to the fund and two provident funds in the mining industry have indicated their intention to invest. The fund will start operating on June 1

An LRS spokesman said "We are delighted that TML has acknowledged the superior potential of socially responsible investment. It is possible, however, that TML's own industrial relations practices would disqualify it from appearing on the unions' list of approved shares"

The fund, it is hoped, will eventually receive about 30 percent of the cash flow of union pension and provident funds But it is not exclusively for trade pension and provident fund investments

Individuals may buy unit trusts and National Union of Mineworkers representative Manoko Nchwe said she hoped unions would also invest subscriptions in the fund and that civic and political organisations would find it an ethical investment option

While ethical considerations underpin the unit trust, Syfrets was chosen as fund manager because of "their excellent track record in the investment performance of their own unit trusts", says Young Syfrets Growth Fund was the top performing unit trust over the past three years

Syfrets also gave the Community Growth Fund the best deal on the market Where the average charge of unit trust management is 0,7 percent Syfrets gave them a preferential rate of 0,5 percent.

Syfrets chief executive John Cragg said "We are delighted that the unions chose Syfrets' expertise in this bold investment"

Syfrets was lucky, investments made by provident and pension funds amount to about R186-billion and account for 29 percent of the Johannesburg Stock Exchange

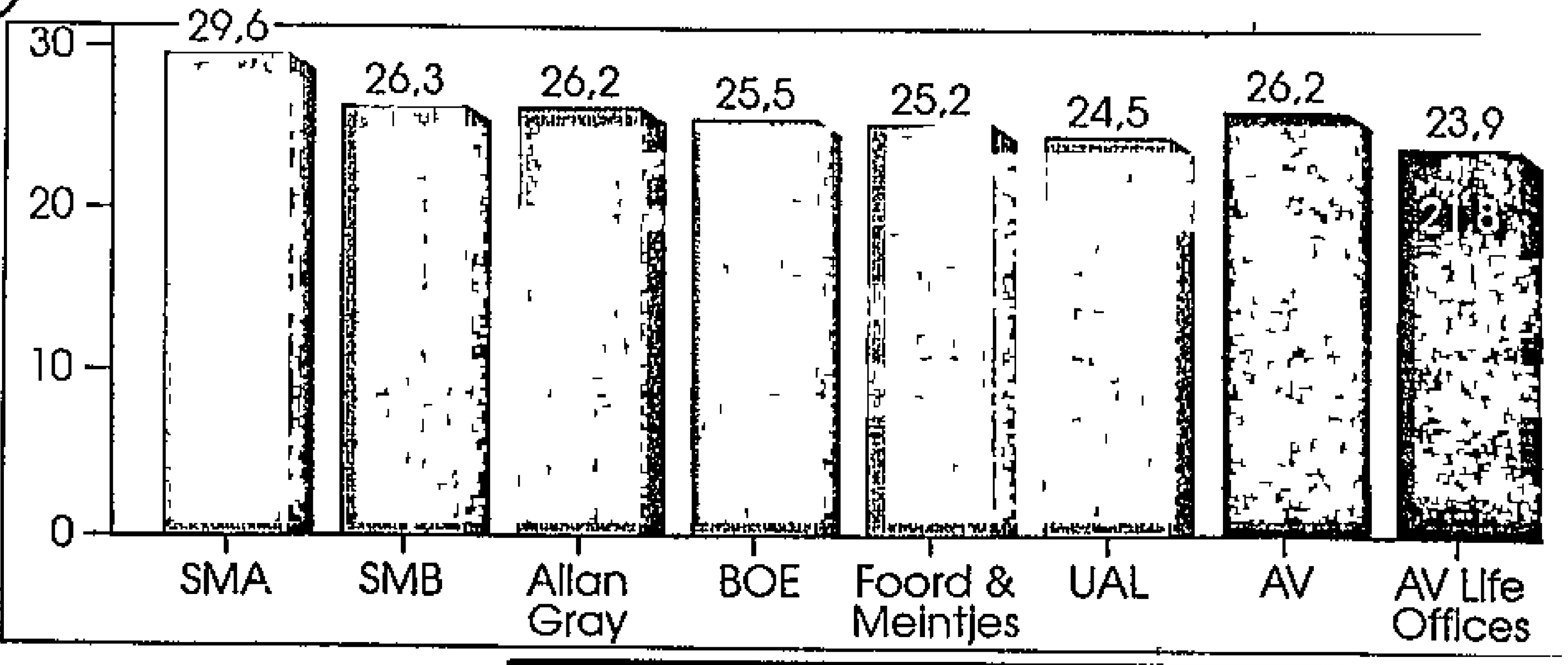
Day-to-day administration will be done by Syfrets who will also make investment decisions and handle the marketing of the fund together with the LRS

Unions will retain control of the fund through the Community Growth Fund Management Company This management company will be owned jointly by Syfrets and the trade unions

LRS says "The unions, through their 50 percent holding in this company, will have effective control over the management company"

South Africa has no index to rate a company's social responsibility status as exists in Europe and North America and such primary acceptability research will fall to the LRS

What it will do is devise a point system and allocate points to companies based on the 12 criteria for investment.



The graph shows Syfrets' outstanding performance
SOURCE Alexander Forbes

"But companies do not have to satisfy all the criteria," says Nchwe Unions will not be inflexible or "take a bureaucratic stance"

However, certain companies are automatically excluded

They include privatised companies, arms manufacturers and foreign companies except "where there is a clear benefit to South African workers"

Unionist Allan Horwitz is concerned that "we must have strong democratic structures to direct and mandate union trustees"

Young says the fund will send reports to investors But it will be the responsibility of participating unions to keep their members informed of developments in the fund

Another problem which Horwitz raises is the "high degree of monopolisation that exists in South Africa it may be that one mine or factory has a progressive policy, but that the group as a whole is reactionary"

Young agrees but says "there is no way we can avoid some investment in big conglomerates"

But the nature of the company's activities will determine how much and whether the fund invests with them And smaller companies will be targeted for investment instead of large holding companies

The new Mandela residence in Lower Houghton, for which the ANC paid R500 000. Picture BRIAN HENDLER

Transnet fund invests on JSE

BIDay 8/5/92 232

LINDA ENSOR

CAPE TOWN — The Transnet Pension Fund would invest between R500m and R1bn on the stock market and about R500m in property development this year, MD Anton Moolman said yesterday

While R2bn was available for share investments and R800m for property investments, Moolman did not think the JSE and the property market had the capacity to absorb such large amounts of money

He said at end-March 1992 the pension fund had invested R300m in property and R3,3bn in shares

The aim was to have 55% of the fund invested in shares, 10% in property and 35% in cash and stocks

The actuarial shortfall of the fund was R8,5bn at end-March 1991 Strategies to address this shortfall included partially funding the fund by issuing it with Transnet stock, increasing contributions to the fund and channelling future profit into the fund

It would be possible to solve the problems of the pension fund by 2000

Moolman said it was unlikely that Transnet had made a profit in the year to end-March 1992 — the figures were still being audited — and had either broken even or made a slight loss He expected difficult conditions this year

Number of jobs 'will shrink again this year'

BIDay 8/5/92

LINDA ENSOR

CAPE TOWN — Prospects for job seekers this year remain gloomy as employment in the non-agricultural sector is forecast to fall a further 0,9%, says Stellenbosch University's Bureau for Economic Research director Ockie Stuart in an analysis of economic trends

This follows last year's estimated drop of 2,1% in the number of jobs.

The ability of the formal sector to absorb labour had declined from 97% in the sixties, to 72% in the seventies and to 22% in the eighties Between 1985 and 1990 the level of absorption was 7%. Stuart forecast a growth of 0,8% in employment next year

"Consumer spending is forecast to recover rapidly from the fourth quarter of 1992, and to continue doing so during the remainder of the forecast period (the end of 1993)," Stuart said He forecast an average growth rate of about 0,5% for 1992 and 4% in real terms for 1993

The upturn in world trade towards the end of the year would raise merchandise export earnings by about 12,3% in the second half of the year compared with the 4% in the first half, to give an average for 1992 of 8,8% In 1993 export earnings were projected to grow by 22% as SA benefited from a rise in commodity prices

Prospects for gold were bleak, with an average gold price of $350,00 forecast for 1992 and $375,00 for 1993 Net gold export earnings for 1992 could be 4,1% above last year while 1993 should see a growth of over 13% due mainly to the anticipated depreciation of the rand

A 7,6% depreciation of the rand against the dollar was predicted for this year and 4,6% for next year

Stuart forecast a substantially smaller surplus on the current account of the balance of payments of about R4,5bn due to the need to import maize

An average inflation rate of 14% was forecast for 1992 and 12,5% for 1993 Stuart said the estimated 14,5% increase in wages this year and 15,5% next year would contribute to the high inflation rate

An 8,4% average decline in durable goods expenditure was forecast for this year with a substantial recovery likely early next year A significant recovery of semi-durable goods expenditure was projected for the last quarter of 1992

Real gross domestic fixed investment by the private sector, which showed a decline of 6,5% in 1991, is forecast to decline again this year Next year, however, it should show an increase

Residents dismiss reports of Malawi coup

JONO WATERS

BUSINESSES in Malawi's commercial and industrial city Blantyre had been ransacked by discontented workers over the past two days, residents said yesterday

They said the looting was not politically inspired and reports of a coup in the country were incorrect Sapa reported that diplomats in Malawi had said at least 10 people were killed in the unrest, which had spread to the capital Lilongwe Stores belonging to President Hastings Banda were particularly targeted BIDay 8/5/92

The unrest was apparently triggered by a wage strike earlier in the week by about 3 000 textile workers at the David Whitehead and Sons factory The situation worsened when thousands more workers took to the streets on Wednesday

The army set up roadblocks outside Blantyre and ordered workers to return home Sporadic shooting was heard

Impala happy about a Bop return

(232) S1 Times (Buss) 10/5/92

By JULIE WALKER

BUSINESSMEN with investments in the independent homelands are weighing the implications of this week's agreement at Codesa that the statelets be reincorporated in South Africa

Several JSE-listed companies are either registered in Transkei, Bophuthatswana, Venda and Ciskei (TVBC) or their operating companies are registered or located there

The largest are Impala Platinum and the Sun International stable of SunBop, SunCisk and TransSun

Impala managing director Michael McMahon says running the group would be much easier under a single state

The listed holding company is registered in SA But one of its operating companies is registered in Bophuthatswana where the mines are

Upside

Mr McMahon says that until details, such as tax and legal implications, are known no conclusions can be drawn on the effects of reincorporation

Analysts say there is more upside potential than down for Impala, which has been plagued by labour problems relating to the Bophuthatswana Government's reluctance to recognise trade unions

It also pays tax in both republics as well as royalties in Bophuthatswana

Sun International deputy chairman Ken Rosevear said at a presentation to analysts that reincorporation should not present many problems In the first instance, a changeover would not be rapid

Second, government agencies, such as development corporations, had more than R1-billion of share value in Sun International's resorts and had earned more than R1-billion in direct and indirect tax

Third, the group employed 18 000 in a land short of jobs

Shares lure key unions

CIP new 10/5/92

☐ MONEY TALK

[redacted] 232

THE founding during the past week of the Community Growth Fund (CGF), a unit trust supported by key trade unions, represents an important step forward in the evolvement of a new economic dispensation in SA.

The new fund will ensure that union members take part in top companies listed on the Johannesburg Stock Exchange.

Basically the CGF will be investing a portion of the regular pension contributions of thousands of workers.

Union spokesman Manoko Nchwe said the CGF would only invest in the shares of companies with good social responsibility policies.

The fund will be administered by Syfrets, but will be controlled by the unions.

SA businessmen are pleased by the unions' decision to participate so directly in the market mechanism.

One company, Times Media Limited, was quick off the mark to authorise R1-million from its pension fund to be transferred to the CGF.

Only time will tell whether the new fund will be successful, but certain knowledgeable investment analysts believe that in the long term CGF may well become one of the most powerful unit trusts in SA, because it will enjoy a large and regular flow of cash.

Altron hopes to fit the unions' bill

S|Times (Buss) 10|5|92

(232)

By JULIE WALKER

ALTRON executive chairman Bill Venter hopes his group is one in which the trade unions' unit trust would be happy to invest

The unit trust can invest only in companies with strong social responsibility programmes Altron — whose main investments are in Altech, Powertech and Fintech — fits the bill

Dr Venter says "Since the strategic systems side of Altech's business was wound down we have redeployed 400 engineers to look at ways of developing products for improved education, housing and health care.

Keen

"We have developed an advanced interactive educational system using a 60cm satellite dish at a cost within the reach of almost all schools We are aiming at the lost generation"

Dr Venter says European and eastern companies are keen to invest in Southern African projects The common factor is that potential investors are looking for SA partners

"SA is the hub of activity for the whole of sub-Saharan Africa Investors realise that a greenfields venture has a high chance of failure"

Foreign partners bring the markets that they have built up over many years and SA companies provide local expertise, manufacturing, servicing and so on

Dr Venter denies Altron would pay a premium for markets it will pick up in any case now that sanctions are going He says foreign investors are bringing capital, technology and expertise to the region

Although many regard Africa as a basket case, Dr Venter thinks otherwise

"There is enormous mineral wealth and tourism potential, both of which are job-creators But the infrastructure has to be improved

"Communication is probably the greatest stumbling block, but traditional copper cabling is vulnerable to theft throughout the region"

To this end, Altech has developed a solar-powered rural radio system which looks set to be a winner It is on trial in the Eastern Transvaal

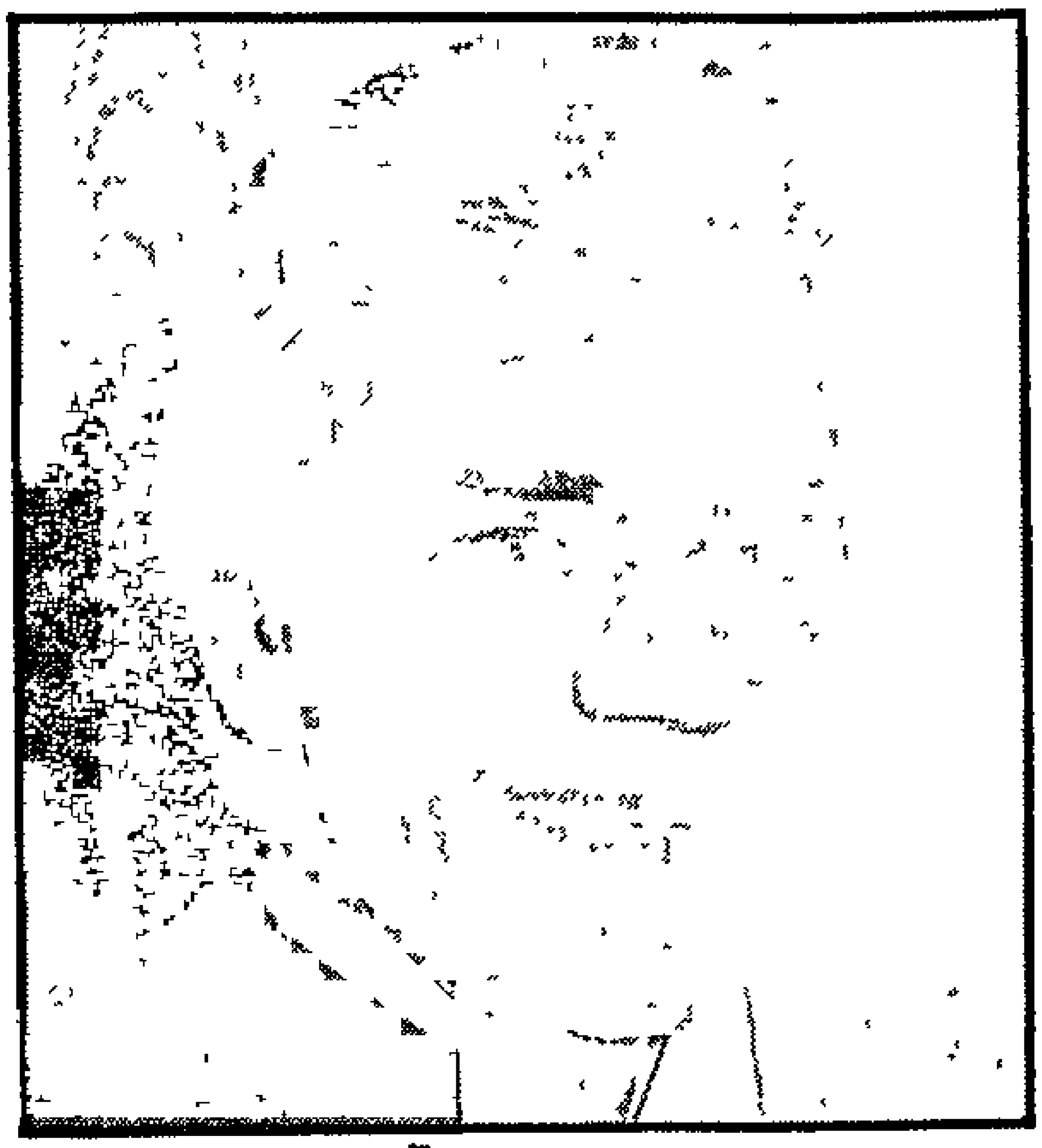
Turnover

Electrification would bring about radical change, but the required investment will not be made by the authorities unless payment for power can be guaranteed A smart-card pre-payment electricity dispensing system has been developed to eliminate the administrative burden

Powertech has introduced a cable harness systems that replaces conventional housewiring

The Altron group has R200-million in cash for investment in well-researched areas Acquisition opportunities are few and new ventures are likely

In the year to February, Altron made almost R93-million, or 489c a share, on turnover of R2,6-billion This was a 19% improvement in spite of the tough economic conditions



BILL VENTER: Keen to make tools to educate the lost generation

IN BRIEF

sector Drop Inn warns again

TUESDAY Longmile shareholders' meeting on 18/5, delisting from 22/5, shares to be redeemed at 200c

WEDNESDAY Sanlam buys Sanland shares at 87c from Allan Grey Investment Counsel, members offered same African Cable members approve acquisition of Siemens Cables

Pepgro to raise R135-million through the issue of 15 convertible debentures of 6% for 100 ordinaries held at R12 after sub-division of Pepgro

All the facts on Europe

By JULIE WALKER

AUDITING firm Deloitte Pim Goldby has invited two representatives of its European co-ordination office to present seminars to clients who are potential investors and traders with Europe.

Brussels-based Graham Branton and Richard Doherty will talk about details and pitfalls associated with doing business in the European Economic Community and in eastern Europe.

The treaty between the six Efta states and the 12 EEC nations has paved the way for investment or for trade with 18 countries on a single set of criteria

"Common legislation in several fields has already been agreed on," says Mr Branton. "They include banking, telecommunications, industrial standards, transport, energy and environmental matters, with insurance coming soon

"Public procurement policy on goods and services now obliges the authorities to take the cheapest product on offer providing it meets quality standards This opens the door to everybody"

However, each nation still has its own tax policy, company law and accounting rules Mr Branton says it is important that potential investors make the best decisions on where to do business and to take into account grants and subsidies, as well as repatriation of profits, use of foreign staff and so on.

Mr Doherty says the biggest problem facing would-be investors in eastern Europe is the lack of reliable information and statistics Deloitte has established a network of offices and contacts throughout the region to update the European database and advise clients worldwide

Deloitte Pim Goldby believes there is enough interest in Europe among its SA clients to justify its establishing links and making information available

Industrial

Stokvel unit trust on the way

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S/Times (BUSS) 10/5/92

By CIARAN RYAN

THE National Stokvels Association of SA (Nasasa) is to launch a unit trust for stokvels.

Stokvels are savings clubs in the black community. Surveys suggest there are 24 000 stokvels in major metropolitan areas and as many as 800 000 countrywide with a total membership of 10-million.

Their cash flows are estimated at more than R200-million a month, most of which is placed with financial institutions.

A stokvel unit trust could provide a better return on savings and allow members greater access to formal borrowing.

Stokvel members are generally drawn from poorer sectors of the community. They are a poor credit risk in banking terms.

Better

Stokvel members complain that they are denied access to formal borrowing, but their savings are lent to relatively wealthy whites with good credit ratings

Nasasa spokesman Stephen Japp says: "A unit trust will give stokvel members a better return on their money. They will be able to offer unit trust money as collateral against loans from the financial institutions."

But some fund managers suggest there is no need for a stokvel unit trust Existing unit trusts can handle this business. There is nothing to stop stokvel members from collateralising their investments through unit trusts. It is estimated that 25% of unit trust holders are black.

Syfrets and Nasasa will teach stokvel members how the JSE and unit trusts operate. Together with Old Mutual, Syfrets is preparing a package to show people how to profit from shares and unit trusts.

Syfrets has agreed to administer stokvel funds at a reduced price

● See page 4.

Union unit trust on the way to big time

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S Times (Buss) 10/5/92.

By CHARLENE SMITH

THE Community Growth Fund (CGF) to be launched on June 1 by trade unions could become one of the largest unit trusts in South Africa, says Syfrets chief executive John Cragg.

Syfrets will manage the fund.

Trade unions have made it clear this is not the last move they will make with the money accumulating in pension and provident funds to which their members contribute. They could seek to increase the 30% ceiling they have put on their own pension and provident fund investments in the CGF

They are also investigating other investments.

Trade unions have long been unhappy about their lack of influence on the investment of money from workers' pension and provident contributions Few black workers had pension rights in the past, but the unions have tried to change the system Former general secretary of the National Union of Mineworkers Cyril Ramaphosa was a prime mover in bringing about change

Clout

Others involved in the new scheme include the Transport and General Workers Union, Paper, Printing and Allied Workers Union, Construction and Allied Workers Union, and Nactu's National Union of Food, Wine, Spirits and Allied Workers, Transport and Allied Workers Union and Metal and Electrical Workers Union of SA.

Now that unions and their members realise they have growing financial clout they intend to make their money work — on their terms.

Manoko Nchwe, collective bargaining official at the NUM, says they will not use the fund "to influence the outcome of day-to-day labour disputes"

The NUM said in its biennial report this year that its provident fund "has 330 000 members on the gold and coal mines and total investments worth over R250-million"

World

"The members contribute about R10-million every month from their wages and the employers contribute the same amount All of the money is invested by Old Mutual Most of the money is invested in firms like Barlow Rand and Anglo American The union has no say on where the workers' money is invested. We need to discuss if this is correct."

Discussions are under way between the Labour Research Services (LRS), represented by Gordon Young, and Syfrets Managed Assets team.

Mr Young says "The unions have been disenchanted with the performance of the economy over the last 10 years. Cosatu unions have called for more union involvement in the investment of their money

"We have established a cautious scheme that won't set the world alight, but it is not meant to This is a blue-chip investment vehicle There will be others."

Mr Young says other options are being considered — for example, "establishing greenfield projects for job creation"

But the unions realise that such projects carry higher risks than relatively safe unit trust investments

"When we have more experience we would like to try other options They may carry higher risk, but could yield higher returns"

Seal

LRS surveyed the market before choosing Syfrets

"We selected what we thought would be the best company from our point of view and made an offer We looked at four factors did it have a unit trust, a reputation for integrity; was it prepared to acknowledge the importance of unions and did it have a proven track record"

Mr Young says Syfrets — it has placed R2-million of its money in the scheme — provided a lot of support.

"Union members have been extremely enthusiastic, we have had meetings with them throughout the country There is an underestimation of the savings drive among workers They are keen that we should put more than our 30% limit into the fund, but we are taking a cautious approach"

About 500 000 workers will initially invest in the fund — which is also open to the public

Merit

TML managing director Steve Mulholland put R1-million of his company's pension fund in CGF this week

Mr Young says an investment by the Community Growth Fund will "by no means be a seal of approval for the company we invest in. I don't think any company would meet all the criteria we set, but we will back more progressive companies"

Investment decisions will be set according to such criteria as a company's job creation record, its industrial relations, its health and safety practices among others.

"Unions will get together soon and decide on a weighting system A company that does badly on one item may fare better on others It may, for example, have a good health and safety record, but be a known union basher"

A Syfrets spokesman says it will recommend "shares with financial merit to the LRS. LRS will then select according to their criteria of socially responsible companies

"We have done some research, and most successful companies have a social con science

"Several pension funds have given us between 20% to 30% of their cash flow We cannot give more details until the official launch"

Union tries to recover Masterbond million

Bday 11/5/92

DIRK HARTFORD

THE unaffiliated National Union of Leatherworkers (NUL), with 23 000 members, stands to lose more than R1m in the Masterbond debacle

NUL general secretary Kessie Moodley said the union had invested "reserve funds" in Masterbond for use later as bridging finance

The funds were held by various union-linked funds — including a general benefit fund, a death benefit fund and an employee sick benefit fund which was a supplement to the Leather Industry Industrial Council's sick benefit fund.

Moodley said the union was doing all it could to try to retrieve the money, but the prospects looked bleak.

The union had made contact with Masterbond investor groups and representations had been made to the Registrar of Deposit-Taking Institutions.

He said the NUL, an old union previously linked to the now defunct Trade Union Council of SA, was in a sound financial situation despite the Masterbond losses

He added that the union owned buildings in Port Elizabeth and Maritzburg 189

Moodley, who is a brother of Azapo activist Strini Moodley, was central in an internal union struggle that eventually ousted long-time NUL general secretary Freddie Schwartz. 232

Schwartz is still general secretary of the small Transvaal Leatherworkers' Union

In a pamphlet doing the rounds among leatherworkers in Port Elizabeth, Schwartz said that the NUL's funds — which had been invested over a long period in several building societies — had been "squandered"

Bullish sentiment lifts JSE platinum shares

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BDay 12/5/92

MATTHEW CURTIN

SHARES in Rustenburg Platinum (Rusplat), the world's leading platinum producer, hit R78,50 on the JSE yesterday, their highest level since September 1990

Higher platinum prices and increasingly bullish long-term views of the market lifted shares across the platinum board

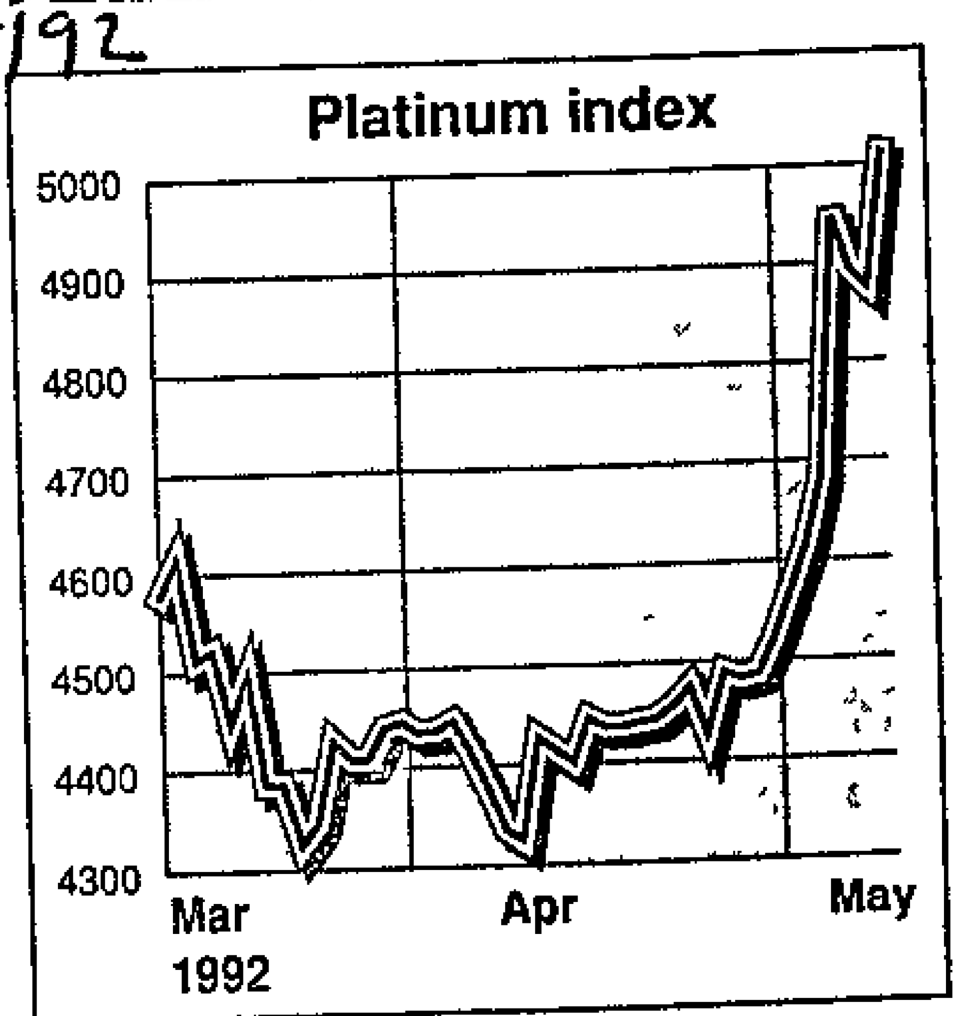
The JSE's platinum index passed the 5 000 mark for the first time since July last year, to close 132 points higher at 5 009

Impala Platinum (Implats) led the gains, rising 5,2% or 250c to close the day at R50,50 Implats has begun to shake off the effect of associated labour and production problems which dogged its mines in Bophuthatswana in 1991

The stock has risen more than 26% in the past month, narrowing Implats' discount to market leader Rusplat, which had widened consistently in the past year

Lebowa Platinum (Leplat) and developing mine Potgietersrust Platinums (P P Rust) also made good gains to climb more than 3% to end the day at 160c and 670c respectively Leplat has risen off record lows to gain 35c or 28% in the past month, while the volatile P P Rust, which was listed last year, is near record highs after falling to a low of 510c earlier this year

Platinum was fixed in London yesterday afternoon at $354,35/oz, up from Friday's fix of $353,25



Graphic FIONA KRISCH Source I NET

Reuters reports that New York analysts said optimism that the US economy was recovering from recession, fed by Friday's stronger-than-expected jobs data, buoyed sentiment So did perceptions that demand in the Far East for platinum — Japan is the largest consumer of platinum jewellery — would increase soon

Confidence was also boosted by concern over the availability of the metal in the physical market, particularly in Europe

Marvol to get 51% of Concorde

MARVOL Holdings SA, the Luxembourg-based trading group, is to acquire a 51% controlling stake in Concorde Travel Holdings (Concorde) 232

Concorde is SA's only directly listed travel group

Its controlling shareholders, who include certain directors of the company, holding around 85% of the issued share capital, have undertaken to accept the offer 6|0ay 12|5|92.

However, the offer is still subject to approval by the Securities Regulation Panel

In a deal valued at about R2,4m, Marvol will offer 33c for each Concorde share

Trading in the shares was suspended yesterday at a price of 35c

Concorde MD Allan Lunz said the investment by Marvol represented a vote of confidence in Concorde, tourism to and from SA, and the country's future

DUMA GQUBULE

Lunz said the deal would dramatically broaden Concorde's scope to increase international tourism to SA and establish a worldwide network which Concorde would offer its local clients

Marvol is the holding company of a multinational trading group involved in international trade, mining, tourism, industrial manufacturing and publishing, with existing interests in SA

It has particular strength in trading activities involving Russia and Eastern Europe

Concorde has been a pioneer in SA business travel

Bid for Masterbond firms

232 LINDA ENSOR

CAPE TOWN — Citygate Corporate Finance is making a bid for management control of 11 property participation companies in the Masterbond group

Citygate has sent a letter to the approximately 1 100 investors in the participation companies asking them to vote J H Isaacs Group (Tvl) director Peter Holling and Citygate directors Michael Addison, Cedric Greenwood and Daryl Sahli on to the board at a meeting on May 25.

Greenwood said yesterday the proposal had the support of the Masterbond provisional curators BIDay 12/5/92.

He said that as managers of the companies Citygate would aim to reconstruct the debt and would run the companies, many of which were in reasonable order, on an ongoing basis

Citygate would review and reinstate the cashflow returns to investors at realistic levels

To make the investments tradeable, Citygate also planned a JSE listing for the property loan stock, Greenwood said

The companies, now under provisional curatorship, have a property portfolio amounting to R60m, R30m of which was invested by Masterbond investors

The three biggest properties in the portfolio are the Brackenfell Shopping Centre (R18,5m), FHA House (R8,3m) and Masterbloem (R6,6m)

The properties are administered by the J H Isaacs Group.

The meeting on May 25 has been called to elect a new board of directors to replace the current board and to take control of the company. Former Masterbond MD Koos Jonker has tendered his resignation as a director

The Masterbond provisional curators are not legally empowered to nominate persons for election

Citygate urged investors not to vote for past Masterbond Group company directors and those formerly associated with Masterbond, as had been proposed.

PEANUTS By Charles Schulz

Marchers dispersed

BIDay 12/5/92

PRETORIA — Bophuthatswana police used teargas to disperse a crowd which had gathered to march on the GaRankuwa Magistrate's Court yesterday, police spokesman Col Dave George confirmed

Earlier reports said the march, which took place north-west of Pretoria, was part of a day of mass action including work stayaways to protest against the homeland's refusal to be reincorporated into SA and against its labour legislation

Industries in Rosslyn, north of Pretoria, experienced up to 100% stayaways as a result of the ANC/Cosatu/civic association-organised action

Spoornet said trains from GaRankuwa and Mabopane near Bophuthatswana were only 40% full, while BMW in Rosslyn said management and unions had agreed that yesterday would be a nonproduction day and the units lost would be made up

Mail deliveries were affected in some Pretoria areas — Sapa

Dilemmas looming for SA's pension fund trustees

232

BDay 12/5/92.

JIM. JONES

LAST Monday a number of Cosatu and Nactu unions, led by the NUM, announced the formation of a unit trust, the Community Growth Fund (CGF), hailed as an innovative investment outlet for union provident funds It is and it isn't

It is innovative in that the unions make clear the fund will buy shares only in companies deemed "socially responsible" And it is politically innovative as the unions have made clear from the outset that they will exercise the votes on shares held by their unit trust

The CGF, to be managed by Syfrets, is not an innovator of investment in private sector firms by nominally socialist unions or the provident funds they manage for their members Union provident funds already hold equities as well as other investments forming the normal portfolios of pension funds

The new fund has no track record and will only start operating in June It kicked off last Monday with R30 paid in by Cyril Ramaphosa His modest contribution was followed rapidly the next day by the well-publicised investment of R1m by the Times Media (TML) Pension Fund

The facts that CGF is not yet operating and has no track record suggest that the TML Pension Fund's investment could not have been motivated by the investment or actuarial criteria which normally govern pension fund investments Furthermore, while they remain invested in CGF the TML Pension Fund trustees will have no influence over the ways in which CGF's managers exercise voting rights on shares held by the unit trust

The TML Pension Fund's initiative highlighted the dilemma of many pension fund trustees pondering how best to protect members' interests from possible government intervention The TML Pension Fund trustees' initiative was politically innovative and was tagged as such by the NUM whose Manoko Nchwe said it was 'extremely important that a company such as TML has identified itself with this cause"

Nchwe, who has since quit the union, might be forgiven for confusing the TML Pension Fund with TML itself Stephen Mulholland who publicly presented the pension fund's money to representatives of the NUM, is well known as a former newspaper editor and as TML's present MD But the decision to invest R1m in CGF was taken as a trustee of the TML Pension Fund He and his two co-trustees decided to place the R1m with CGF

TML publishes newspapers, including Business Day TML's pension fund is an entirely separate entity whose sole purpose is to manage the retirement savings of employees

Business Day will pay particular editorial attention to CGF to compare the performance of the unit trust's "socially responsible' investments with those whose investment policies are not restricted by union views on social responsibility The contest will be fascinating

But that is another issue The TML Pension Fund trustees decision raises issues central to the management of pension funds and the protection of fund members' savings, particularly as political organisations such as the ANC have indicated support for future legislation which could milk life assurers and pension funds to finance investment in such "socially responsible" ventures as mass housing on which investment returns will be negligible

Now that the TML Pension Fund has endorsed and invested in a "socially responsible' union-sponsored venture with no investment track record, it could be difficult for the managers of this or other companies pension funds to resist outside pressure for members' savings to be directed into further "socially responsible' investments And it could inspire unions to attempt to use representation on pension funds for political ends

It is a short step, for example from investing in firms managed in a socially responsible' manner to investing in mass housing projects or nonprofit enterprises sponsored by unions or political groups Other unions could follow the NUM's lead and form unit trusts and could try to persuade other pension funds to follow TML's example Numsa, for example refused to join the NUM initiative and insists that pension funds and life assurers be obliged to redistribute wealth by investing in mass housing schemes and so on

These are issues which have yet to be debated and resolved But pension fund trustees who have yet to broaden their approach and who interpret their fiduciary responsibilities more narrowly than TML's might be haunted by Kipling's words " once you have paid him the Danegeld you never get rid of the Dane"

Trustees and managers are generally charged with running pension funds so as to maximise the benefits which will accrue to their members Generally, those investments should be politically blind Union members who contribute to the CGF are aware of its restrictive investment covenants Members of more conventional pension funds generally assume that maximisation of benefits implies a narrow financial interpretation That is normally the case as professional fund managers rely on their investment track records when bidding for pension fund management contracts As a result, most pension fund members understandably rely on the assumption that previous investment strategies will persist and that investment decisions will be taken solely on the basis of measurable investment returns

They also take for granted that the fiduciary duties of pension fund managers require consultation with trustees when voting rights are exercised and that trustees will not permanantly renounce those rights

But SA is in a process of rapid change and thoughtful pension fund trustees might deem it necessary to make investments based on considerations which appear more politically than financially motivated This might be justified for example by the argument that a commitment to 'socially responsible' investments now might protect pension fund wealth from the depredations of some future government's populist redistribution policies

But should politically motivated investments falter pension fund trustees could run the risk of being accused of paying insufficient heed to their fiduciary responsibilities

The rights of pension fund members should not be obscured by the political debate By the same token the views of pension fund members should not be overlooked by those entrusted with the management of members' savings It would appear axiomatic that investment innovation which goes beyond normally accepted criteria should first be endorsed by the members

Looked at from another vantage point, it is time, perhaps, for the playing fields to be levelled and for legislation to be introduced which gives individuals who prefer to opt out of compulsory pension fund membership the same tax breaks as those inside Personal pension schemes should be treated no differently than group schemes run by professional pension fund managers Individuals could then make their own decisions about whether to invest in "socially responsible equities and decide for themselves which are 'socially responsible'

The TML initiative has brought to the forefront new issues for private pension funds They are issues which will need to be addressed rationally and openly, for the good of existing pension fund members and future ones It is inconceivable that at least for several generations the state could provide adequate benefits for South African pensioners That means the responsibility will continue to lie with private pension schemes We cannot afford to get things wrong

LETTER

Liquidations soar in first quarter

MICK ELLINGHAM 232

COMPANY and close corporation liquidations soared by 41% for the first quarter of 1992, the Central Statistical Service (CSS) said yesterday

There were 656 liquidations between January and March 1992, compared with 466 liquidations between October and December 1991

A 68% increase in liquidations of wholesale, retail, catering and accommodation services was recorded in March There were 128 liquidations compared with 76 in February

Absa senior economist Nick Barnardt said liquidations lagged behind the overall business cycle and that the 41% jump was simply a reflection of the acute deepening of the recession which occurred towards the end of last year BDay 12/5/92

"We must expect further liquidations as the recession will last at least another quarter or two "

However, he said a drop in interest rates could help relieve the situation

The number of insolvencies of private persons, individuals and partnerships increased by 16,3% to 876 for the first two months of 1992 from 752 for the previous two months, according to the CSS

SA firms in bid for UK food group

MARCIA KLEIN

A MULTIMILLION-rand offshore deal involving Anglo American Industrial Corporation (Amic), De Beers, Minorco, Del Monte Foods International and the Royal group of companies could be in the offing, market sources said yesterday

There was strong speculation that the three-part deal would result in a change of control of Royal Foods

Sources said the transaction would see an Amic/De Beers/Minorco consortium gain control of UK-based Del Monte Foods International Del Monte Europe, which was sold by US canning company Del Monte in 1990 to a consortium and which has an association with Royal, would then be listed on the London Stock Exchange

Royal Foods would acquire Del Monte Foods International, change its name to Del Monte and list on the London Stock Exchange and the JSE Del Monte scrip would be used to buy the original business from the vendors, sources said (232)

Speculation of a large deal, confirmed by Royal's cautionary announcement that negotiations were at an advanced stage for Royfood to acquire additional food interests, has seen significant movements in the group's share price

Royal Holdings moved up 25c or 3,4% yesterday to a new high of 750c when 5 000 shares worth R37 500 changed hands in two deals Royal Corporation also moved up by 25c to close at a new high of 725c About 58 300 shares changed hands in 12 deals valued at R422 700 Royal Foods remained unchanged at a high of 675c, with a buyer at 675c and a seller at 725c

BD 13/5/92

New unit trust buoys market

STAR 11/5/92.

By Tom Hood (232)

CAPE TOWN — Trade unions cheered the share market last week with their decision to go ahead and form a unit trust where anyone can chip in for only R30 a month

The Community Growth Fund (CGF) makes its debut next month as a general fund and the country's 44th unit trust

It is set to make an enormous impact on business and worker-employer relations

JSE analysts believe news of its formation signals to investors that threats to nationalise big business are certain to evaporate — a factor one analyst says helped to boost investment confidence and share prices last week.

But company directors will have to pull up their socks because the new breed of capitalists are likely to be less apathetic, if not downright bolshie, compared with the present generation of investors

Union leaders are deadly serious when they talk about worker participation in making business decisions in the new South Africa

For starters, they will be entitled through their unit trust management company, Unity Incorporated, to arm themselves with proxies and challenge directors at company meetings

Then, if the fund invests millions in a company — it is alowed to buy up to 10 percent of a company's shares — the unions could be expected to demand a seat on the board of directors in the same way that financial institutions are represented in many companies

Unions have long demanded a say in decision-making — in Germany and the US worker participation is common

George Young, spokesman for Labour Research Service, which devised the plan for the union fund, says issuing proxies to unions concerned is a popular method of challenging companies in the US and Britain at AGMs

"We as a unit trust would have the right to issue proxies to interested parties and it might encourage companies to give us information"

CGF has the potential to grow at a spanking pace and become one of the largest

It has two major advantages over competitors

Big companies are expected to invest millions to show they are among the "good guys" with social responsibility

It has been promised as much as 10 and 25 percent of the huge cash flows of union pension funds every month

Union pension funds must invest money anyway if they want to protect workers' pensions from inflation, and what better place than their own CGF?

The fund will be punted by unions to members and the minimum investment of R30 a month, or a R500 lump sum, are the among the lowest and most affordable in the industry.

It will get off to a flying start on June 1. Syrets, which has a 50 percent stake in the management company, will start CGF with a R2 million investment — double what it gave to launch its own Syfrets Growth Fund about four years ago.

Other companies have either pledged or indicated they too would invest millions

Leon Campher, MD of Syfrets Growth Fund Managers, says he and his staff have been inundated with inquiries

Clive Fox, MD of Consolidated Fund Managers, an independent unit trust management company, forecasts that an enormous amount of money will go into the fund which, he says, is a "very clever marketing exercise in terms of harnessing black money".

"The only concern is that it will invest in so-called union-acceptable companies, which might not necessarily be the best investment"

The fund is the brainchild of Labour Research Service to overcome union complaints that they have no say in how members' funds are invested, while money has been invested in low-wage and union-bashing companies or removed from the country and used where there is no clear benefit to workers in South Africa

Investment policy will be towards manufacturing companies that provide jobs and meet union criteria of social responsibility, such as fair employment practices and safe working conditions

Stellenbosch economist Willem Roets forecasts "Just as the poor whites did in 1946, the black unions are going to use their financial muscle.

"They could end up with enough directors on the board to run their own gold mine"

Debt judgments at all-time high

By Sven Lunsche STAR 13/5/92

Consumers resorting to loan finance are defaulting at an increasing pace

An analysis of Central Statistical Services figures by Credit Guarantee economist Luke Doig shows that default and consent judgments surged to an all-time high of R360,5 million in February, 102 percent upon February last year

The largest contributor to this inordinate rise occurred in the "money lent" category to private persons (including mortgage bonds)

Default and consent judgements in this category rose from R104 million in January this year to R232 million in February.

The number of insolvencies of private persons, individuals and partnerships for the first two months of the year increased by "only" 16,3 percent to 876 compared with the preceding two months

The number of liquidations also continued to rise in the first quarter of the year, CSS reports.

In the January to March period the number of companies and closed corporations which were liquidated, increased by 40,8 percent compared with the last quarter of 1991

(232)

The CSS says there had been a marked increase in the number of wholesale and retail traders, and catering and accommodation services which were liquidated in March Some 128 stores in these categories were liquidated in March compared with 76 in February

Greater role for private sector

New tourism package to spur economy

BDay 13/5/92 (232)

Business Day Reporter

GOVERNMENT has committed itself to sweeping deregulation of the tourism industry, including the repeal of five Acts and a revision of liquor laws and legislation restricting Sunday activities.

The White Paper on tourism was tabled in Parliament yesterday and released to the public at the Indaba '92 conference in Durban by Tourism Minister Org Marais.

Marais told a news conference government had a three-year plan to "kick-start" the economy by making SA the world's No 1 "eco-tourism destination".

Our Durban correspondent reports that in terms of the White Paper, government has promised Industrial Development Corporation (IDC) financing for new projects in and around conservation areas.

Marais said a task group under the supervision of the Small Business Development Corporation and the Development Bank of Southern Africa was formulating proposals for an assistance scheme targeting small entrepreneurs

Highlights of the White Paper are:

☐ A major emphasis on deregulation, including the repeal of the five Acts governing tourism to make the industry "private-sector driven". A new consolidated Tourism Act would be tabled this session. Satour would immediately set up a "clearing house" to which the private sector could make submissions on deregulation;

☐ Co-operation with neighbouring states would be encouraged to create southern African tourist packages;

☐ Hotel room levies would be revised from July 1 (from R1 for one-star and R4,20 for five-star hotels) to generate funds to be used by Satour for overseas marketing;

☐ The Liquor Act would be revised to remove provisions inhibiting tourism and legislation relating to Sunday activities would be reviewed,

☐ A new policy on state airports would be tabled to ensure they were "user-friendly" and that facilities and service were in line with international standards;

☐ All major airports, including Durban's Louis Botha and Cape Town's D F Malan, would be upgraded, possibly to gateway status, and

☐ Charter flight restrictions would be eased

Sapa reports the White Paper noted that tourism in SA already employed 300 000 people and in 1990 earned R2,5bn in foreign exchange, but there was considerable room for expansion

Marais said government regarded tourism as one of SA's "economic anchors ... which can uplift the standard of living for all South Africans".

The White Paper envisaged government capitalising on SA's "unique selling features" — scenery, fauna and flora. The paper proposed that government retain control of its natural parks, while involving the private sector in certain commercial developments

The paper proposed that while additional accommodation be provided at the Kruger National Park, priority should be given to substantial expansion of accommodation in new parks Government also committed itself to protecting its conservation areas from "overexploitation".

International marketing would continue

☐ To Page 2

Tourism

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☐ From Page 1

under the auspices of Satour — with government finance — initially in the UK, Germany, US and France and later in regions such as Australasia, Canada, Taiwan, Israel and Japan Domestic marketing would be left mainly to the private sector.

The Travel Agents and Travel Agencies Act, including the Fidelity Fund, would be repealed, although representative private sector bodies would be allowed to use the balance of the fund to set up a new industry-administered fund

It was further proposed that consumer interests be protected by a code of conduct set up in terms of the Harmful Business Practices Act.

GERALD REILLY reports that Fedhasa executive director Peter Hearfield said the substantial support promised in the White Paper could rejuvenate industries which had stagnated during the recession.

As forex earners the tourism and hotel industries could rival gold mining and agriculture within the next few years.

The elimination of restrictions on charter flights into SA and the involvement of the IDC in tourism were positive features. Fedhasa also welcomed the Liquor Act review and a subsidy programme for expansion of accommodation facilities.

Dispute resolution alternatives urged

B/Day 13/5/92.

SUSAN RUSSELL

LAWYERS should be ethically obliged to discuss with clients the possibility of using alternative methods of resolving disputes before resorting to litigating through the courts, Harvard law Prof Frank Sander said in Sandton yesterday.

He was speaking at a one-day conference hosted by the Alternative Dispute Resolution Association of SA (Adra) which was supported by the Institute of Directors in Southern Africa and the Attorneys' Fidelity Fund.

The conference was aimed at giving attorneys, business people and anyone else involved in dispute resolution a clearer understanding of available alternatives to the route through the courts.

Alternative dispute resolution originated in the US as a means of reducing the time and costs involved in civil litigation.

It makes use of methods such as mediation, arbitration and so-called "mini-trials" and has been successfully used to resolve disputes ranging from complicated commercial matters to community and domestic disputes.

Adrasa was formed last year with the objective of integrating alternative dispute resolution into the mainstream of legal practice and those involved have been promoting it in SA.

Three fight Esor's plan to rescue Eersteling

B/Day 13/5/92 (232)

MATTHEW CURTIN

THREE shareholders in the liquidated gold mine Eersteling, representing 0,08% of the company's equity, are opposing a rescue plan for the company in the Rand Supreme Court today. The disgruntled shareholders have won the support of the SA Shareholders' Association (Sasa).

Swiss-based Esor Establishment SA is planning to rescue the company liquidated last year with an R11m accumulated loss

Esor representative Stefan Hayden said yesterday "It seems strange that a few disgruntled shareholders should arrive at the last minute and attempt to jeopardise the rights of creditors and members and create further uncertainty in the lives of mine employees."

Eersteling faces claims worth R6,5m and has offered the company's major creditor, Standard Merchant Bank (SMB), 80c in the rand, and other creditors 90c. Creditors have unanimously accepted the scheme of arrangement, proposed in terms of Section 311 of the Companies Act.

At a scheme meeting for shareholders, 78% accepted Esor's proposal that the company's share capital be consolidated from 80-million to 800 000 shares, with an issue of 7,2-million shares to Esor in payment for settling Eersteling's claims Shareholders accepted an offer of 1c a share, with the option to receive one share for every hundred owned. Esor has said without its offer, creditors would receive 46c in the rand, and shareholders nothing.

At the members' meeting, 80 of Eersteling's 9 000 shareholders, holding 8-million shares, voted against the scheme, with shareholders owning 28,8-million shares voting in favour Esor was able to vote for the scheme with the help of 25-million shares it acquired for R2 from SMB

Three dissenting shareholders owning 65 000 shares have taken the matter further They have submitted affidavits opposing the scheme It was reported yesterday that Sasa chairman Issy Goldberg said shareholders should reject "the indignity of the offer" Goldberg said the dissenting shareholders were confident they could run Eersteling "even more profitably" than the liquidators Eersteling has been run on a contract basis since its liquidation and turned in a profit of R900 000 between May 10 1991 and January 31 this year, but before interest payments of R800 000

Bill on electronic security deposits

B Day 14/5/92

LINDA ENSOR

CAPE TOWN — The creation of a central electronic securities depository to replace the daily physical delivery of thousands of securities by sellers to buyers is proposed in the Safe Deposits of Securities Bill tabled in Parliament yesterday.

The step to centralise share registers in an electronic register is likely to threaten or change the existence of the many share register companies which keep records of transactions and shareholdings of each JSE-listed company In terms of the Bill, transfers and pledges of securites would be effected by agreement and entry in the appropriate accounts kept by the central depository

"This would enhance security from an investor's point of view as the risk of loss of securities, or of tainted securities entering the market, would also fall away," the memorandum to the Bill says

Transactions will be recorded in the electronic register of the central depository, which will be a company incorporated under the Companies Act and registered with the Registrar of Financial Markets Fees will be charged by the depository for the transactions it conducts, for payment of dividends, distribution of financial notices, etc

The central securities depository will have member depository institutions entitled to hold securities for safe deposit and redeposit them with the central depository for safe custody. Securities of the same type — for example, all shares in Gencor held by the depository — will be pooled and depositors (shareholders) will have a pro rata interest in the pool

Financial Services Board financial markets manager Stiaan Hyman said yesterday the Bill was a piece of enabling legislation and the details of the method of operation of the central depository would be in its rules

He said it was likely that share transactions would be reported to the depository, which would enter them in the electronic register. Hyman stressed that share certificates would continue to be issued on request and, while the aim was to "dematerialise" all share transactions eventually, it would not be possible to enforce this

JSE president Roy Andersen said the central depository for gilts, to be run jointly by the Bond Markets Exchange and Unexcor, was well advanced and was the first priority Attention would then be given to equities An electronic depository provided greater security in share transactions, he said.

Cabinet had laid down stra-
s for the SADF 18 years ago,
internal political settlement

NEWS IN BRIEF

Privatisation 232

ENABLING legislation for the privatisation of the SA Abattoir Corporation was tabled in Parliament yesterday

The SA Abattoir Corporation Bill made provision for the incorporation of the company as a public company with a share capital at date of incorporation of R57,7m fully paid up shares with a par value of R1 each

These shares will be owned by the state and the rights attached to the shares will be exercised by the Agriculture Minister. BD 13/5/92

JSE has surplus in spite of dip in trading volumes

B/Day 14/5/92 (232)

Business Day Reporter

THE JSE reported a surplus of R561 000 for the year to end February in spite of a drop in trading volume This compares with a deficit of R8,7m in the 1991 financial year.

Delivering his review of the 1991/92 year, JSE president Roy Andersen said despite a depressed world economy, an uncertain future political dispensation, severe drought, a volatile financial rand and persistent but controlled inflation, the JSE indices had risen to make it one of the best performers in the world

But continued low volumes were a matter for concern During the year, 2,4-billion shares (2,5-billion) with a value of R22,7bn (R21bn), were traded This represented market liquidity of only 4,3%, compared with 5,3% in 1991

The JSE achieved its surplus after a R3,289m transfer from the JSE Guarantee Fund, the reversal of the provision for a doubtful debt of R3,439m and transfers to reserves of R3,697m. The debt for which provision was made in the 1991 financial statements related to expenditure on and rent receivable from the Bond Market Association/SA Futures Exchange trading floor

"As will be seen from the cash flow statement, net cash funds of R7,759m (1991 a deficit of R11,8m) were generated This trend, together with a decline in future capital expenditure, will further strengthen the balance sheet of the JSE," Andersen said.

Referring to share performance, he said the all gold index had performed in sympathy with the disappointing gold price Opening the year at 1082, it fell to a low of 972 and closed the year on 1239, representing a 14,5% advance

The overall and industrial indices had, in contrast, risen impressively and achieved new records The industrial index gained 38,1% over the year, appreciating from 3198 to 4418 after a peak of 4544 on January 15 1992 The overall index added 28,5% to its value

Capital

This once again showed equities were an excellent hedge against inflation, he said More than R14bn in equity capital was raised on the JSE in the financial year, beating the R12,9bn 1990 record

Market capitalisation of securities listed on the JSE on February 29 was R529,1bn (R495,1bn) and the total of dividends and interest paid on all listed securities was a record R32,8bn (R30,5bn)

Gilt turnover for the year was a record R250,7bn, 10,9% up on 1991 The number of deals was 133 492 (135 687)

Andersen said securities markets were essentially based on trust, and although cases against brokers or individual members were unfortunate, it was reassuring to note that JSE systems were identifying breaches.

He said the end of SA's isolation and progress at Codesa encouraged confidence in a favourable future for SA and the JSE

The importance of a strong and vibrant economy to meet the aspirations of all South Africans was generally agreed upon by political and business leaders, Andersen said.

The prospect of a political settlement following the "yes" vote and the progressive lifting of sanctions were focusing the attention of international investors on SA This could only benefit the JSE as the principal centre for raising equity capital, Andersen said

He said the market was looking forward to world economic recovery and a fair political settlement which would promote private enterprise.

The JSE had a major economic role to play as it channelled SA's savings cost-effectively and securely to users of capital In this way, it encouraged fixed investment, improved productive capacity and contributed to employment

Controls keep pension trustees in check

BDay 14/5/92

232

PETER McCULLOCH

NOT TOO long ago, management control of pension and provident funds was totally in the hands of company management.

A few years ago, with the advent of negotiated provident funds, this began to change. Members of provident funds, represented by their unions, demanded representation on the boards of trustees of the negotiated funds

In recently issued draft guidance notes, the Inland Revenue Commissioner effectively approved this development by suggesting that all funds should include member representatives on the board of trustees.

In recent negotiations, certain unions have demanded majority representation on the board of trustees, arguing that pension and provident fund contributions are deferred compensation and therefore from the time the money is invested in the fund it becomes the workers' money. The workers should therefore determine how this money is invested and control management of the fund.

Many fund members also regard the assets invested in pension and provident funds as a source of wealth for potential worker empowerment. Suggestions have been made that at least part of these assets should be invested in "socially desirable investments" which to some extent redress the wrongs of apartheid

Are there risks that worker majorities on the boards of trustees of pension or provident funds together with the call for worker economic empowerment could lead to fiscal irresponsibility?

I would tend to think not SA legislation imposes a number of controls on trustees and their advisers.

Trustees must at all times act in the best interests of all the fund's members and they will have the Financial Services Board, the fund's auditor, and the fund's actuary looking over their shoulders.

Furthermore, the prudent investment guidelines and other investment controls limit the trustees' flexibility in investment matters

Recently a new unit trust, the Community Growth Fund (CGF), was launched It is managed by Syfrets and has union participation on its management committee The CGF is being marketed as a potential investment for pension funds and provident funds and will be constrained in the investments it makes This unit trust is a nod to socially acceptable investment, but although the companies' track records in job creation, trade union relations, and environment issues will be monitored, investments made in JSE-listed companies and investment returns will be of paramount importance

Before the advent of this unit trust, member trustees on negotiated funds were already setting constraints on investment managers Thus, through individual provident funds, workers already have some say on the suitability of investment decisions on assets they partly control

It has been our experience in working with member trustees on provident funds that however much they are concerned at the social inequalities existing in SA there is a keen awareness that the provident fund can only be of limited assistance in addressing these issues However, the economic difficulties facing the country will always be on the agenda

☐ **The author is joint MD of Alexander Forbes Negotiated Benefits Consultants**

REVIEW

Beer is best as SAB's retail sections wilt

(232) STAR 14/5/92

By Sven Lünsche

SA Breweries confirmed its status as the royal blue of blue-chip companies by reporting its 25th consecutive increase in earnings in the year to end-March.

But it was once again left to the beer division to pull the group out of troubled waters as its retail subsidiaries, including Amrel, Edgars and OK, were hit by the most severe slump in consumer spending in more than 50 years

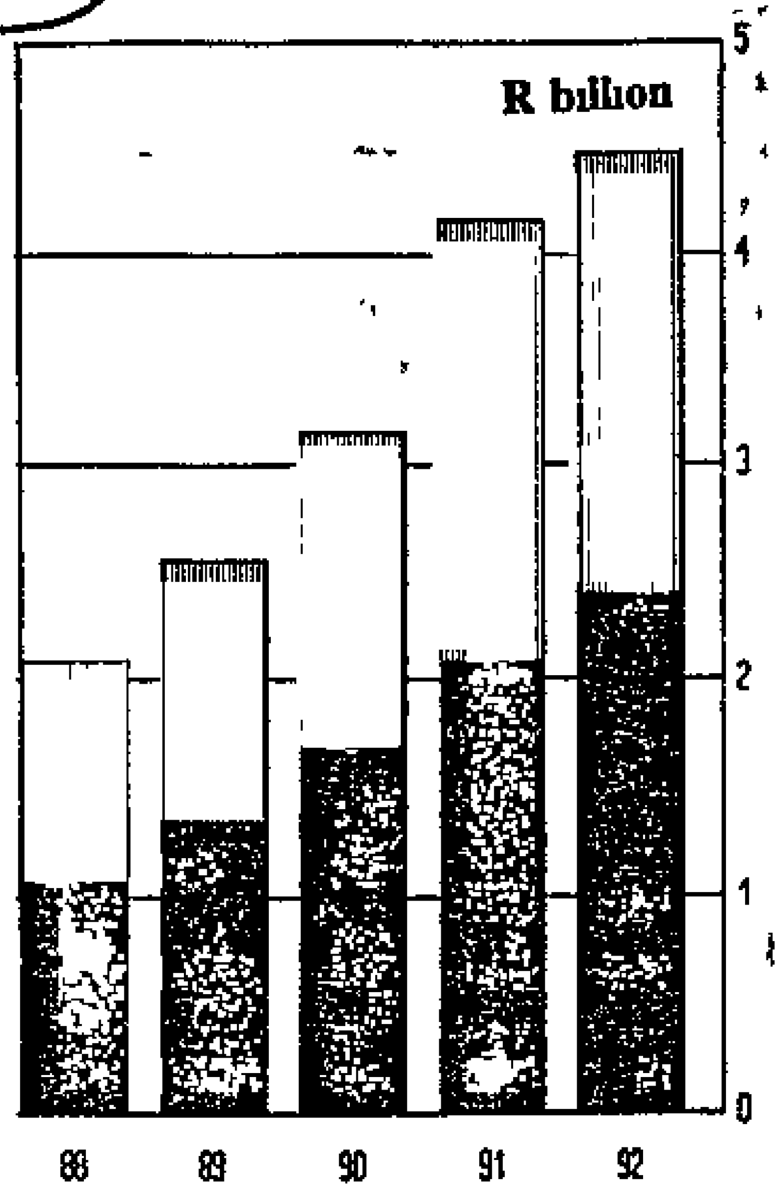
On the back of a 10 percent improvement in turnover to R17,7 billion (R16,1 billion), SAB's bottom-line showed a 10 percent increase from R711 million to R779 million, equivalent to a rise in earnings per share from 265c to 290,4c

Of this the beer division contributed 60 percent by lifting its attributable earnings by 16 percent to R465 million (R402 million) SAB's other interests showed a two percent rise to R314 million (R309 million)

The total dividend was lifted 10 percent to 130c (118c), but shareholders can elect to receive new shares in lieu of the cash payment of the 97c final dividend.

The shares will be issued at a price of R51,80 per share on the basis of 1,87 ordinary shares for every 100 shares held

The beer division has steadily raised its contribution to group earnings over the past few years, which reflects not only the poor performance of the retail subsidiaries but also the resilience of beer sales to economic adversity.



Added cash value generated.
(■ Dispersed among employees)

This was again in evidence last year, says SAB executive chairman Meyer Kahn.

Volume growth in the division was just over one percent in real terms which he described as excellent in view of the fact that excise duties on beer were raised by 20 prcent earlier this year

Furthermore, he says, the group doubled its exports during the year mainly to Africa, Europe and South America

Commenting on the two percent rise in the contribution of its retail division Mr Kahn said "we will just have to sit out the recession and wait for better times".

But he expects margins in the retail industry to remain under pressure in the current financial year although depressed operating margins already reduced growth in trading profit to five percent at R1,82 billion (R1,73 billion) in financial 1991/2

SAB's cash flow statement showed that the group generated added cash value of R4,5 billion during the year — an increase of eight percent over the previous year, (see graph)

"Once again, more than half of this has been disbursed among the group's 90 000 employees, while shareholders received 10 percent of the added cash value by way of dividends," Mr Kahn says

Capital expenditure for the year amounted to R1,3 billion, and the current programme approved for further spending is now over R3 billion, of which about half is expected to take place this year

Mr Kahn says operational cash flows, combined with existing financial facilities, would "comfortably" fund the expansion programme While borrowings increased by R454 million during the year the group's gearing at 53 percent remained well within targets set by management, he adds

Mr Kahn ruled out key acquisition this year stating that the takeover of 67 percent of PG Glass with effect from April this year — SAB's largest ever acquisition — needed to be consolidated in the months ahead

JSE has role

BUSINESS

to play in the new SA

STAR 14/5/92

By Derek Tommey (232)

The road ahead for South Africa would in all probability be bumpy, but the destination was exciting, said Roy Andersen, president of the Johannesburg Stock Exchange, in his inaugural address last night

"Every South African had a role to play in ensuring a happy, prosperous and successful nation and the JSE intended to play its part

"Indeed, it is not an exaggeration to say that the JSE is entering a new era"

Political and business leaders were generally agreed on the importance of a strong and vibrant economy which would meet the aspirations of all South Africans

Mr Andersen said that the JSE would encourage international interest as well as promoting the benefits of equity investment among all South Africans

Other initiatives planned included

- Improving volumes in the traded options market,
- Re-writing the orders management and equity clearing house computer systems,
- Finalising the implementation of the BDA system,
- Improving cost control, and
- Further strengthening the financial structure of the JSE

Mr Andersen said the exchange had spent the past five years acquiring new computer systems, streamlining procedures, enhancing skills, and controlling costs

The exchange was looking forward to a recovery in the world economy and to a fair political settlement which would promote the private enterprise system "Both of these factors should result in much improved volumes on the JSE, for which it is prepared"

In 1991-92 the JSE was one of the best performers in the world

"This shows once again that equities are an excellent hedge against inflation, as has been proved consistently over the years"

But the continued low volumes were a matter for concern, as they affected the attractiveness of the market and the livelihood of members

During the year, 2,4 billion shares (1991 2,5 billion) with a value of R22,7 billion (1991 R21,0 billion), were traded This represented market liquidity of only 4,3 percent, compared with 5,3 percent in 1991

The number of companies listed fell from 758 to 720, largely as a result of takeovers and mergers There were 16 new listings compared with 21 the previous year

"However, the high price of blue chip equities, combined with expectations of improved business conditions, enabled R14,4 billion to be raised — mostly in the form of rights issues This beat the previous record of over R12,9 billion in 1990, the year of the Iscor public offer"

The market capitalisation of all securities listed on the JSE at February 29 was R529,1 billion (1991 R495,1 billion) and the total of dividends and interest paid on all listed securities was a record R32,8 billion (1991: R30,5 billion)

Gilt turnover for the year was a record R250,7 billion, 10,9 percent up on 1991 The number of deals was 133 492 (1991 135 687)

SAB SUBSIDIARIES FM 15/5/92

A mixed bag

232

Listed subsidiaries of SA Breweries are all in consumer business but few can boast the pulling power of the beer division Certainly, the most successful diversification — at least on par with **Edgars**, whose figures were discussed last week — has been into soft drinks, through **Amalgamated Beverage Industries** (ABI), which holds Coca-Cola franchises in Johannesburg and Durban

ABI's EPS rose 20% to 64,5c, bringing in attributable earnings of R68,3m Gross cash flow from operations rose 59% to R142m ABI was helped by the unusually hot weather in the January to March quarter There was a strong performance from 24%-held Amalgamated Beverage Canners, SA's predominant soft drink canner

Diversified manufacturing interests, which have been the subject of critical comment, are having a tough year Says SAB chairman Meyer Kahn "This is the worst economic downturn of the last 50 years To expect attributable earnings in the cyclical furniture, textiles and appliance industries to increase in the present economic climate is simply childish"

The largest manufacturing subsidiary, **Plate Glass**, has only been consolidated from April 1 It will not form part of SAB results for the 1992 financial year.

Kahn calls the **Da Gama** results, with attributable income of R30m, "superb" even though EPS fell by 29%. He points out that no other major textile group is profitable.

For example, Frame has massive losses, Romatex is barely keeping its head above water and Tongaat recently sold its Hebox plant to a German entrepreneur Da Gama remains ungeared, with net cash of R2,7m

The furniture industry is suffering, whict is reflected at both Afcol and Amrel **Afco** was fortunate that many competitors closed enabling it to increase market share

Its EPS fell by 35% to R26m in an indus try in which local manufacturing output fe by 17,4% Afcol sold its 50% investment i Spankor, which gave it 23,9% of board mar ufacturer PG Bison, for R95m after yeai end This will virtually wipe out interes bearing debt, which stood at R110m

cont →

FOX FM 15/5/92 232

Amrel, a mixture of HP furniture and cash clothing and footwear chains, also had a difficult year Turnover fell by 3% to just over R1bn, as 150 shoe stores were closed Trading profit dipped 43% to R34m As at OK, results were saved by a release of R14m from the accumulated tax balance

Analysts expect SAB's attributable earnings to increase by about 8%, on the assumption that beer results will balance poor retailing and manufacturing performance

Stephen Cranston

INSOLVENCY

Cape court dissents

When can the directors of an insolvent company be held personally liable for its debts? Yet again, a Cape court has disagreed with the Transvaal on this important insolvency-related issue

In a recent unreported judgment, Mr Justice Wally van Deventer, of the Cape Provincial Division of the Supreme Court, rejected a claim under section 424(1) of the Companies Act, that the directors of a kitchen equipment company — Hi-Class Kitchens (Pty) — were liable for the company's debts

The basis of the claim was that the company was trading while technically insolvent This conduct, went the argument, was enough to bring the directors within the provisions of section 424 That is, that they were carrying on business recklessly or with intent to defraud creditors (Don Samuel Ozinsky NO v Linda Mitford Lloyd & others)

Oshy Tugendhaft, a partner in Moss-Morris Mendelow Browde Inc, says that Mr Justice Van Deventer has differed sharply with a recent judgment by Mr Justice Michael Stegmann in the Witwatersrand Local Division of the Supreme Court (*FM* April 24)

The Cape judgment rejected the creditor's argument, holding that for a company to trade while technically insolvent does not necessarily imply the conduct required by section 424 to make the directors personally liable for its debts

The judge said that, in SA legal and commercial practice, it has long been customary to incorporate private companies with a nominal authorised share capital and to finance them with shareholders' loans — for tax and other good reasons If "inside liabilities" are taken into account, many commercially active companies are technically insolvent But there is no obligation on directors to disclose insolvency They need to believe only that the company will be in a financial position to meet its commitments on due date Indeed, many technically insolvent companies trade on successfully in this way

The directors could reasonably hold this belief, for example, because they consider that the cash flow will be strong enough Alternatively, as in the Hi-Class Kitchens case, one director-shareholder could have substantial personal funds which are available in the last resort to meet the company's obligations

(Another answer to the problem of insolvency, one found acceptable in past decisions of the Cape and Durban courts — but not the Transvaal — is to enter into a subordination agreement "back-ranking" shareholders' claims relative to concurrent creditors')

The latest decision seems sensible in the light of normal commercial practice, but conflicts head-on with Mr Justice Michael Stegmann's general view of how technically insolvent companies should conduct business — strictly on a cash basis

Tugendhaft says an appeal has been noted from the latest Cape judgment He hopes the Appellate Division will eventually clarify the confusion Meanwhile, the position of directors of technically insolvent companies may be precarious, depending on the jurisdiction in which they operate ■

brandt would be penalised because of its liquor and tobacco interests — as would Breweries for its beer division and its "monopoly" of the market. But it is likely the interests of workers in those industries will count more heavily than these ethical concerns. In fact, Rembrandt could score well for its tiny mining operation Transhex, which is seen in a relatively positive light by the union — though poor disclosure would detract from the final score.

SAB would probably be highly rated because wages are relatively high and the conglomerate recognises the unions involved and has an affirmative action programme. Safren could gain marks because it negotiates centrally with the Transport & General Workers' Union.

Of course, though the CGF will increase the influence of unions, the funds will form a relatively small part of the investment stream. No-one is able to make even a ballpark estimate of the union funds going into the equity market at present but the entire pension and provident fund industry is estimated about 40%. And of the 13 000 pension and provident funds, only a handful allow union representation in asset management — an indication that the potential for attracting funds is limited.

Simply put, these sorts of nebulous criteria — and a weighting that must be a matter of opinion — will provide a lucrative source of income for under-paid academics, as do the calculation of what are called living wages. It could be the cause of endless dispute. For instance, companies that cut wages but increase jobs as a result are not likely to be viewed in a sanguine light by unions. But the social benefit of their actions could be material.

In Britain a similar fund, the TU Fund Managers, was established in 1961 to invest in companies in which trade union members work. It is now worth only about £65m. Fund chairman Tony Christopher says the problem is that "most of the big trade union pension funds — such as the Post Office workers which has a cash flow of £1m a day — are in the hands of several financial services companies."

Political leverage in SA will probably play a part in directing funds into CGF. But success will depend on its investment performance. If it is to become a force, the fund must prove its worth. This is the ultimate safeguard for wary investors.

Asher does not foresee problems in balancing ethical and investment merits. "Behaviour that is socially undesirable is not compatible with the best returns." He argues that short-term profits may be greater if the criteria are ignored but there will be a longer-term cost to the economy and the company concerned.

Problems are more likely to arise for the trustees of non-union pension funds that decide to take part. They are surrendering, on funds in CGF, their fiduciary duty to maximise returns for members and pensioners. Instead, they are accepting that union influence with other objectives may be brought to bear.

Under the circumstances, they would be advised to make sure of their legal culpability before committing funds under their supervision. Of course, if shareholders' funds are committed, the situation is different — depending largely on where shareholder control is vested.

There is also a danger that, to justify the performance of CGF, its managers might claim that investment performance is compatible with the social constraints placed upon them. That should not be accepted. Investment returns need to match those of nonconstrained funds.

Eventual tyranny

Finally, "social responsibility" has a distinctly Orwellian ring about it. The criteria could change according to the opinions of those whose decision it is. The danger of a replication of the eventual tyranny of the pigs of *Animal Farm* should not be forgotten, especially as political pressure mounts to provide low-cost housing for minimal investment return or other questionable social objectives are introduced.

Nor should pension fund trustees forget that if they decide to place only a small amount of funds under their care in CGF, they, like the socialist hardliners, will have violated a verity. If some, why should not all of their resources be in socially responsible companies — however defined?

What should remain central to a consideration to invest in CGF is that few businesses in the modern world can continue to increase their investment surpluses, and reinvest adequately in their own undertakings to ensure survival, if they violate for long the social norms of society.

If that principle is accepted, CGF is more than anything else a means of allaying mutual suspicion — and doing it overtly within the public arena. ■

THE COMRADES TRY CAPITALISM

Only a few years ago — while he was at the helm of the National Union of Mineworkers (NUM) — Cyril Ramaphosa rejected Anglo American's employee share option scheme as a dirty trick. It was designed to co-opt workers at the expense of union demands for better pay and working conditions.

Today, Ramaphosa, who remains a father-figure of the NUM, is in the far more powerful position of secretary-general of the ANC — which leads the so-called tripartite alliance with the Congress of SA Trade Unions (Cosatu) and the SA Communist Party. His presence at the launch of the CGF was, therefore, symbolically important. Of course, he warned companies careless of employee rights that workers were now active participants in the economy and no longer spectators or exploited victims.

But the CGF had its genesis in resolutions adopted at recent NUM congresses: that the mineworkers' pension fund should not be used to invest in "apartheid-supporting" companies. Some 340 000 employees contribute to that pension fund, valued at around R400m.

Anglo American public affairs spokesman Michael Spicer describes the union unit trust as a very positive development, which shifts the locus of the social reponsibility debate from the abstract to a more positive, practical realm.

On the question of foreign investment especially, Spicer adds, discussions have tended to be on a theoretical level, whereas now the argument about why there is a need for it will be more focused. The educative value of the initiative will also cut both ways — exposing management to the demands of blacks for social upliftment.

Ian Hamilton of Syfrets, which will administer the CGF, described the new fund as an important breakthrough in making investment more democratic: "It takes cognisance of the voice of the worker."

All this marks a major departure by the unions in general and the NUM especially, long regarded as Cosatu's flagship even though it has been overtaken by the metal workers, Numsa, in terms of membership. In fact, Numsa's absence from this scheme was noticeable, though whether it is adopting a wait-and-see approach, or doesn't like the idea, is unclear.

Other Cosatu affiliates which have endorsed the CGF include the construction and allied workers (Cawu), transport (T&GWU) and paper and printing (PPWAWU). Among the Nactu unions are food, wine, spirit and allied workers; transport and metal and allied workers.

Despite Numsa's absence, however, the point remains that here is a large union, NUM, which in the past led the militant socialist approach but is now at the forefront of compromise.

It wasn't long ago that NUM president James Motlatsi, addressing the African Miners' Association, spoke of a return to "pre-capitalist mining," whatever that may mean. Now the NUM looks to be following a strategy of seeking to influence companies' social practices by mobilising their funds accordingly. However limited the social purchase of the CGF may be in reality, the significance is that the unions are attempting to influence the system rather than abolish it.

Privatisation now prime consideration

(232) ARG 15/5/92

Municipal Reporter

THE Chamber of Commerce has urged the council to press for deregulation and privatisation

And a new system of comprehensive auditing and management techniques was needed to achieve economy and efficiency in all departments

In its annual report, the chamber executive council said a new formula should be found for local government taxes, to promote financial discipline

This system should generate higher revenues to offset inflation without increasing rates, the chamber said

The system should be broadly based, while recognising the principle of ability to pay

It should be flexible enough to allow for "local choice" in the determination of the level of local tax, but disciplined to limit increases

New bureaucracies should be avoided, and the system should be as simple as possible for administrative efficiency so people better understood tax

A joint working group of the chamber and the city council proposed several reforms to local government financing These included ensuring that all costs meant to be borne by the state were recovered in full, and ensuring that all local authorities in the region helped pay for regional social services and amenities

There should be a "determined effort" to sell surplus city council property

The city council's Consolidated Capital Development Loans Fund should be built up to ease the burden on ratepayers

Privatisation should be puched and various services "contracted out" The city council should reactivate its deregulation committee to eliminate unnecessary rules, regulations and procedures

The joint committee said a new system of auditing and management techniques was required

Commenting on Cape Town ratepayers' burden, the report said it had been caused by the city taking on a growing socio-economic burden not faced by other local authorities.

Never treat the stock market like a casino

STAR 16/5/92. 232

Investing on the JSE

THIS is the first of 10 articles dealing with the relationship between the stockbroker and his client. The author is DR MANNY POHL, executive director, Davis Borkum Hare.

INVESTMENT has been called a science and an art Another name could be added here — a discipline

A rising stock market can be a heady place, the sight of money being made effortlessly, minute by minute, can cause one's hope level to exceed reason, while the sight of a falling market all too easily triggers panic

This is where discipline comes in, the most successful investors and investment advisors, judged over years of consistent performance, are those who "can keep their heads when all about are losing theirs," to paraphrase Rudyard Kipling

In a service industry like stockbroking, the criteria are ethical conduct and effectiveness A good stockbroker helps his client to make money by giving service which is both valuable and honest

By valuable we mean not buying at the highest price of the day, correct registration and timeous delivery of share certificates and giving advice based on sound, well-researched knowledge of the companies concerned

A market has many of the characteristics of a living thing, and as such, it is made up of molecules, people in this case, all there for a common purpose but each performing its own function

Like any other organism, a market will respond differently to different types of treatment A feature of the market organism is that if you treat it like a casino, it will behave like a casino, and if you treat it as a medium for serious, long-term investment, it will behave that way

Many people, after a loss-making flurry into shares that were heavily tipped in a bar the night before, will blame the market, saying it's a dangerous den of gamblers But who was gambling?

What then are the rules making up the discipline of JSE investment?

Firstly, buy the best quality you can afford in companies reporting real growth in earnings and secondly, don't change your investments except to upgrade

It's that simple

Wealth is an accumulation of high quality assets, and that is what most of us invest for Those investors who do nothing more than follow those two rules, get richer

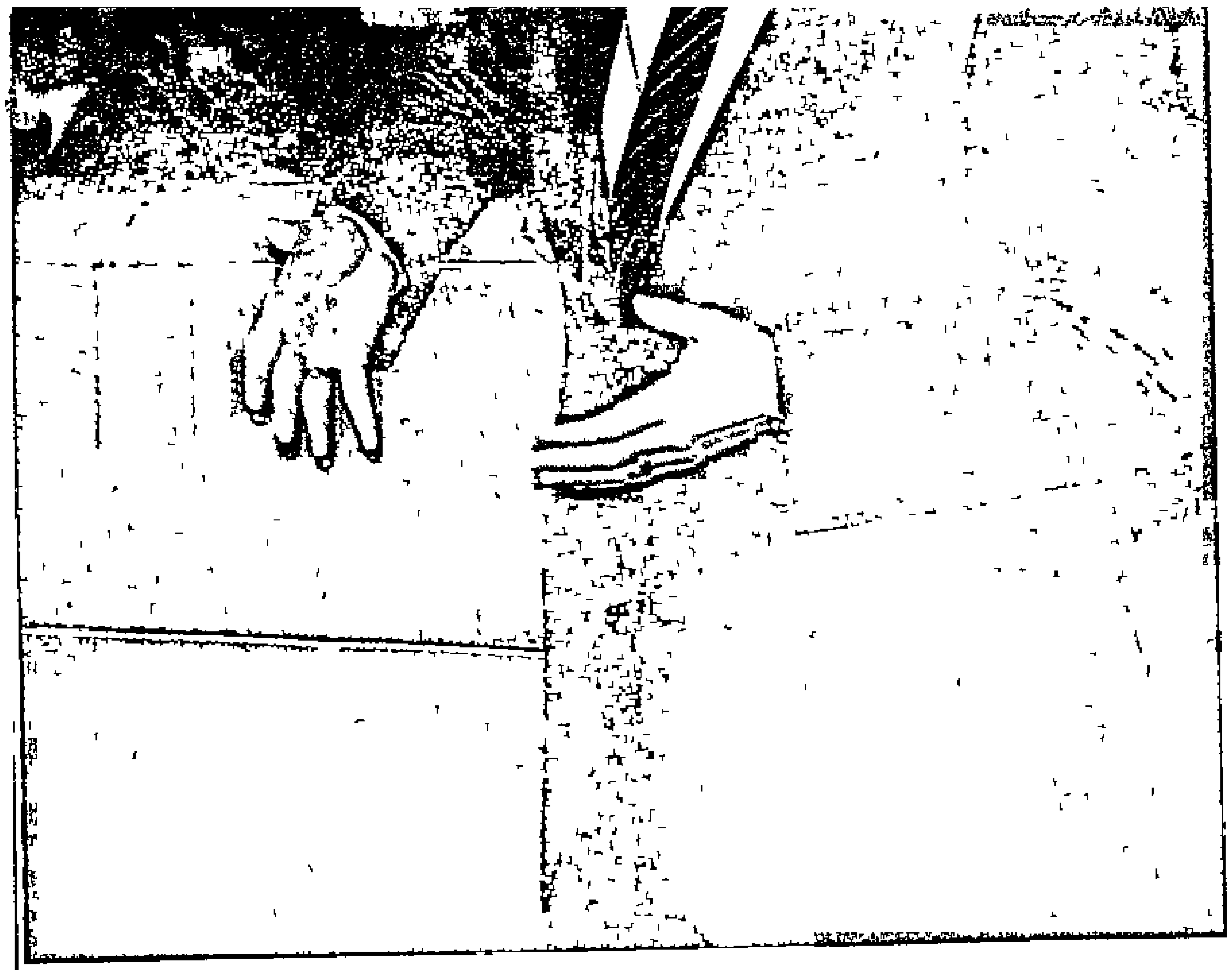
By far the largest part of the market capitalisation of all financial and industrial companies quoted on the JSE is represented by less than 50 well managed businesses (and subsidiaries) operating in the broad range of industries which form the base of the economy

In fact, they represent a large part of the economy and, generaly speaking, the healthier part of it By healthier, we mean that they grow faster than the overall economy

By investing in the best of those companies, one's asset value will grow faster than the economy and, on the experience of the past, exceed the rate of inflation That is clearly essential or one is not getting richer

There is obviously much more to be said about investment and over the next nine weeks in this column, we will be discussing the major aspects of investment, and how the different needs of investors can be met through a large stockbroking firm offering a wide range of services

● **Next week: The needs of the individual investor.**



ROY ANDERSEN New man in the hot seat tackles thorny problems Picture CATHERINE ROSS

JSE acts to get the markets moving

S/Times (Buss) 17/5/92

232

By JULIE WALKER

THE JSE is seeking ways to increase the tradeability of shares

The volume of shares traded in the year to February 1992 fell to 2,4-billion from 2,5-billion the previous year The value rose slightly from R21-billion to R22,7-billion.

Liquidity — a measure of tradeability — fell from 5,3% to 4,3% of market capitalisation, prompting new JSE president Roy Andersen to hold a workshop on the problem this week.

Those taking part included representatives of stockbrokers, financial institutions and authorities, pension funds, banks and the ANC

One of the issues before them was the weight of funds argument. Institutions need to make the best possible returns on their funds and in the current socio-political and economic climate the JSE has been the most lucrative opening

Foreign-exchange regulations prohibit them from investing abroad on a large scale Inevitably, under these conditions the concentration of power intensifies.

The institutions' defence is that they place money in companies with the management skills to make primary investment in SA, but there is growing support for the reintroduction of prescribed asset requirements -- or a voluntary investment code

Previously, institutions had to invest in poor-yielding government stock One idea is a cash-flow levy whereby a percentage of incoming funds would be channelled into socially desirable projects, but likely to give low returns.

Tax issues were doubtless also on the workshop agenda Clarity about capital gains tax is likely to persuade at least some holders to part with their shares This week Mr Andersen told the JSE that the incremental scrapping of marketable securities tax in Sweden led to a doubling in liquidity

"In some countries the Governments grant incentives to investors in the equity markets We are allowed tax-deductible contributions to retirement annuities whose fund managers invest the money only in the stock market. It is an issue of levelling the playing fields"

The lack of market-makers focuses on dual-capacity trading The Big Bang in London increased the liquidity of easily tradeable shares, but did nothing for smaller companies

Unbundling is another important matter Only the JSE has pure pyramids as well as conglomerate holding companies Proportional distribution of the components to members of holding companies might help trade.

"Minimum spread requirements are good at all listings, but can change the next day without penalty," says Mr Andersen Share splits, bear sales, derivative markets, dealing costs and settlement periods would also have come under scrutiny

Mr Andersen's maiden review speech was well received on Wednesday when the JSE's annual report was released A surplus of more than R500 000 was made against the previous year's R8,7-million loss

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Among the main proposals

- The R2,4 billion accumulated by the South African Special Risks Association (Sasria) could be used to insure financial institutions against loss from bond boycotts and political unrest
- A special relief fund should be set up for the unemployed to help them carry on with their bond payments
- The Government should step up its support for group credit and loan guarantee schemes

The rescue plan has been considered by the Government and sources indicate that many of its elements are likely to be approved However, the plan has still to be negotiated with other parties, such as the ANC, as part of a general national housing policy

Violence

The ANC has not officially responded to the proposals, but it is believed that the report has been seen by some of its national executive committee members

The plan for rescuing the collapsing urban black housing finance market comes amid warnings by developers and financial institutions that private-sector involvement is unlikely to increase while violence continues

Johan Kruger, general manager at the Development Bank of SA, believes the proposals are important in persuading the private sector to engage in the lower-income market.

The De Loor Report objective is a non-discriminatory, market-related housing policy in which communities are involved

It suggests a single housing department and financing authority, increased subsidies, relaxation of building standards and zoning regulations, greater spending, the integration of local authorities, a higher density of population in urban areas and increased employee activity in housing

The report identifies four reasons for restricted availability of small loans affordability, the risk of non-recovery, the breakdown of law and order and low profitability

The report finds that the extent of defaults among those most exposed to recession has risen to unacceptable levels Some bond boycotts also inflicted large

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Hard times for CNA Gallo

S/Times (Buss) 17/5/92

By DON ROBERTSON

A DROP in consumer spending and a poor Christmas left CNA Gallo with a 4% decline in attributable profits in the year to March.

With little chance of an improvement in the economy for some time and a resultant clamp on spending, prospects for a lift in earnings in the current year are limited.

Group turnover increased by 5% to R840,3-million from R798,3-million in the previous year The entertainment division was hardest hit, sales falling by 4% to R193,1-million from R201-million Turnover in the retail division rose by 9% to R634,2-million (R583,6-million)

The support division was barely changed at R12,9-million against R12,7-million

In spite of efforts to contain costs and finance charges, operating profits fell by 8% to R84,6-million from R92-million A 10% fall in tax and a similar increase in the contribution from associate companies left taxed profits at R53,1-million (R55,2-million) The improvement from associates follows the increased shareholding in Waltons and Mast and a year's earnings from Nu Metro.

As a result, earnings fell to 160,3c a share from 168,5c, out of which an unchanged final dividend of 54c has been declared, leaving the total unaltered at 67c a share Dividend cover has fallen marginally to 2,4 times

The retail division remained the most important, contributing 61% to consolidated profits.

S|Times 17|5|92

(232)

Terra's listing a problem for JSE

By JULIE WALKER

EVEN though the JSE's rules grant the committee the "sole and unfettered power" to deal with listings applications, it has to have a cast-iron reason for rejecting them

Its decisions have been challenged several times and the JSE has come off second best in a few cases

It is fighting a battle in court against Crest Holdings, which has taken it to task because the committee could not satisfy itself on the ownership of assets to be injected into the cash shell

Win or lose, the costs involved in litigation are high

A company's pre-listing statement or prospectus must carry opinions from independent professional bodies about the company's standing Auditors must report on the accounts, geologists on orebodies and so on The JSE is obliged to accept these opinions as bone fide.

The proposed listing of Terra Exploration & Development — already a limited company — brings into focus some of these issues

At the end of 1990, Terra acquired shares in unlisted Hemisphere Mining & Development It offered Hemisphere holders 100c a share to be settled by the issue of four Terra shares of 25c This was ostensibly a 17c premium to the net asset value of Hemisphere Members had also to send R50 to cover costs Terra bought Redbark, Great African Resources and New Era too

Strength

Terra's directors of the day were David Romero, a Mr Swalens and a Mr Loftie-Eaton — the sole survivor. Today's board is a Professor Kriel, a Mr Hindmarch and Kobie Maree

Before Terra's takeover, Hemisphere's controlling shareholder was British citizen Mike de Pinna Almost every company in Hemisphere was dormant, every financial statement qualified by the auditors on the grounds of suspect valuations of assets and only net losses were reported

In other words, worthless assets of a loss-incurring company with no cash are rehoused, renamed, control changed either nominally or otherwise and the new vehicle applies for a listing

Yet on the strength of a geologist's report submitted to the JSE for Terra to be listed in the mining exploration sector, there is a chance the JSE might be obliged to say yes

Application has been made to list 80-million ordinaries of 0,005c (remember the value is 25c) and 68,3-million variable rate participating redeemable convertible noncumulative preference shares of 0,01c — value and rate unspecified

Sponsoring broker Lucky Kritzas tells me there are no operating assets in Terra, but it is intended to acquire some.

He referred me to Mr Maree, who did not return calls

A Pretoria investor proved to me he spent more than R14 000 on shares in Hemisphere, Redbark and New Era in 1978 He has received no returns, only attractive circulars about prospects for the mining of kieselguhr, sepio-carbonate, gold and how wonderful it is to invest on the stock exchange

Deposit

An example of the prudent investment undertaken by Terra — Great African Resources sold its Multonland Development coal deposit for shares in listed Foston, which itself had to be bought out of liquidation at 3,5c a share in January

For the JSE to arrive at an objective decision on whether Terra should grace its boards, much subjective searching might be necessary. The power of veto should be inviolate where there is reasonable doubt

Depressing prospects for low-volume TOM

BDay 19/5/92 (232)

SHARON WOOD

THE creation of an options-on-futures market at the SA Futures Exchange (Safex) within the next three months could depress further the low volumes on the JSE's Traded Options Market (TOM)

An option-on-futures contract grants the right of one party to trade with another at a predetermined price on a particular financial index at a future date

Institutions already involved in a large informal, over-the-counter options market approached Safex to create a formal market, where the exchange would act as clearer and guarantor, Safex assistant GM Patrick Birley said yesterday

The new Safex market would formalise the existing over-the-counter options market, in which all the major institutions, banks and merchant banks trade daily with each other in options on futures

Setting up the new market would take six months and cost about R350 000

At present there are about 55 000 open options-on-futures contracts and this is expected to escalate when they are formalised, says Birley. Activity on the informal options market compares favourably with negligible volumes traded on TOM.

Traders said the cost of hedging risk on TOM were prohibitive because investors had to pay clearing and broking fees, and the Marketable Securities Tax

JSE president Roy Andersen welcomed the creation of another investment opportunity because it would increase the awareness of options.

"To an extent TOM will be in competition with it but it will prove that TOM provides a slightly different product," he said

Standard Bank launches two new unit trusts

(232) SHARON WOOD (...)

STANDARD Bank has launched two new unit trusts — an International Fund and an Industrial Fund

The International Fund, the first of its kind in SA, invests in equities of listed companies whose operations are focused on the international markets or which operate businesses overseas

"Most South Africans have typically concentrated their savings on investments available in the SA market," Standard Bank Fund Managers MD Derick Finlayson said in a statement released on Friday. BDay 18/5/92

"But, we have now created the opportunity for them to broaden their investment horizons by purchasing a stake in a unit trust with an international flavour"

A unit trust specialising in companies which trade and operate in foreign economies gives scope to SA investors to participate in the diverse and significant markets available in the international sphere, he added. "Diversification is a key ingredient of any successful investment strategy and this is an ideal opportunity for investors to spread their investment risk beyond the SA business arena"

Present exchange control regulations restrict the fund to investing in companies listed on the JSE, but there should be some relaxation in these regulations, he said

The fund was earmarked to invest in companies listed on the international stock exchanges The fund will also provide protection against possible further declines in the value of the rand, added Finlayson

The Industrial Fund, comprises top industrial equities and high interest-bearing investments "Industrial shares have provided excellent returns which are among the best on the stock exchange and well ahead of the inflation rate"

The combined value of industrial shares consists of about 44% of the total value of shares in the JSE all share index

Foreign participation in futures exchange climbs

SHARON WOOD (232)

FOREIGN participation on the SA Futures Exchange has climbed to 7% of open contracts and exceeds the current 4% foreign participation on the JSE

Foreign interest has been concentrated on the all-share index since foreigners first started to use the exchange in December last year, said assistant GM Patrick Birley He is confident that foreign interest will continue to grow. B/Day 18/5/92.

Rising foreign interest is in line with a general increase in domestic institutional activity on the exchange, he adds

"Open interest is at all-time records and is exceeding these every day," he said There are currently 25 000 contracts open, three times last year's level The value of open interest exceeds R1bn.

Volume

Open interest was the number of positions held which are subject to daily price movements It was traditionally used as the measurement of the market's success, said Birley

The value of future contracts traded daily was nearly double that on the JSE, with an average of 4 000 contracts a day The value of contracts traded on the futures exchange averages more than R130m compared with the JSE's R70m

The exchange's present volumes are double its break-even level of 2 000 contracts a day

More people were taking a longer term view and there was more participation by major institutions than last year, Birley said. Pension funds and some of the larger portfolio managers were among the participants on the exchange

"The futures market is now being used as it was originally intended — for hedging against future price risk Last year institutions were dabbling in a small way but now their trade is far more sizeable," he added

Workers turn ploughshares into JSE shares

South 16/5 - 21/5/92

(232)

IT MAY be a case of turning ploughshares into JSE shares when major trade unions launch their own unit trust fund for workers next month

JSE-listed companies that are "socially responsible" will be targets of investment for part of workers' pension and provident fund contributions

The fund — known as the Community Growth Fund (CGF) — is the brainchild of the Cape-based Labour Research Service and will be administered and managed by Syfrets

Its aim is to invest in companies with strong growth in earnings and capital, but which also satisfy certain union criteria of social responsibility

These include fair employment practices, job creation, union recognition, safe working conditions, equal opportunity policies, black advancement and protection of the environment

"The aim of the fund is to marry high returns with socially responsible investment Members' pension contributions will be carefully protected," said Mr Manoko Nchwe of the National Union of Mineworkers (NUM)

Support for the fund was pledged by former NUM secretary-general Mr Cyril Ramaphosa, who was involved in the initial stages of the fund before moving over to the ANC

Ramaphosa said "This is a fund which represents a break with the past It is the first step into a future where workers are no longer mere spectators, but active participants in shaping their economic destiny

"The formation of the fund should send a clear message to companies, especially those with bad employment policies, that the silent giant is awakening and will challenge those who have run roughshod over workers' interests "

A number of financial institutions were examined and Syfrets was eventually selected to manage the fund

A spokesperson for the Labour Research Office, Mr Gordon Young, said "Syfrets is a reputable institution with an excellent track record in the investment performance of its own unit trusts "

The firm, which is putting R2 million of its own money into the CGF, has accepted the leading role of unions in the project

Syfrets chief executive Mr John Cragg said "We are delighted the unions chose Syfrets' expertise in this bold investment venture Over time it could become one of the largest unit trusts in the country "

The fund is expected to get about 30 percent of the cash flow of union contributions to pensions and provident funds

As is the case with any other unit trust, individuals as well as trade unions will be able to invest in the fund

Cosatu affiliates which have endorsed the CGF are the National Union of Mineworkers, Construction and Allied Workers Union, Transport and General Workers Union and the Paper Printing Wood and Allied Workers Union

The Nactu unions are the National Union of Food, Wine, Spirits and Allied Workers, Transport and Allied Workers Union and the Metal and Electrical Workers Union of SA

QUENTIN WILSON

Business debts soar 232

GERALD REILLY

PRETORIA — The dramatic increase this year in the number of businesses and individuals in financial trouble and the soaring value of their debts pointed to an economy still bogged down in recession, Information Trust Corporation (ITC) CE Tony Leng said yesterday BDay

Liquidations in March soared by 92% to 290 compared to March last year, he said 22/5/92.

It was clear more and more businesses were struggling to stay alive in a deepening recession and liquidations would increase this year, he said

Sectors most affected were wholesale/retail, finance, insurance, real estate, manufacturing and construction

During February, sequestrations increased by 18% compared to the same month last year. This appeared to be in line with inflation and the effects of the introduction of VAT.

Debt summonses in February increased by 10% to 95 195 and civil debt judgments rose by 8% to 43 872

The value of judgments against individuals during February alone totalled R322,5m — an increase of 110% compared with February last year.

Civil judgments in February totalled 38 108 — an increase of 50%.

BARLOW RAND

232

MS&A sale massages interim profits

Strong interim results, with a 17% hike in taxed profits, were shielded by last year's MS&A disposal Without this, profits would have been roughly R44m less at R788m, still 11% up on last year, itself commendable in the current climate There were also good performances from packaging, textiles, food and pharmaceuticals

About R9m of the R44m relates to eliminating MS&A's loss and R35m to savings in Barlow Rand's interest bill Helped by the R1,1bn proceeds received in mid-December, the interest charge moved from a negative R22m in 1991 to a positive R13m

The decision to sell MS&A has proven sage Vice-chairman and MD Derek Cooper notes earnings will stabilise following the exit from the highly cyclical steel industry

Through the MS&A deal and disposal of part of the platinum interests (with the sale of a majority stake in Barplats to Impala), the mining and mineral beneficiation division's contribution fell to around 22% from 35% in financial 1989 Remaining interests are in coal and cement, through Rand Mines (see p105) and PPC Interim earnings at Rand Mines declined 12% while a marginal 3% increase was recorded at PPC

After-tax profits at the food and pharmaceutical division, at 33% the largest contributor to group net profits, increased 13% to R276m on the back of all-round improvement in the C G Smith Foods stable Better performances at Romatex (off a low base) and Nampak pushed net profits at the packaging and textiles division up 14% to R133m, contributing 16% of the total

Results were held back by the 8% rise in net profit at the industry division, contributing 20% of the total, despite a 39% better return from electronics group Reunert

Activity fell sharply at the building material, steel and motor vehicle distributorships Results were maintained at capital equipment and consumer electric durable operations and improved at the paint business

The international arm, 79%-held J Bibby & Sons, returned after-tax profits marginally up at R65m (1991. R64m) Though Bibby provides only 8% of profits this will change if its contested bid for the Caterpillar dealership in Spain and Portugal succeeds

Last year's scrip dividend increased issued equity, limiting the gain in EPS to 11%.

Following the MS&A disposal and listing of C G Smith Sugar, cash flow moved to R1,1bn positive from R600m negative It improved even without these items, thanks to the R200m increase in cash generated by operations and a reduction of R170m in the dividend payout as a result of the scrip div Short-term loans fell by R809m while cash holdings rose by over R600m

As sitting on cash is inefficient in an inflationary environment, one can expect Barlow to apply the funds soon, though Cooper won't be drawn on how

He predicts second-half earnings growth won't match the first six months as the bearish economic outlook has been exacerbated by the drought, which could hit food and packaging interests The share price has jumped 48% to R59 over the past year, to give a p e ratio of 13,7 and dividend yield of 2,9% For all its blue chip status, it doesn't look intrinsically cheap *William Gilfillan*

SALE BOLSTERS RESULTS

Six months to	Mar 31 '91	Sep 30 '91	Mar 31 '92
Barlows Group			
Turnover (Rm)	15 523	31 994	16 903
Operating income (Rm)	1 226	2 569	1 363
Attributable (Rm)	348	806	400
Earnings (c)	188	431	207
Dividends (c)	51	170	54
Nampak			
Turnover (Rm)	1 957	3 994	2 213
Operating income (Rm)	216	440	250
Attributable (Rm)	109	233	123
Earnings (c)	229	491	258
Dividends (c)	75	190	79
C G Smith			
Turnover (Rm)	7 888	16 069	8 867
Operating income (Rm)	627	1 273	712
Attributable (Rm)	188	385	209
Earnings (c)	401	819	444
Dividends (c)	111	286	117
PPC			
Turnover (Rm)	377	819	435
Operating income (Rm)	80	185	91
Attributable (Rm)	51	115	52
Earnings (c)	126	285	129
Dividends (c)	45	172	50

Social responsibility need not curb investment returns

B/Day 21/5/92.

ANTHONY ASHER

232

The Community Growth Fund (CGF) by the Labour Research Service (LRS) and Syfrets has captured the investment public's imagination, if not yet its pockets

Discussion about the fund has raised a number of questions, not least as to whether socially desirable investment is contrary to the principles of trusteeship The answer is no, it is, in fact, one of the principles

The actuarial textbook Day and Jamieson gives five rules that govern institutional investments

- ☐ The liabilities of the fund must be met as and when they arise,
- ☐ The liabilities must be met with as much surplus as possible (that is, the investment return must be as high as possible),
- ☐ The risk involved in maximising the return must not be so great as to imperil the meeting of the liabilities,
- ☐ The investment should not be objectionable to the original savers on social or ethical grounds and, subject to the above three rules, investments should be those which can be held most beneficially on such considerations, and
- ☐ When these four rules are satisfied, the investment manager should choose the investments which do most to further the other objectives of his business

The CGF will focus particularly on rule four, at the expense of rule five but not of the first three As everybody knows, rule five is usually followed by investment managers controlled by the conglomerates

But will restrictions placed on the investment manager reduce the investment return?

Funds need as few as 12 stocks to be fully diversified. There are 150 stocks in the JSE Actuaries Index This means that Syfrets will have plenty of choice, even if restricted to only half the shares in the index. The CGF can, therefore, be sufficiently diversified

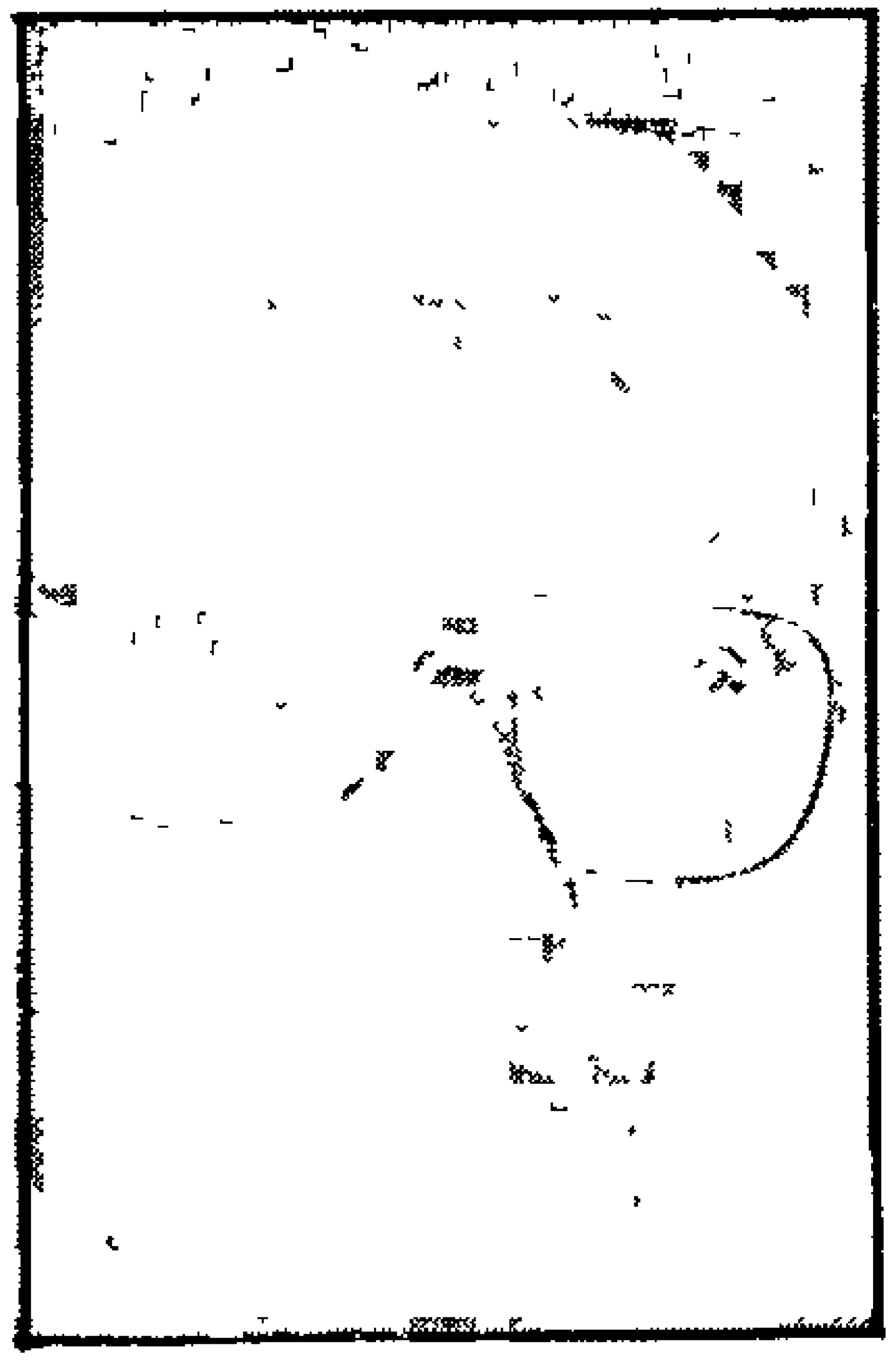
The return will be reduced only if the shares bought by the CGF are too highly priced If the price rises too much, other investors in these shares will sell them and the price will return to a more reasonable level Serious distortions will occur only if the CGF becomes a very large investor If this were to happen, selection criteria might have to be relaxed if the CGF were to remain an appropriate investment for retirement funds

In addition, LRS has chosen Syfrets to manage the CGF because of its excellent investment performance in the recent past All in all, I would be surprised if the performance of the CGF differed much from other unit trusts

But surely companies that pay higher wages must have lower profits and lower investment returns?

This is a common fallacy It is not important for a company to have a particularly high rate of return on shareholders' funds Excellent investment yields are more likely to arise from high growth in profits

Companies that show a high rate of profit may well be bad investments if the high return is dependent on shareholders exploiting one of the other stakeholders in the company, or as a result of an unwillingness to invest in future growth (The stakeholders in the company — apart from the shareholders — are the employees, suppliers, customers and society as a whole)



Kgalema Mothlanthe, general secretary of the NUM, the main union backer of the CGF.

Where companies are paying higher than average wages to their unskilled labour, it is possible that one or other of the stakeholders are making sacrifices It is also possible that higher productivity allows the paying of higher wages The aim we are setting ourselves is a fair division of the company's turnover between wages, salaries, profits and returns to other stakeholders It is a question of not too much nor too little, and applies equally to wages, salaries, profits and directors' fees

But are company managements not responsible for maximising profits, and will the CGF not do harm by encouraging managers to concentrate on other things?

In discussions with the members of various unions, I have found that their major concern in the area of investment is its relationship to the creation of jobs This is, therefore, also likely to be the main concern of the CGF A company that is going to provide consistently higher returns to its shareholders can only do so by finding new markets for new products and, in the process, creating jobs In the long run, job creation and superior profits go hand in hand — there is no other way

In his article (Business Day, May 12), Jim Jones raised the question of whether trustees were not abdicating their responsibility by investing in the CGF

This is a question of corporate governance which is becoming an important issue internationally If retirement funds own most of the shares in the companies, and they do not exercise their votes, who controls the companies' managers?

I agree that the exercise of votes is a fiduciary responsibility of trustees This is, however, seldom done in SA The problem is that retirement fund trustees are seldom in a position to be adequately informed about every company in which they invest They are necessarily dependent on consultants of one sort or another to advise them in this area A major reason for supporting the CGF is that it will provide the first such service in SA This is a crucial area for the democratisation and revitalisation of SA business

When all is said and done, is there not a danger that the investment decisions taken by the CGF will not be made in the best financial interest of the members?

We are not perfect Mistakes will be made But there are two reasons why an investment in the CGF may well yield better returns than the alternatives

The first is that the CGF will concentrate on the long term We will attempt to avoid companies that are making short-term profits from pollution, racial discrimination, exploitative wages and other shortsighted policies In the long run, these companies will have to pay for their myopia, and investment in them is therefore risky for retirement funds

The second reason is that, in the CGF management company board, the investment managers are going to have to justify their points of view more thoroughly than would be the case in the average investment committee Better decisions are likely to be hammered out, and investors are likely to benefit

☐ **Asher is director of actuarial studies at Wits University and chairman-elect of the management company of the CGF.**

BEACON ISLAND FM 22/5/92

Paying on time

232

Beacon Island Shareblock Limited (BISL), the operator of the Beacon Island Hotel at Plettenberg Bay, has begun to impose a R250-a-week penalty on late payers of timeshare levies.

In a letter to holders of what are among the most expensive timeshare weeks in SA, BISL has informed them that as from "Week 05-1992 (the first week of February), all levies not received by Levy Administration not less than four weeks before date of occupation of said week will bear an administration penalty of R250 per week"

But, as one recipient of this "Dear Timesharer" letter points out, BISL may be act-

ing outside the law

He points out that not only was the circular undated, with none of the names of the directors of BISL set out on a letterhead, but the penalty could well exceed the interest rate permitted in terms of the Usury Act on outstanding amounts due

It could also fall foul of the Conventional Penalties Act

According to attorney Arthur Schoeman, it has become very fashionable to impose "penalties" on late payments of timeshare levies The reason for the penalties is that the late payers prejudice the early payers and the collection of the late levy results in costly administration

"I express no opinion as to whether the R250 is reasonable or not in so far as it actually relates to the cost of collection If structured properly in my view, the so-called penalty is lawful.

"The correct procedure is to add on an amount as a contingency once the levy has been determined. Thus the so-called penalty is part of the levy If a timesharer pays on time, then he gets a discount equivalent to the penalty

"If the timesharer pays late, the penalty amount is included It is part and parcel of the levy If, however, the penalty amount is an add-on, that is added to the levy, then it may be unlawfully raised," Schoeman says

BISL board director Alan Louw, acting for BISL secretary Southern Sun Timesharing, tells the *FM* the penalties are raised in terms of a specific provision in the use agreement permitting penalties and administration charges according to the discretion of the directors.

He says the matter was raised at the last AGM of BISL and that the penalties benefit the levy fund directly

"The board does not believe the fines are excessive," says Louw, who maintains that "they are an add-on, as allowed for in the use agreement"

R1 000 seems a rather heavy penalty for a timesharer to pay when his annual levy is R650 in the off-season But, according to Louw, the costs of administration are astronomical

Whether the penalty is reasonable or legal will no doubt have to depend on the finer points of law ■

COMPANIES

Focus delays its interim report

MARCIA KLEIN

FASHION retailer Focus Holdings, which was to report its interim results by the end of April, has been granted an extension by the JSE to the end of June.

A JSE listings spokesman said the extension had been granted "as the company was being reorganised".

Analysts said yesterday they did not know what this reorganisation could entail. BDay 22/5/92

The company has had two rights issues in the past two years, so it is unlikely that it would be coming to the market to raise capital. No cautionary announcement has been issued to date.

Analysts said that results for the six months to end-January were expected to be severely depressed. 232

They said the company, which held Smiley Blue, Cashworths, Bachelors, Aca Joe, Mattress World and Forty Winks, would show results reflecting a significant decline in consumer spending and a strain on the group's cash flow.

Focus directors would not comment other than to say an announcement would be made soon.

The share was untraded yesterday at a ruling price of 6c, with offers to buy at 3c. The share traded at a yearly high of 22c in September, and hit a low of 3c at the end of March.

NISWA FM 22/5/92

Namibian first

~~[illegible]~~ 232

The first Namibian company to be listed on the JSE since that country became independent, Niswa — a general dealer with two stores in the Gobabis region of central Namibia — has joined the DCM after a private placing. With an initial market capitalisation of R4,5m, it also owns a service station a liquor store and 4% of Ambeef, a privately owned cattle trading operation.

Founded in 1983 by Namibian Nico Swart, Niswa operates a store, service station and liquor outlet on the family farm, 100 km north of Gobabis. A second store was opened in Gobabis in March to cater to construction crews and passing traffic for a major highway being built from Windhoek through Gobabis and Botswana to Johannesburg, says financial director Andrew Fraser

This explains the surge in turnover forecast in the prospectus to over R7m for the 1993 year from an average of a little under R4m a year over the past four years. Though this may seem optimistic, Fraser says trading in the first month was on budget.

The listing provides a mechanism to generate funds to exploit opportunities in Namibia and SA, says Fraser. The group is looking at food-related opportunities in SA.

Namibia does not have a stock exchange. Fraser says the company will probably transfer its listing to Namibia should this change — as has been mooted

In the year to February, turnover of R4m converted to earnings a share of 1,86c Turnover of over R7m this year is expected to generate earnings a share of 4,15c — on which a dividend of 2,08c a share is forecast.

Though the shares were placed privately at 37,5c, in the first day's trade 5 000 shares changed hands at 55c, in line with the end-February NAV and giving a forward p:e of 13 and dividend yield of 3,8%. Swart retains a 28% holding and is staying on as MD

William Gilfillan

NISWA FM 22/5/92

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William Gilfillan

Pickard deal talks break down

232

LINDA ENSOR

CAPE TOWN — Eleventh-hour disagreements have resulted in the breakdown of takeover talks between the Pickard family and a consortium of Johannesburg and Cape Town businessmen BIDay

The failure to agree on terms came after conditional agreement had been signed, guarantees furnished and a due diligence investigation undertaken. 22/5/92

However, consortium members said they wished to leave the door open to future possible negotiations — although renegotiations would involve a new deal

Conflicting reasons for the collapse emerged yesterday with some suggesting that the Pickard group had failed to meet the onerous conditions laid down by the consortium in the due diligence test

Rumour also has it that the consortium was unable to reach an accord with operating management Other sources suggested the consortium had not furnished, or did not want to furnish, the R21m required to settle the inter-company loan between Picardi Investments (Picbel) and its subsidiary Picardi Appliances (Picapli).

This was rejected by members of the consortium, which included former Altron deputy chairman Neill Davies, Anglo American deputy chairman Peter Gush, Cape Town attorney Brett Kebble and Sovereignty Investment Trust directors Simon Koch and Mike Pfaff The consortium claimed the time period for the submission of the R21m had not expired.

Minority shareholders had been keenly awaiting the deal. The share prices of Picardi Appliances, Picardi Holdings and Picardi Investments have traded at a large discount to net asset value and shareholders could benefit from a higher price offered by the consortium

Bill moots deregulation of SA's medical schemes

B/Day 22/5/92 232

BILLY PADDOCK

CAPE TOWN — Government yesterday proposed that medical schemes be deregulated and allowed to determine their own fee structures and minimum and maximum benefits.

Tabling the Medical Schemes Amendment Bill, National Health Minister Rina Venter said the proposals had been discussed with the Central Council for Medical Schemes

A memorandum to the Bill states that should the proposals be accepted by Parliament the Minister would no longer regulate minimum and maximum benefits supplied by schemes nor the membership fees or the basis on which such fees were determined These should be left to medical scheme managements to promote greater flexibility

The Bill takes issue with service suppliers and scraps the guarantee of payment for services direct to suppliers, insisting that properly specified accounts are of cardinal importance to ensure accurate and quick assessment of claims and to facilitate timeous payment of benefits.

"In order to prevent disputes with regard to the rendering of accounts, other laws regulating accounts of the various health care professions are being amended accordingly Experience has taught that the system of guaranteed direct payments by medical schemes to suppliers of a service has . led to serious malpractices, by which the financial capacity of medical schemes is seriously jeopardised, consequently it is proposed that those sections be repealed"

The Bill also proposes that all medical schemes belong to the Representative Association of Medical Schemes (Rams), which would act as a single mouthpiece for all schemes

Sapa reports from Pretoria that the Medical Association of SA (Masa) expressed grave concern over the Bill tabled "at the 11th hour"

Masa federal council chairman Dr Bernard Mandell said it could have far-reaching implications for access to health care

While Masa understood the need to review deregulation of the health system, it was "totally unreasonable" to expect the joint committee on health and Parliament to take the responsibility of considering proposed amendments to the Act in the one month remaining of the Parliamentary session It would be folly to introduce steps which might alleviate problems in one sector only to exacerbate those in another

The memorandum states that the Bill also makes provision for medical schemes to set up their own health care facilities and to provide extra cover for members by offering insurance, reinsurance or underwriting

Schemes will be allowed to establish or operate clinics, hospitals, pharmacies, nursing homes and maternity homes However, the Bill seeks to prevent schemes from encumbering an asset merely to manipulate the total value of its assets

The Bill will enable married women to become members of medical schemes in their own right

The new definition of a service includes all health care services for which schemes should provide cover. Accommodation not arising from any physical or mental defect, illness or deficiency, such as an old age home or similar institution, is excluded

The Minister may appoint people from a wider range than previously to the council and it is suggested that people with knowledge of schemes, members of schemes and employers are considered It is also proposed that Rams prepare a guideline scale of benefits which schemes ought to consider affording their members

Building a personal portfolio

STAR 23/5/92 (232)

Investing on the JSE

THIS is the second of 10 articles dealing with the relationship between the stockbroker and his client. The author is GEORGE JOUBERT, executive director, Davis Borkum Hare.

LAST week's introductory article dealt with the general philosophy of investment We looked at the simplicity of the basic principles of investment but also the need for discipline by both investor and adviser

This week we begin to look more closely at the individual investor and what he or she wants out of the stock market

Formerly the major player in stock markets, the individual investor now contributes less than 20 percent of turnover, though this increases in times of high activity in the market The vast sums handled by institutions, of course, represent the savings, investments, insurance and pension contributions of individuals

Inflation

The major change in trend over the years has therefore not been the disappearance of the individual but rather a declining direct role with the handing over of his savings and capital to professional managers

Though the number of private investors has declined, the size of portfolios has grown considerably with the strong rise in share prices over the past 20 years It must be remembered, however, that a significant part of this capital growth has been inflation, and salaries and the cost of living have also risen

Because of the increasing size and therefore importance of the institutional investor, many individual investors have felt they were no longer receiving the service they had been accustomed to from their stockbrokers.

This phenomenon was felt particularly in the world's major markets such as London and New York An investor in London with a portfolio of about £150 000 gave up trying to handle it himself as he could get no help from stockbrokers He then invested the whole amount in mutual funds, or unit trusts as they are known in the UK

About two years ago, the cost of stockbroking in South Africa had risen so much that deals of less than about R1 500 on the JSE meant a loss for the broker A basic charge was introduced and this is now R30 per deal over R200 This more or less covers the broker's unavoidable costs Any other service costs plus this profit must then come from the brokerage charge, which starts at 1,2 percent and declines on a sliding scale depending on the daily money value of each deal

With the changing nature of the business, some stockbrokers have restructured their operations in such a way as to provide the type of individual attention required by the private client while keeping costs as low as possible and making it possible to handle portfolios worth from about R100 000 upwards Many of these portfolios are managed by the private-client department under a mandate from the client Other clients prefer to make their own decision but want advice

Suitable

People with smaller amounts to invest can receive advice on which of the large number of general and specialised mutual funds would be most suitable for them

The service in a private client department is therefore directed towards individual needs which can vary quite considerably

The investment aims of a young, high-income executive are rather different from those of someone who is about to retire The first will probably want to build up capital for the future and not be concerned with income, while the second may want to travel and enjoy his money He will be looking to increase income and be less concerned with capital growth

Someone who inherits shares may find he or she has a mixed bag of holdings which now need to be altered to suit present circumstances

The ability to structure portfolios for individual needs rests on a good knowledge of the shares quoted on the stock exchange, backed by a constantly updated awareness of the economic and political situation in South Africa as well as broad trends in the rest of the world

Interest rate patterns must be followed as many clients will want to keep some of their money in cash or fixed-interest investments These might be of medium to long-term nature, such as Government or Eskom stock, preference shares and debentures, or short-term money-market deposits

The amount of cash as against equities or ordinary shares that an investor holds will again be determined by individual income needs and factors such as the outlook for share prices and a view of where interest rates are headed Inflation, too, has played an important part in all investment decision-making

As we have so painfully learnt, if capital grows at less than the rate of inflation, one gets poorer

That is a fact investors have had to face and one that has been at least partly responsible for the increasing professionalism of investment advisers Competition has become tougher between investment advisers as standards have risen, portfolios must perform — they must beat inflation and give the investor real growth

Next week: The professional investment manager

Ideal medium for serious investors

STAR 23/5/92. (232)

THE trusts offer sound prospects for capital appreciation, which will be amplified if interest rates decline.

INVESTMENT in property is an essential component in any serious investment portfolio. The objective is the same as investment in equities — an overall return made up of income, its growth and capital appreciation.

Property unit trusts (PUTs), which are in effect large property syndications, provide an ideal mechanism for property investment and for achieving diversification of risk, says Les Weil, chairman of the JH Isaacs group and of the Association of Property Unit Trust Management Companies

The 16 PUTs listed on the JSE represent market capitalisation of R5 billion Their portfolios cover all categories of real estate

All 12 companies managing the PUTs are members of the association

PUTs and equity trusts are regulated by the Unit Trust Control Act of 1981.

The main difference between equity trusts and PUTs is that PUTs are closed-end, which means that the management company does not repurchase units from investors

The units are traded on the JSE in the same way as a listed firm's shares

Property trusts have expanded through rights issues, offering unitholders a continuing opportunity to participate in portfolio growth.

The association believes that to achieve the same investment advantages as other investor categories, besides expanding through rights issues, properties should also be acquired for scrip

This is being discussed with the unit trusts advisory committee of the Financial Services Board

As with equity trusts, the board will not register a management company unless it is satisfied with its financial standing and ability

Leading banks and financial institutions with long-standing track records are major investors in property trust management companies

The property portfolios are managed by experienced and professional property management organisations Each is responsible for investment decisions and administration of funds under its control

The trustee, normally a large financial institution, approves every investment

The trustee is also the custodian of each trust's assets — the holder of funds awaiting capital investment and of title deeds — and is responsible for the issue of unit certificates and ensuring that each trust's assets are properly insured

Weil says PUTs provide an avenue for spread of investment risk through holding a number of properties in different geographical locations, occupied by a large number of sound tenants

The units are readily marketable through the JSE and investors can easily realise part or all of their units

A programme purchasing units in selected PUTs ensures an investment spread covering numerous quality properties

PUTs are not taxable, and since they distribute their entire income at least twice annually, it is received by investors in the same way as if they had invested in the properties directly

Investors pay tax at their usual marginal rates on such income but receive the benefit of the interest income deduction of R2 000 With an equity trust, the companies in which it has invested bear a tax charge before a dividend is distributed

It is important to note that PUTs are not permitted to mortgage or encumber properties in a unit trust portfolio in any way This reduces investment risk substantially

There is nothing to stop an investor using his units to secure borrowing at his own bank, as they are a most acceptable form of collateral

The prices of each of the PUTs are quoted on the JSE on a daily basis

Weil says property should be regarded as a long-term investment

Bearing in mind that space in existing buildings is limited and that development of new accommodation can only be achieved if rentals escalate substantially, the overall trend in income and capital appreciation is extremely promising

At current prices, the property units offer an attractive yield which is in historically high ground The sector average is 11,3 percent and there are sound prospects for capital appreciation, which will be amplified if interest rates decline

Why it pays to move in and out of unit trusts

SPM 23/8/92 (232)

FOOTSTEPS TO FORTUNE

RICHARD *Cluver*

READERS who have regularly followed this column will understand why it is bad for one's financial health to go to sleep on share market or unit trust investments

To maximise your rate of capital growth, you need to go with the flow of the economy, switching from a general fund to a gilt or high income fund whenever the share market seems to be reaching a peak

Furthermore, it might in turn be wise later in the cycle to move on to a mining fund or a gold fund to take advantage of improving export markets.

Whatever you do, never simply dig in your heels It is worth noting that investors who failed to get out in time at the end of the great JSE bull market of 1969 saw the overall value of the market fall by 60 percent in the weeks that followed that crash.

It took nine years for the JSE overall index to recover to the levels of the 1969 peak, and during that time inflation had stripped nearly 60 percent from the value of money, implying that even nine years later they were no better off in inflation-corrected terms

The next great bull market was the 1987 one in which the market Index rose 666,66 percent ahead of the 1969 peak But once one had corrected for inflation, the October 1987 peak index stood at only 83 percent of its implied 1969 monetary value So nearly 20 years later such investors would still have been losers

To prove my argument that it pays to move in and out of unit trusts as the market makes major fluctuations, let us look more closely at the long-term history of South Africa's oldest unit trust, the Sage Fund. As I have previously mentioned, it opened its doors on June 14 1965 at which stage you could have bought units at 104c each, including a five percent up-front fee to Sage, Marketable Security Tax and brokerage which together had added 6c to the quoted selling price per unit of 98c.

In the years that followed, taking only the year-end prices, the fund

- Peaked in 1968 at 195,76c
- Bottomed in 1970 at 111,68c
- Peaked in 1972 at 169,90c
- Bottomed in 1976 at 130,97c
- Peaked in 1987 at 1526,61c

If you had sat tight throughout the intervening 22 years your investment of R1 000 would have risen to R14 678,94

If you had been able to anticipate each peak and each bottom, and had sold each time the fund peaked and bought in each time the fund reached bottom (leaving out the fact that one could have placed one's capital on call at the bank in between sales and repurchases in order to earn even more money, by simply buying and selling with the market cycles, and paying the up front charges each time) you would have ended the day with R33 378,35.

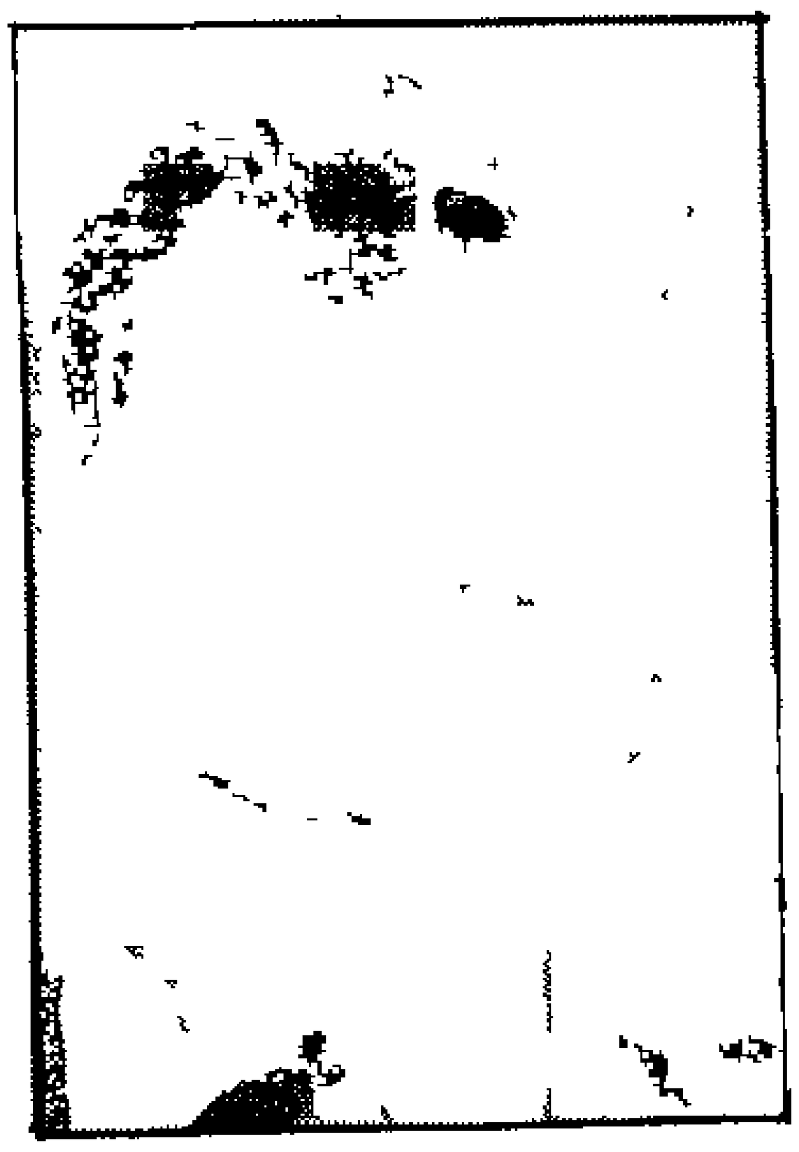
That is more than twice the capital growth in return for making just six transactions in 22 years It would have required very little effort and, for those who fear being labelled a trader by the Receiver of Revenue, it is obviously nothing to worry about.

So I say again. Do not dig in when the market starts to fall Sell out and live not just to face another day but to ensure greater profits

□ *This is a serialisation of Richard Cluver's latest book "How To Make a Million"*

Star 23/5/93 (232)

Will bulls run on and on?



DEREK KEYES: The new Minister of Finance.

FINANCE STAFF

IT'S well into the current bull run on the JSE, factors keeping it on the move appear to more than outweigh the belief among technical analysts that the market is overdue for a correction

Stockbrokers point to the endless "paper-chase" for blue-chip equities by leading institutions, a resurgence in the gold price above $338 an ounce and — most importantly — the large-scale move into the market by parastatal pension funds paying premium prices for scarce, quality shares

The head of the Transnet Pension Fund, Gideon van Zyl, said recently the fund had already invested R3,3 billion of its R16 billion in assets in shares and was switching more investments to growth assets

Further fuelling optimism is the widespread anticipation of a further cut in interest rates — particularly with the Department of Finance now under former industrialist Derek Keys

The Board of Executors's one-percentage point cut in its mortgage rate to 17 percent served only to raise hopes further

Lower rates can only help embattled SA businesses

And the feeling is that Mr Keys could well be sympathetic to a feeling — said to be widespread in the corridors of power — that Reserve Bank Governor Chris Stals's tight-fisted monetary policy might be costing the country more than it is worth

Unemployment figures show about five million people of working age do not have jobs

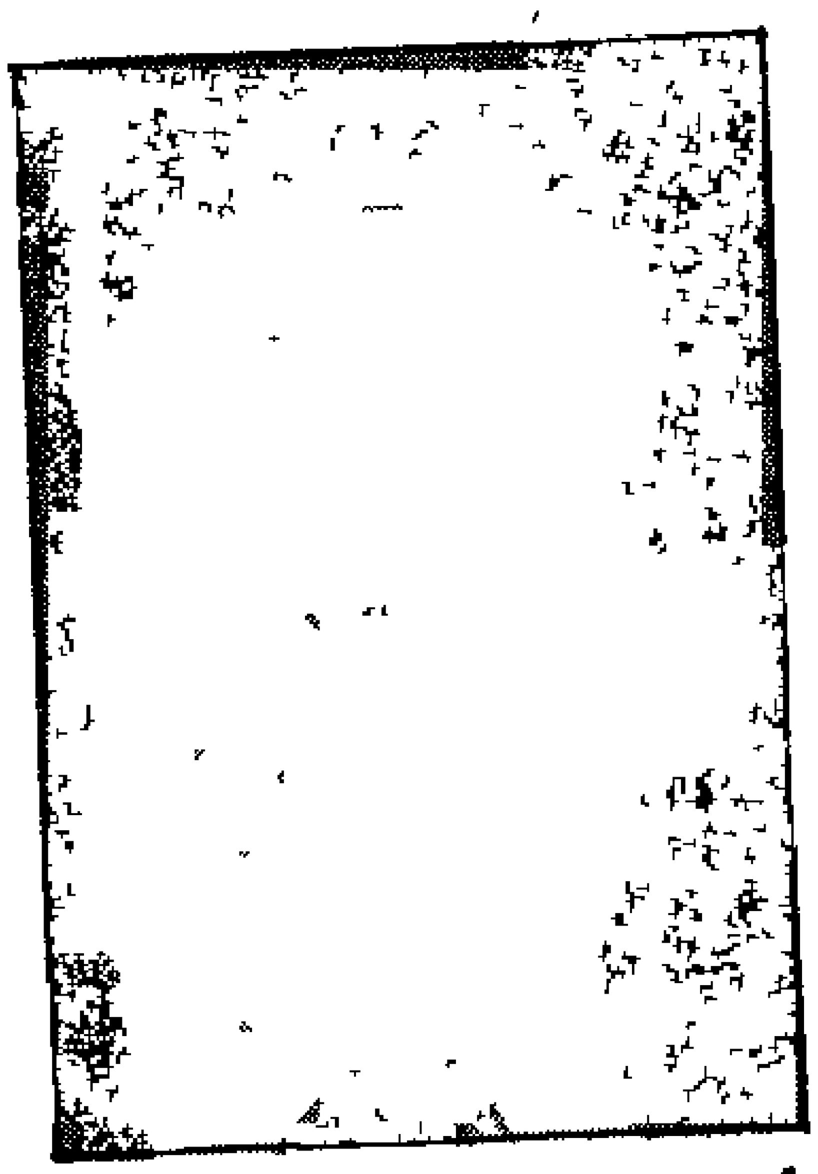
Nevertheless, even if Dr Stals sticks to his guns, says Colin Crowhurst of Ferguson Brothers Hall Stewart and Company, home-loan institutions are likely to follow BoE's lead anyway and pre-empt a cut in the Bank rate by lowering their bond rates

Prime overdraft levels would not be long in following

Another view is that Mr Keys will avoid acting too hastily and will give a little more time to the Government's strategy of letting high real rates of interest curb inflationary demand

David Cairns of Frankel Max Pollak Vinderine Inc says the current administration remains unlikely to allow rates to come off until the stubbornly high inflation rate starts to move down

"They would like to get rates down by four or five percent, but they daren't with the CPI (consumer price index) sticking stubbornly above 15 percent," he said



CHRIS STALS: Governor of the Reserve Bank.

LOOKING AHEAD: *Hopes are high that interest rates will come down soon*

Barlows set to slow down

S/Times (BUSS) 24/5/92

(180) (232)

By JULIE WALKER

BARLOWS was one of the few companies to report improved earnings in a week when industrial share prices soared.

The conglomerate's turnover added 9% to R16,9-billion in the six months to March

The group benefited from the sale of Middelburg Steel & Alloys (MS&A) to Samancor and partners Earnings were 20% up at R1,2-billion before tax and gearing was more than halved to 21%

The group's electrical and computer interests did well, textiles recovered off a low base and pharmaceuticals boomed But building materials, steel and cars fell back

Slow

Mining subsidiary Rand Mines fared well out of coal, but its gold mines are battling for survival A pay freeze has been proposed to help them stay afloat

The directors see signs of a slow international recovery, but any impact will be deferred Real growth in SA's economy is not expected in the second six months, particularly because of the drought

Earnings a share grew 11% to 207,3c, but the directors do not expect the same pace of advance in the second half-year

Only three other companies reporting interims could boast an increase in earnings over previous comparable periods, Barlows' ISG (formerly TSI) being one

Santam Insurance's bottom line jumped by a third to 65,2c and the dividend was raised 21% to 17c in the six months to March

The short-term insurer's assets topped R1-billion in spite of the high crime rate The directors expect the same again in the second half, barring catastrophes

Lebowa Bakeries also lifted its earnings 15% in the 12-month interim to March Fedfood raised its pre-tax profit by 6% to R86-million in the year to March

Fedfood's bottom line was penalised by a 28% higher tax bill There is good and bad news from group chief executive Dirk Jacobs On the downside are recession, low consumer spending, a traditionally slow trading period to August and higher grain prices

These are countered by head-office rationalisation benefits, the closure of unprofitable operations (including 1990 acquisition, fruit processor Patoma), improved exports and better Chilean fishing

Another five companies that reported interims did worse than before, but none incurred a loss and all increased turnover

Of the 11 groups announcing preliminary results, four managed to improve Advtech and Publico shaped up well, steel company GIC raised its earnings 10% in the year to March and warned that its controlling British shareholder wishes to sell out.

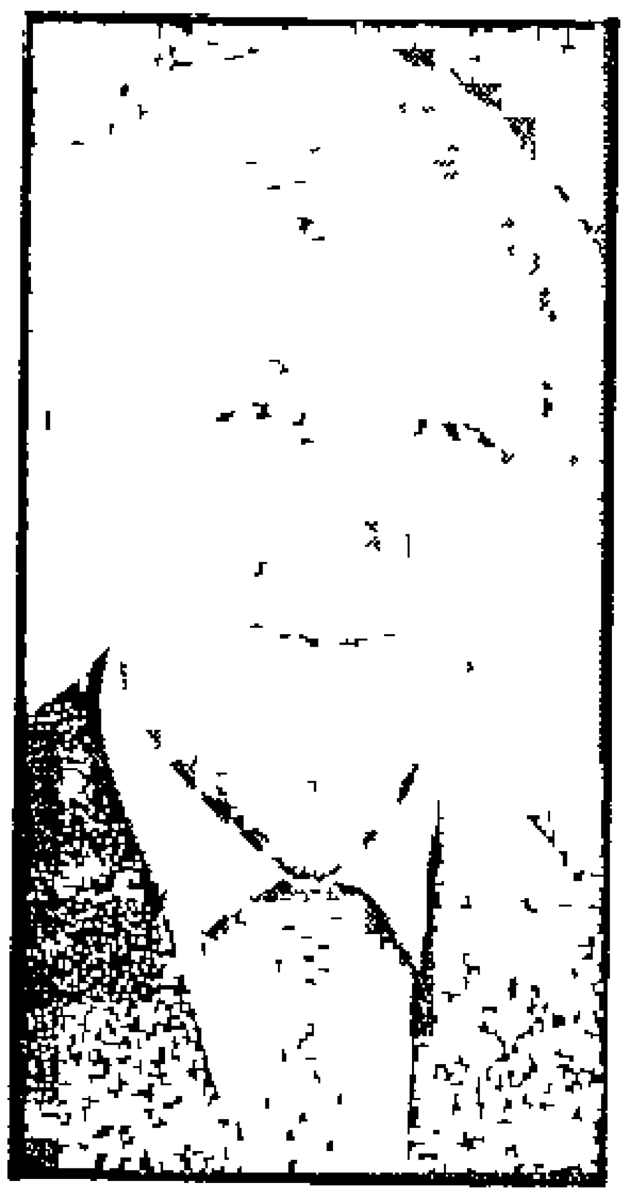
Southern Life showed its consistent, if predictable, 19% rise in earnings a share for the year to March

Health

Chairman Neil Chapman was proud of the group's investment performance The share prices of most of its holdings have been climbers recently — for example, First National Bank, SA Breweries and Safren

Mr Chapman refers to the inequality of tax imposed on financial institutions and hopes the three-fund approach under discussion will be introduced

The three-fund approach could be stretched to include a fourth arm Life companies earn income from three broad sources — taxed, untaxed and corporate areas, such as fee income The fourth arm concerns deferred compensation



NEAL CHAPMAN Tax inequality

If distinctions can be drawn between these funds, more equitable tax treatment can be applied

Southern Life subsidiary AMA (formerly Affiliated Medical Administrators) is developing health-care services Its employee benefits division is facilitating the provision of low-cost housing and its Southern Foundation is channelling its efforts into education

Only one company incurred a loss — Time Its life business is going well, but losses in housing have forced it to close that division at a large extraordinary loss

New air service

AIRMIDLANDS is to launch a daily air service between Maritzburg and Johannesburg next month

The airline will use 15-seat-

JSE zooms ahead on cheaper borrowing

STimes (BUSS) 24/5/92 (232)

By JULIE WALKER

THE knock-on effect of falling interest rates in the capital and money markets this week helped to push the JSE's industrial index to an all-time high.

The index topped 4 600 points — 12% up since January and 32% in 12 months

Scrip was virtually unobtainable as large bookovers accounted for much of the dealing

Continued strength on foreign bourses helped, although Wall Street and London eased on Thursday, one on a consensus that the Federal Reserve would not cut interest rates soon and the other on profit taking ahead of a holiday weekend

Governor Chris Stals underlines at every opportunity the policy that rates cannot fall unless inflation does Now that VAT's effect has been fully absorbed, inflation should drop

Wisdom

Market rates fell on top of the previous week's declines On Monday, the Eskom E168 yielded 15,775% and the RSA 150 15,875% By Friday, the figures had fallen to 15,68% and 15,775% respectively

The average rate on the weekly three-month Treasury bill tender fell from 14,2% to 13,93% Rates on six-and nine-month bills also fell.

Standard Bank cut home-loan and deposit rates on Friday

Investec Bank's Stephen Koseff told analysts this week he believed the bank rate could be cut from July instead of September or October

Traditional wisdom is that shares receive a double boost from lower interest rates Investors achieve poorer returns on deposits and seek other avenues and companies with borrowings (most of them) can improve their bottom lines because of lower financing costs.

Stockbroker PLJ van Rensburg's May newsletter attributes the JSE's buoyancy to the dramatic increase in SA's balance of payments last year and especially this year

"Further expected improvements in the current account as well as the capital account of the balance of payments should pave the way for a sustained bull trend in the JSE for at least the next year," says author Louis Kruger

Mr Kruger says the surplus on the current account as a percentage of gross domestic product has been a most reliable indicator for the JSE

● To Page 3

JSE boom (232)

● From Page 1

Because of the impact of exchange control, a surplus on SA's current account invariably leads to excess liquidity, which must be invested in SA assets regardless of yield

S/Times (BUSS) 24/5/92

UAL Merchant Bank economist Dennis Dykes told delegates at the Institute of Life and Pension Advisors' annual convention that investors and industry needed a consistent policy framework to give SA the best chance of success

The International Monetary Fund predicts growth of 3,3% in industrialised economies next year after 1992's weak 1,8% If correct, SA's exporters will benefit in both volume and value terms

Mr Dykes says "Under such circumstances equities can normally be expected to do well although the market has been discounting such a scenario for some time

"By our historical standards equities are overvalued The price-earnings ratio of 14,9 and a dividend yield of below 3% on the financial and industrial index look ominously similar to those of the early 1970s and 1987"

Mr Dykes says one view is that the rerating is due to favourable political developments since 1989.

"It is argued that international investors will now be prepared to pay higher prices for SA equity, but this has clearly not been the case as foreigners are still net sellers of shares"

In 1991 foreigners sold a net R2,1-billion of SA securities

Mr Dykes says it is not unlikely that equity prices — not only in SA — might suffer setbacks in the months ahead But the prospects of strong and sustainable growth from 1993 should ensure they are only temporary.

"Equities will remain the best bet in the New South Africa, as they were in the old"

Major bookovers in Gencor, Genbeheer

(232) TIM MARSLAND

MINING group Gencor and its parent Genbeheer featured in major bookover deals on the JSE on Friday with shares worth more than R170m changing hands

Market sources said the Transnet pension fund might have been involved in the unchallenged, special bookover deals

One dealer described the deal as "the feature of the year, never mind the day" Another dealer said the transaction was "a semi-partnership which had been formed between one institution and another"

The Gencor bookover saw 5-million shares worth R63,75m changing hands at R12[illegible] a share — its closing price Parent [illegible]eer saw 10-million shares — 1,2% of [illegible] issued share capital — worth R110m changing hands at R11,00 a share The shares ended the day at R10,90

A dealer said Gencor itself might have sold the shares He said Gencor's shares were looking underpriced but were returning to better levels BDay 25/5/92

Overall, the market ended steady on Friday, with the all share index gaining one point to 3 683. The industrial index hit a new high of 4 601

European interests get control of Eersteling

STAR 25/5/92

(232)

Eersteling gold mine has been saved from liquidation by European interests

The Supreme Court has sanctioned the scheme of arrangement and a reduction in the capital of the company It has also discharged Eersteling's final liquidation order

The measures approved by the court were the last steps in a rescue scheme comprising a scheme of arrangement to creditors and an offer to shareholders by Esor Establishment SA, a company registered in Liechtenstein and controlled by Dr Max Glauser of Zurich

New management appointed by Dr Glauser intends to keep Eersteling trading as a JSE-listed gold mine

Application is to be made to the JSE to relist Eersteling Pre-liquidation shareholders will end up with about seven percent of the company after the relisting even though their shareholdings would have been valueless had the company been liquidated

Had the liquidation gone ahead, concurrent creditors would have received only 46c in the rand and shareholders would have received nothing

Esor is to pay preferent and secured creditors 100c in the rand and concurrent creditors 90c in the rand

While Eersteling shares had a negative value before the rescue proposals, Esor offered minority shareholders 1c cash per share or one new Eersteling share for every 100 previously held

In the consolidation, the number of shares in issue will be reduced from 80 million to 800 000 After Esor has been issued 7,2 million new shares for settling creditors claims of about R6,5 million there will be eight million shares in issue

About 68 percent of existing shareholders have elected to accept the consolidated shares in the hope that the new management can bring Eersteling to profitability The other 32 percent either accepted cash or did not react to the circular to shareholders

Dr Glauser has appointed Mr Stefan Hayden chief executive of Eersteling Mr Hayden is the sole proprietor of Industrial Brokers, a company well known in mining circles The mine management includes the experienced Zimbabwean father and son team, Jack and John Muir and Mr Robin Stubbs CA, previously a director of Lonrho SA

Eersteling was founded and listed in 1987 by the husband and wife team, Steen and Franka Severin Initially R24 million was raised from some 9000 shareholders The issue was 37 times over-subscribed

In 1989 Eersteling started production and recorded a loss of R1,974 million By May 1991, the mine had lost more than R11 million and was in liquidation

The share slumped from a high 400c in 1987 to 4c when it was suspended

COMPANIES

Health care move for SA Druggists

BDay 25/5/92

MEREDITH JENSEN

IN A move to consolidate its health care holdings, SA Druggists Limited (SAD) has announced it will acquire parent company Malbak's pharmaceutical interests with effect from June 12 232

Malbak's health care division currently includes Akromed, the former Wyeth Ayerst, which had a turnover of R400m last year Akromed manufactures and distributes a wide range of pharmaceuticals, over-the-counter medicines and infant nutritional products Malbak's other interests include medical supplies and equipment as well as health and beauty-care products

SAD CEO Peter Beningfield confirms the acquisition of Malbak's health care division, but says SAD will not be expanding into new areas as a result of the deal

He says the deal will put all SAD's health care interests into one company, "resulting in the enhancement of an area in which SAD is already involved"

Malbak's purchase of SAD last year made it the largest manufacturer of health care products in SA Although SAD could not confirm how the deal would be structured, a leading industrial analyst predicted SAD would issue new shares to Malbak to pay for the division 25/5/92

"Malbak likes to play the portfolio game," he said "It will be able to increase its holdings in SAD and then may choose to sell the shares on the open market"

Analysts predicted the transaction would not have a significant impact on the health-care industry "Malbak's holdings are relatively small," one analyst said "Malbak likes to pigeonhole its interests"

Analysts said the move could eliminate the uncertainty surrounding the value of Malbak's health care division "We have never really known what Malbak's health-care holdings are Now, they will have to itemise their holdings under SAD"

Prima Property Trust launches rights offer

BIDay 25/5/92 (232)

PETER GALLI

PRIMA Property Trust has announced a rights offer to raise R27,9m so it can buy two new properties

About 44,37-million units will be offered on the basis of 50 units for every 100 units held at a price of 63c a unit "Prima's expected final dividend for the six months to end-June is 5c, bringing the total dividend for the year to 10,25c," Prima Property Trust Managers director Neno Haasbroek says

This represents a 9,5% rise over the previous year and a dividend yield of 16,3c on a unit price of 63c For the year to end-June 1993, a dividend of 10,47c a unit is forecast, giving a dividend yield of 16,6%

The creation of additional units will have a diluting effect on the trust's income in the short term, but creates a more balanced property portfolio that will enhance long-term rental growth, he adds

The rights issue will increase the size of the fund by about 50% to around R85m The new properties to be acquired are a half undivided share in portion 1 of the Sammy Marks Square development in Pretoria and the Technotron Building in Verwoerdburg

The trust holds the other half undivided share in the Sammy Marks development, which is located in the centre of the Pretoria CBD and is bounded by Muntoria, the Reserve Bank and the State Theatre

"The redevelopment of the entire city block, of which Portion 1 forms part, will include the introduction of major retail chains, line stores and office space," he said

The official opening is scheduled for September 24 and the initial acquisition yield is 11,1%

The Technotron building was developed in 1989 and is situated in the Highveld Technopark, a township developed by the Verwoerdburg Town Council for high-tech companies

The property will be acquired at an initial 11,6% yield "Leases with retail traders are generally turnover linked, which will provide the trust with an inflation-proof investment," Haasbroek says

Masterbond control at stake

B/Day 26/5/92

LINDA ENSOR

CAPE TOWN — Outside parties' hopes of gaining control of the boards of directors of 11 Masterbond participation bond companies appeared to be dashed yesterday

The parties had hoped to be able to gain control of the management contracts for the properties owned by the companies

Shareholders who met yesterday to vote directors onto the boards of each company believed strongly that shareholders should control the boards, which would then appoint property managers

This view was supported by Masterbond curators to ensure no conflict of interests emerged

The votes were still being counted last night, but a partner of one of the contenders, Citygate Corporate Finance's Michael Addison, said he was not optimistic

Other contenders were Fintex Consulting Group in association with the IPC group and Seeff Trust

Bidders' hopes of taking control of all the companies were also dimmed as separate boards were appointed for each company (232)

The curators had received offers to buy all the companies and for all their properties to be consolidated into one company which could be listed on the JSE

These offers would have to be considered by each company's board, a spokesman said at the meeting

The meeting was well represented, with up to 70% of shareholders present either personally or by proxy

ANC to consider nationalisation this week

Own Correspondent

GENEVA. — The controversial issue of nationalisation will be addressed by the ANC's policy conference in Johannesburg this week

The ANC president, Mr Nelson Mandela, said here yesterday that he hoped the organisation's decision on nationalisation would make "everybody happy"

Mr Mandela again indicated that the ANC was rethinking its policy on nationalisation.

He told a news conference that when nationalisation was adopted as a policy of the ANC in 1955, it was one of the most popular strategies throughout the world.

They were aware of the hostility of business inside and outside South Africa to nationalisation.

It was not possible, he said, to address the economic problems facing SA without the co-operation of those who had the resources

Meeting the United Nations High Commissioner for Refugees, Mrs Sadako Ogata, yesterday, Mr Mandela said the repatriation of exiles, some of whom had been away for 30 years, had been slowed down by the intransigent attitude of the SA government in refusing to allow UN supervision of returnees inside the country

A report last week from the International Labour Organisation here highlighted the growing problem in SA of unemployment, currently put at about 5 million.

The ILO report said the labour force that stood at 13,4 million in 1990 was expected to reach 20,2 million by the year 2005, and that 57% of the labour force would either be unemployed or would have to find jobs in the informal sector.

232 CT 26/5/92

Strict controls, reduced debt give Lenco a fillip

BDay 26/5/92 (232)

LINDA ENSOR

CAPE TOWN — Strict control of operating expenses and a sharp reduction in interest-bearing debt enabled diversified industrial holding group Lenco Holdings to generate a 45% increase in attributable profit on a 3,3% rise in turnover in the year to end-February

A dividend of 11,5c (10c) was declared by the group which consists of subsidiaries Amalgamated Shoes, men's clothing manufacturer House of Monatic, plastic packaging company Combined Packaging (Compak) and newly acquired tie manufacturer Cravateur Tie

Earnings a share increased 14% to 49,3c (43,2c), diluted by the rise in the number of shares in issue to 61,2-million (48,2-million) This was due to Lenco's purchase of the minority shareholders of subsidiary Combined Packaging

For the purpose of comparison, the transaction is treated as if effective from March 1, 1991

Chairman Doug de Jager said the group experienced an extremely difficult year All operations made positive contributions in spite of declining retail demand putting severe pressure on margins

The group bounced back to positive earnings' growth after the 4,6% a share decline last year Turnover rose 3,3% to R455m (R440,8m) with margins strengthening to 12,8% (12,2%), and operating profit increased 7,7% to R58,4m (R54,2m) De Jager stressed, however, that while margins improved year-on-year, there had been a marked deterioration quarter-on-quarter at year-end

The packaging division increased its contribution to operating profit to 37,4% (26,8%), Amshoe's fell slightly to 47,8% (50%), while House of Monatic's rose to 17% (14,8%) and the ancillary interests made a negative contribution of 2,2% (7% positive)

De Jager said the broad range of packaging products plus exports acted as a buffer for earnings Clothing exports had also taken up the slack in productive capacity and contributed about 5% of turnover

The gain at operating level was almost doubled at pre-tax level due to the decline in finance costs Positive cash flow facilitated a cut in long- term interest bearing debt to R27,5m (R34,4m), and short-term debt was reduced to R18,7m (R37,6m) Gearing was slashed to 23,8% (46,4%)

The bottom-line growth was aided by a drop in the tax rate to 13% (19%) and the 38% decline in the amount paid to outside shareholders, although a loss was suffered from Lenco's share of associated companies

Exports

An extraordinary loss of R3,2m arose from costs suffered with the disposal of the Alfa Manufacturing Industries division and from the write-off of investments in certain associated companies Net asset value rose to 199,5c (162,9c) a share

De Jager was not optimistic about prospects for the current year and did not expect any marked improvement in trading conditions Clothing exports would, however, provide a boost and were expected to contribute about 20% of turnover this year

"While the effective tax rate is also likely to increase, we nevertheless anticipate a satisfactory performance We foresee a further strengthening in the group balance sheet which will enable us to take advantage of the upturn when it does arrive"

Servgro is on course for JSE

MARCIA KLEIN 232

SERVGRO International (Servgro), the renamed Federale Volksbeleggings (Fedvolks) services division, has upped its attributable profit 25% to R39,3m in the year to end-March

The services group, which has interests in Teljoy, Interleisure, Avis, Price Forbes, Interpark and Fedics, intends to list on the JSE in the second half of this year

Fedvolks recently disposed of Fedfood and SA Druggists to Malbak, and its motor components division was to be sold to Murray & Roberts as part of a major reshuffle in Sankorp, of which Fedvolks is a wholly owned subsidiary B/Day 26/5/92

Executive chairman Peet van der Walt said the results were gratifying, and trading conditions had become more difficult in the second six months

Results for the year show that turnover rose 12% to R810,9m and operating income was 22% up at R99,9m

After Servgro paid R13,3m interest and R34,2m tax, profit after tax was 26% up at R52,4m from R41,5m in the previous year.

Van der Walt said additions and increases in the group's investment portfolio had taken place after year-end, and "these and other details will be disclosed in the prospectus"

Previously Van der Walt had said the group hoped to list in the beverages, hotels and leisure sector of the JSE as more than 50% of its income was generated in the leisure field

No growth for Amaprop in oversupplied market

BIDay 26/5/92 (232)

PETER GALLI

ANGLO American Properties (Amaprop) failed to show growth in the year to end-March, with attributable profit after extraordinary items falling marginally to R36,3m in the year to end-March (1991 R36,7m)

Total dividends 6,4% higher at 50c (47c) were declared on the back of earnings 8% up at 78,87c a share from 72,98c Retained profit for the year almost trebled to R13,02m from R4,9m

In the annual report also released yesterday chairman Gerald Leissner said the improved earnings were attributable to the continuing growth of net rental income from its office and shop accommodation, as well as an improved performance from the Carlton Hotel in the last quarter of the financial year

"However, over the next year rent levels will rise only where leases provide for an automatic increase This is because the oversupply situation in the retail and commercial markets has been aggravated by new space

"This has resulted in falling office rentals and, at best, static rent levels in most retail situations," he said

The group would continue to emphasise the need to retain tenants and would maintain its properties in excellent condition and offer good service The company would not buy any new land nor start any infrastructural development on land it holds over the next year

Leases due to expire in the next year, together with space presently unlet, amounted to about 18% of the total portfolio

The Carlton, which reduced its loss for the year under review to R1,8m from R2,1m previously, is expected to move into the black in the short to medium term

The hotel is the only part of Amaprop's varied R1bn property portfolio that could show an immediate increase in profitability should the local economy begin an upturn

The industry and other players have expressed concern about the perceived deterioration of the major CBD's

Amaprop holds major investments in all of these and is attempting to correct these perceptions through its manager, Anglo American Property Services (Ampros)

"We are confident that profit from well maintained, well located CBD properties will grow at least as well as decentralised properties — possibly even at a greater pace," he said

The total lettable area of the portfolio of completed developments is 448 491m2 from 445 536m2 in 1991 Retail space accounts for 33,5% or 150 324m2 of this, with the balance being commercial space

Some 78% of the space in the portfolio is located in Johannesburg, with 10,1% in Durban, 7% in Pretoria and 4,9% in Cape Town

Strong support for the bull run, says broker

Own Correspondent

(232)

THE financial climate in SA is strongly supportive of the ongoing bull trend on the JSE, stockbroker Peter Trengove Jones said at a presentation by Simpson McKie in Claremont yesterday.

Economic recovery was closer and good shares "remain in fundamental short supply".

He advised investors to seek exposure to tourism and leisure shares, new foreign trade opportunities and suppliers who would benefit from moves to upgrade the social infrastructure

Discussing sectoral strategies, he said primary rand hedge shares such as De Beers, Richemont, Charter and Minorco had ongoing high "insurance" appeal, excellent liquidity and reasonable valuations.

The long-term growth potential of shares in the consumer sector was assured — but many current ratings were still relatively too demanding and liquidity could be a problem. However, "cyclicals should be put back on the menu". B/Day 27/5/92

Mining conglomerates had good liquidity and excellent relative value, and were attractive in the medium- to long-term cyclical outlook Gold and platinum producers were best for traders.

The financial sector offered good relative value and reasonable liquidity, although banks might be headed for slower relative growth in earnings a share.

Appealing blue chip value in industrial conglomerates was scarce and there was a risk of overpaying.

There were opportunities to buy underpriced shares in the chemical sector. The phase of underperformance appeared to be over.

The capital goods sector was well placed to emerge from a long period of contraction, but liquidity was a problem in most cases.

Discussing the SA economy, Trengove Jones said that on current monetary policy the chances of a meaningful fall in SA inflation towards the end of the year were favourable

Prosperity can flow from union funds

BDay 26/5/92

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WALTER SCHEFFLER

SUCCESSFUL economic empowerment of SA's black population is necessary for the future prosperity of all South Africans. The investments in pension and provident funds held on behalf of black members run into billions of rands and can rightfully be considered as a means to help achieve this end.

The recent announcement of a trade union-endorsed unit trust, the Community Growth Fund (CGF) may be a small but meaningful step in this direction — provided that it is managed sensibly and reasonably

Two aspects specifically mentioned will be the restriction to investments in companies deemed "socially responsible", and the intention of the unions to exercise their voting rights on shares held. (If the first criterion is properly adhered to then, presumably, the need for the second will not arise.)

There is some debate on the position of fund trustees who choose to support "socially responsible" investments. I do not think trustees will be neglecting their fiduciary duties if they choose to invest some portion of their funds in the CGF or similar investment vehicle if these provide a healthy mix of normal sound investment criteria coupled with a moderation of political and social conscience

In theory, any limitation on investment decision must restrict the portfolio managers' scope to maximise investment returns. In practise, if the limitations are limited — and that is the crux — it should make no measurable difference that could be identifiable beyond normal variations in returns from nonrestricted portfolios

If the approach will be to blacklist a small number of companies deemed "socially irresponsible", and this is not done on emotion but with reason, the result may be quite acceptable One may well argue that socially irresponsible and unethical behaviour by companies will not lead to sustainable long-term returns to shareholders

The token R1m investment by TML Pension Fund in CGF was probably politically motivated, but that does not exclude financial soundness It may well prove to be a very profitable investment for TML as employer which ultimately carries the cost not only of pension fund contributions but also of salaries to union members

Responsible trade union participation in the investment markets should be welcomed and encouraged It does not require personal commitment to call for socially responsible investments with other peoples' money, but it may be a sobering exercise to have to put one's own members' money where one's mouth is, and thereby to lead by positive example rather than shouting from the sidelines

A unit trust is not, however, the most effective investment vehicle for provident fund investments The cost structure of unit funds is normally geared towards the small investor, and is far too high if applied to large investments by provident funds

Provident funds should ideally invest in balanced portfolios consisting of a reasonable distribution of shares, property, fixed interest and cash, as is typically the case with managed portfolios of insurance companies, but unfortunatley cannot be provided by unit trusts

Unit trusts cannot at present meet the prudent asset regulations of the registrar of pension funds, which means provident funds using unit trusts will have to do so themselves

☐ **Scheffler is senior GM, group benefits, at Sanlam.**

No talk of liquidation, says Bester

B/Day 27/5/92

PETER GALLI

PROPERTY and township developer Bester Investments executive chairman Theunis Bester moved quickly yesterday to counter reports that the company was in dire financial straits

Responding to allegations in the latest Finance Week that Bester Homes was to be provisionally liquidated in the next week, he said "There is definitely no talk of the liquidation of Bester Homes at this point and, while market conditions are tight, we believe we are able to sit it out until things improve"

However, he confirmed a meeting was held late last week with all of the group's major bank creditors. Finance Week named them as Absa, FNB and Boland Bank

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Bester said there was "absolutely nothing significant" in the meeting as he had held meetings with his banks throughout the life of his companies.

Bester confirmed that the company last month tried to sell off about R20m of its Pretoria portfolio in a move designed to offset some of its debt, which the 1991 annual report put at R188,92m

However, only about R1,5m of these assets had been sold "due to difficult market

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Bester

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☐ From Page 1

conditions"

The book value of assets was R291,72m at end-February 1991, which Bester said was sufficient "to offset the R140m-odd exposure by the banks"

A qualified report by auditors Coopers Theron Du Toit in the annual report said because of the unfavourable economic climate and prevailing high interest rates, the cash flow and margins of the group were under pressure and dependent on the ongoing financial support of its financiers

The auditors were unable to determine whether the net realisable value of about R49,5m relating to land for township development exceeded the current book values

The auditors also could not determine whether the realisable values of certain fixed properties exceeded their R6,34m capitalised values.

Bester Investments is expected to release its results for the year to end-February next week.

At end-February 1991 a loss of 89,4c a share was reported from an 11c a share loss in 1990.

Tollgate keeps up its return-to-profit trend

Bday 29/5/92 232

LINDA ENSOR

CAPE TOWN — Tollgate Holdings (TGH) chairman Julian Askin and his team have sustained the return to profitability of the leisure, tourism and distribution group — 1991 annual earnings a share were in the black for the first time since June 1988

The first profits were made at the interim stage and this momentum was maintained for the full year to end-December, despite the recession

Fully diluted earnings amounted to 34,2c a share compared with the previous year's loss of 88,3c Undiluted earnings were 13c (loss of 138,6c) A 10c final dividend was declared, bringing the total dividend to 13c. An amount of R46,5m was written off last year as a result of the disposal of Gants and Norths Industries assets. This brought total write-offs in 1990 and 1991 to R104m Director Alex Wilmot-Sitwell said there would be no further write-offs

He said the final restructurings and rationalisations of the group were in the process of being completed and would be announced shortly These would have a positive impact on group debt and earnings Wilmot-Sitwell added that negotiations under way for the sale of City Tramways properties would bring in about R48m and help to cut further TGH's interest-bearing debt

Particularly noteworthy were the gains made at operating level and the slashing of interest-bearing debt Gearing at year-end stood at about 94%

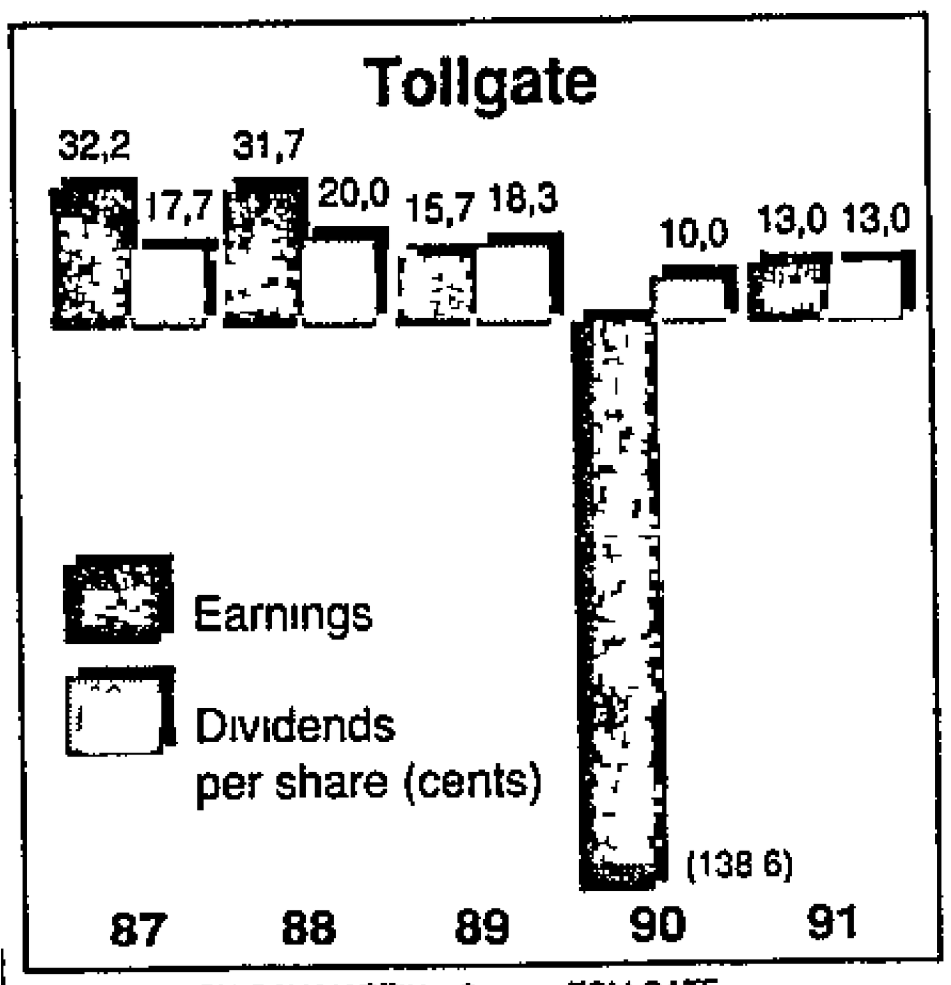
Interest-bearing debt was cut to R192,3m (R224m) On a pro forma basis interest-bearing debt fell to R156m, if the proceeds of the R71,5m sale of City Tramways was included retrospectively.

Turnover dropped 8% to R551,5m (R593,5m), but the operating margin soared to 7,9% (4,3%) to produce a 68% growth in operating income to R43,5m (R25,9m) Interest paid fell to R36m (R47,7m), so that pre-tax income before abnormal items showed a profit of R7,9m compared with the previous R21,8m loss A R3,8m abnormal gain, compared with the previous abnormal loss of R8m, and a higher contribution from associated companies, further strengthened performance

An attributable profit of R3,6m (loss R25,3m) was produced.

Askin said in the profit announcement the restructuring of the group, which involved the sale of non-operating assets and retrenchment, had taken longer than originally foreseen because of the severity of the recession. The group was now well-structured and well-focused and had a firm base from which to follow a policy of expansion and growth into areas of leisure and tourism and distribution

All operating divisions were trading profitably and a continued recovery was expected The UK company Jaton Holdings, acquired in December, would make a contribution this year



Graphics RUBY-GAY MARTIN Source TOLLGATE

Anglo's ability to make most of upturn in doubt

BDay 29/5/92

(232)

MATTHEW CURTIN

ANGLO American Corporation has successfully pulled through local and international recessions, but question marks hang over its ability to take best advantage of the economic upturn when it comes, say market sources.

The corporation's preliminary results for the year ended-March 31 1991 are published next week Analysts said yesterday that Anglo would post solid results for the year, with predictions of a minimum 5c dividend rise to 330c a share

A leading industry source forecast a 5c dividend increase with equity accounted earnings falling a little more than 1% to 1 104c from 1 118c a share

Mathison & Hollidge analyst Barry Sergeant said his conservative estimates put the dividend at 330c with attributable earnings 3% higher at 620c compared with 604c a share in 1991

Edey Rogers analyst Keith Bright said equity accounted earnings would "disappoint", but Anglo's dividend declaration would be a good barometer of how the corporation saw the future economic climate

If Anglo's view was bullish, confident of an upswing in the third quarter this year, the dividend could be as high as 345c a share, he said

Analysts agreed the highlight of the year was Anglo's decision to go-ahead with the Moab gold mine at a cost of R1,7bn.

Paper producer Mondi's expansion into the European paper industry, Minorco's gathering interest in Europe's aggregates business, and the completion of the Botswana soda-ash project were signs of Anglo's diversification

However, analysts questioned whether this would be enough to boost earnings significantly.

Rewards

Last year, chairman Julian Ogilvie Thompson said Anglo's results compared favourably with rival international mineral resources groups such as Rio Tinto Zinc, CRA, Amax, Miranda and Alcan

Sergeant said a group like RTZ, recently restructured and with broad mineral interests especially in base metals, might be better placed to reap the rewards of a new commodities boom, unlike Anglo with its concentration in gold and diamonds

Analysts said the question of "unbundling" and unlocking value within the group was likely to be on the corporation's agenda, but not a priority

Anglo ~~had at~~ least R12bn worth of projects underway or in the pipeline, and for the moment was raising funds by disposing of non-strategic assets, such as part of its stake in First National Bank (FNB) and its holding in Gencor, which raised R1bn last year.

Another analyst said that Anglo's interest in the Columbus stainless steel venture and Minorco's cautious acquisition programme were signs the group was concentrating on added-value projects at home and abroad to bring it real returns in the future.

Analysts said the lion's share of Anglo's earnings in 1991/1992 would come from its diamond subsidiaries, which contributed nearly 30% of equity earnings in 1990/1991

The group's financial services holdings — Anglo has a 20% interest in FNB and 40% of Southern Life — would bolster earnings as would associate gold mining companies Vaal Reefs and Western Deep Levels, with a flat contribution from Amcoal

However, weak gold prices had hit Anglo's gold mining investments in general, and those held by subsidiary Amgold Recession at home and abroad had taken their toll on industrial associate Amic, Rustenburg Platinum — which cut its interim dividend by 30% — Samancor, and its overseas groups

HEALTH CARE INDUSTRY (232) FM 29/5/92.

Taking a scalpel to high prices

Health Minister Rina Venter finally appears to have realised that she will never be able to appease the vested interests in the health-care industry as she tries to halt spiralling medical costs for the public

Certainly, introducing the Medical Schemes Amendment Bill in parliament last week, despite continued strong opposition from the Medical Association of SA, shows a resolve few of her critics could have anticipated With only a month to go before parliament closes, Venter seems determined to deregulate the industry Her proposed changes will give medical schemes more scope to keep costs in check and halt doctors' sole discretion in dispensing health care

If passed, the Bill will put an end to guaranteed payments and scales of benefits It will allow schemes to provide healthcare services, by running hospitals and clinics and employing doctors, nurses and pharmacists, a move that has lowered costs by as much as 40% elsewhere in the world

In cutting medicine costs, the Minister's resolve to deregulate the pharmaceutical industry will have to be just as unflinching SA drug prices are among the world's highest

Last week's annual conference of the Pharmaceutical Society of SA showed little initiative in addressing the costs issue The debate merely depicted an industry wracked with internal tensions and lacking direction While retailers, wholesalers and manufacturers battled to define their roles in the industry's apparent identity crisis, little consensus was reached on containing spiralling medicine costs

The industry is not short of suggestions Several recommendations — based on the findings of the Browne Commission and believed to contain many of the recommendations of the uncompleted Wim de Villiers report — were canvassed earlier this year at a forum convened by the Minister

Generic substitution, ending the ban on imports of medicines that could compete with locally made ones, pharmacist-initiated therapy, rescheduling some medicines so that you would not need prescriptions to get them, and allowing other retailers to compete with pharmacies are all proven cost-cutting mechanisms that have dropped medicine prices in other countries But vested interests — mostly doctors and drug manufacturers — continue to prevent their being implemented in SA

The heated debate on generic substitution is a case in point Manufacturers and doctors are still debating the efficacy and safety of generic drugs in SA Yet generic drugs have been used safely for 30 years in State hospitals, resulting in huge cost-savings The anomaly is that, legally, the widespread use

of the drugs remains prohibited

Still, there has been some progress on the issue of generics In February, Venter's department tabled a list of 36 substances that could not be substituted by generics, implying that all other medicines could be Considering the discord on the issue, she is expected to table legislation allowing the widespread use of generics long before consensus is reached

Medical administrator David Boyce says "While the pharmaceutical industry broadly favours generic substitution, the multinational drug companies do not " Boyce, a former retail pharmacist who heads TPS, a claims processing arm of Medicredit, says the multinationals are preoccupied with protecting the market share of their patented drugs and with recouping their research investments International studies suggest manufacturers secure a return of more than 45% on capital investment

The conference did resolve to investigate allowing the parallel import of cheaper medicines In the UK, parallel imports accounted for £250m in medicine purchases last year But local manufacturers have already begun to stress that these imports could pave the way for counterfeit medicines, lowered standards and lost jobs

The call for volume-based prices from manufacturers remains a great source of controversy in the industry Wholesalers and retail pharmacists have persistently criticised manufacturers for giving big discounts to dispensing doctors, who buy only small quantities of drugs compared with the far higher prices paid by retail and wholesale chemists for larger quantities

"This encourages doctors to drive the product through the (prescription) pen," says Len Keating, CE of wholesalers ACA and PDC "They get deals for buying a thousand rands worth of merchandise that a pharmaceutical wholesaler could not secure when buying even a million rands worth of the identical product " The matter is now before the Competition Board

Rescheduling schedule two and three medicines to allow pharmacists more room to initiate therapy would lower prices and sometimes save on a doctor's consultation fee Tom Carse, past president of the Pharmaceutical Society of SA, says a list has been compiled by Potchefstroom University detailing no less than 96 ailments that could be treated by a pharmacist without any need to consult a doctor

Venter has indicated her support for such a move but the powerful Medicines Control Council appears to be the stumbling block to implementing this reform

The council's director, Johan Schlebusch, asks why too little has been done to familiarise pharmacists with the clinical aspects of medicines in higher schedules "in anticipation of the day when these schedules become a reality " However, many argue that the council, a scientific body, must consider the economic needs of a Third-World population rather than apply unsuitable First-World standards

Regrettably, nothing was said at the conference about dropping the ban on pharmacists working for nonpharmacists in retailing Such a move would certainly pave the way for large retail chains such as Pick 'n Pay and Clicks to enter the market and challenge the manufacturers' drug-price stranglehold, described by a conference observer as "obscene and inappropriate to the needs of the country " ■

THE DROUGHT

Fuelling the price spiral

Fm 29/5/92

Government says food prices have soared by nearly 30% over the past year, while Pick 'n Pay's Raymond Ackerman and the Premier Group's Peter Wrighton put the figure at around 15% But, whatever the increase, food prices are sure to rise faster in the months ahead as the effects of the drought kick in

With much of the maize crop wiped out, downstream users of imported yellow maize will be hit hard, sending a ripple effect of higher prices through the food chain In

Cont p

Top unit trusts gain from surge

B/Day 27/5/92

SHERIDAN CONNOLLY

27/5/92 232

THE recent surge in the JSE industrial index to new annual highs over the past few weeks resulted in leading unit trust funds recording strong growth levels, portfolio managers and analysts said yesterday.

Unlike new funds such as Telkom and Transnet, the more established or mature funds did not have to take up shares at the current high prices as they were already positioned in the market, an analyst said.

These funds were investing in gilts which offered higher returns than the market, together with capital gains as market-driven yields dropped.

Over the last month, the industrial index has risen 442 points, climbing to a new yearly high of 4 658 yesterday. The surge in industrial share prices has been attributed to keen institutional, pension fund and unit trust demand for blue chip stock coupled with a shortage of scrip

Momentum Fund Investment director Peter du Toit said the fund had gained from firmer industrials.

Guardbank senior financial manager Errol Tate said the industrial fund had performed well, in line with the rise in the industrial index, which had risen consistently for 20 days.

Bumper year for Eureka put down to management

BDay 29/5/92

(232)

DUMA GQUBULE

DIVERSIFIED holding company Eureka more than doubled its after-tax profit in the year to end-February, in spite of a 20% decline in turnover.

A dividend of 1c was declared on earnings of 2,1c (1,2c) a share.

Chairman Ronnie Price attributed the performance to effective cost control and working-capital management, which had contributed to an improvement in operating margins and return on assets

Significantly positive cash flows and a reduction in gearing of R4m were achieved, even after substantial cash outflows of R10m for the purchase of minority interests in Eurevest and Computermatic

Turnover fell to R108,6m (R135,7m), partly reflecting the closure or disposal of certain operations Improved operating margins and lower funding costs lifted pre-tax profits by 19% to R3,35m (R2,82m)

After higher payments to outside shareholders, attributable earnings came to R1,29m, 75% up on last year's R735 000.

Price said the extremely unfavourable economic environment had provided the opportunity for an in-depth examination of all operations

Underperforming or peripheral operations were closed or disposed of

He said efforts were being made to find a buyer for suspended cash-shell Computermatic, whose operating subsidiaries were sold to Eureka at the beginning of the year

Eureka intended making an offer to buy out minority interests if a buyer was not found within the eight-month period required by the JSE for the company to acquire new assets.

The cash shell's attributable profit came to R169 000

Hefty interest bills plunge Abbey deeper into the red

BIDay 29/5/92.

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PETER GALLI

HEFTY interest bills saw property and textile group Abbey Holdings and its subsidiaries Fenix and Propcor post substantially increased attributable losses in the 18-months to end-December

As the year-end was changed from June to December to facilitate reporting by manufacturing subsidiary companies, and these figures reflected an 18-month period, both former reporting periods were given

However, the figures for the year to end-June 1991 reflected the first reporting period after the companies were reorganised and management stated that these were "not comparable with prior periods"

Abbey posted an attributable loss of R15,2m in the 18-months to end-December compared with a R302 000 loss in the year to end-June 1991. The group showed a profit of R2,5m in the year to end-June 1990

Management cited losses sustained in the textile and homefurnishing divisions due to the effects the socio-political and economic environment

Extraordinary items of R7,1m for goodwill written off, the net loss from disposing of a subsidiary company and the loss on the disposal of debentures brought the loss for the period under review to R22,3m or 85,8c a share This compared with a net loss of R743 000 for the year to end-June 1991

Net current assets fell to R21,99m from R26,47m in the 1991 year and R45,98m in the 1990 year. Net asset value a share dipped to 195c from 248,3c in 1991.

Management could not be reached for comment.

Abbey holds 85% of textile group Fenix industries and a 92% interest in property company Property Corporation of SA (Propcor).

Subsidiary Fenix itself has two subsidiaries, Debonair and Ivitex, which are both trading companies in the textile industry.

Both of these had substantial overdrafts, which were reflected in both Abbey's and Fenix's interest bill.

Fenix reported an operating loss of R10,74m, which included a R2,7m interest bill

A R4,9m interest bill over an operating income of R3,8m moved Propcor into the red, giving a net operating loss of R1,15m and seeing an attributable loss of R950 000 or 4,1c a share ernment and the military in Haiti, and yet another expressed serious concern about a proposed Spanish

crossfire between drug cartels, Marxist guerrilla movements and rightwing paramilitary groups has

country where there is no freedom of expression whatsoever

"In Haiti, one could say there is simply no Press," Calderon said

Investment product being tailored for stokvel members

WILSON ZWANE

STOKVELS and a major financial institution are edging closer to producing a new investment product for stokvel members B/Day

And a number of investment companies in the US and Britain have signalled they would invest in the product, provided it yielded good returns and was "benefiting the people on the ground" 29/5/92

National Stokvels Association of SA (Nasasa) president Andrew Lukhele recently announced that his organisation planned to help alleviate the black housing crisis by diverting millions from banks to unit trusts, which would serve as collateral for home loans since banks were reluctant to lend money to township residents

Lukhele said the arrangement would allow black savings to be ploughed back into black communities, rather than having the money lent to affluent whites

The latest Markinor survey of the informal financial sector indicates a 62,5% growth in the money collected by stokvels in urban areas

In 1991, stokvels collected an estimated R84m a month compared with R52m in 1989 Membership also rose to 1,3-million from 680 000 in 1989

Nasasa consultant and Tremsen Broker Services MD Stephen Japp said yesterday although some Nasasa members had invested in Syfrets-administered unit trusts, the services group was unable to produce "the type of product which Nasasa wants"

Nasasa had, therefore, entered into a joint venture with a major financial institution with a view to developing a "unit trust product tailored to meet the needs of the stokvel members"

Japp would not name the financial institution, but said it was anticipated that the unit trust product would be available within three months

Lukhele said the recent De Loor Commission report on housing supported Nasasa's conviction that stokvels could play a role in meeting the black housing backlog

'Affirmative quotas fail'

WILSON ZWANE

AFFIRMATIVE action programmes fail in SA because they are geared towards meeting recruitment quotas rather than developing the potential of blacks and women B/Day

This is the view of human resources consultant Linda Human in a paper to be delivered at next month's fourth annual conference of the Institute of Personnel Management's (IPM) human resources development division.

She says other reasons for the failure of affirmative action programmes are: 29/5/92

- That blacks and women are expected to function in a white male world which remains uncommitted to people development;
- A lack of commitment on the part of top management.

"It is time for managers to accept their responsibilities in relation to the disadvantaged . it is also time for blacks and women to accept responsibility for their own development," says Human

New fund calls for extra diligence

BDay 29/5/92 · 232

JOE GATES

ALLEGATIONS of financial impropriety against the late Robert Maxwell led the Economist to comment (November 9 1991) that "entrepreneurial capitalism needs capital, but capital always needs guardians"

This appears true for pension fund trustees, owing to the emergence of the trade union-sponsored Community Growth Fund (CGF). This alternative investment vehicle is welcomed for a variety of reasons. But, as with most innovations, there will be obstacles to overcome and learning curves to master.

It is welcomed in the hope that its advent is a signal that nationalisation is relegated to the history books of economic and political posturing. If not, pension funds will once again be hampered by prescribed investment sponsored by interventionists.

It is also welcomed if it is a signal to all that trade unions underwrite the free market — a system which is always willing to receive new entrants and competition If not, it will be a well-disguised socialist plot to co-opt market forces

In the race to subscribe to the CGF or equivalent facility, pension fund trustees must remain conscious of their fiduciary duties and use them to advantage — to act with care, good faith and diligence; to obtain expert advice if their own knowledge is wanting, to avoid conflict of interest; to invest assets for the benefit of the fund and its members; and to act with impartiality in respect of members and beneficiaries.

It is not difficult to find justification in each of these duties when assessing the CGF as an investment vehicle, especially in regard to the economic and social environment of members and beneficiaries However, trustees might feel obliged to maximise investment return on monies under their control

The pursuit of investment performance is not necessarily in the best medium- or long-term interests of members and beneficiaries, and trustees should contemplate the responsibility that comes with freedom of choice offered by pension fund investment regulations.

Through diligent analysis and research, pension fund trustees can contribute to the economic enrichment of our country and its people as well as pension fund members while ensuring competitive returns.

Social responsibility does not mean that investment performance can be disregarded in favour of ethics and conscience, as the latter do not necessarily meet the bread-and-butter issues members need to finance in their retirement

What is called for in trustees is a fine blend of conscience and reality, theory and practice, and an empathetic understanding of the present as well as the future.

Ultimately trustees are going to have to define their funds' boundaries regarding risk and reward, and find solace in the notion that optimising returns on funds they control might well be as important for their own funds' members as maximising returns for other funds' members.

If they are concerned that they might breach their fiduciary duties and find an action in law against them, perhaps the defence of *volenti non fit injuria* — there can be no action if a person voluntarily consents to the prospect of suffering injury — might allow for this

Our courts have recognised the need to adapt the law to fit the changing times "There comes a time in the growth of every living system of law when old practice must be modified in order to keep pace with the requirements of changing conditions" (Innes C J, Blower v Van Noorden 1909 TS 890)

And "however anxious the court may be to maintain the Roman Dutch law in all its integrity, there must, in the ordinary course, be a progressive development of the law, keeping pace with modern requirements" (De Villiers C J, Henderson v Henderson (1903) 20 SC 513)

Pliny the Elder knew more than most when he observed that there was always something new out of Africa Our trustees must ensure that, above all else, they discharge their fiduciary responsibilities in a careful, honest and diligent manner, for the CGF or its equivalent will be one instance of there being no doubt (with apologies to Juvenal for what is lost in translation) as to who guards the guards

□ **Gates is AA Life Assurance Association Ltd MD and president of the Institute of Life and Pension Advisers.**

...vestment product being tailored for stokvel members

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'Affirmative quotas fail'

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"It is time for managers to accept their responsibilities in relation to the disadvantaged ... it is also time for blacks and women to accept responsibility for their own development," says Human.

Unlock your savings: It's the key to prosperity

'STAR 30/5/92'

FOOTSTEPS TO FORTUNE

RICHARD Cluver

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AS THE problem of South African monetary inflation gets steadily worse, nobody can afford to simply put away savings and hope that one day they will have enough for retirement. You need to invest wisely and you need to know how to review your investments regularly to make them grow.

Tradition

But how is the man in the street to cope, the family man with dozens of other worries, who has neither the time nor, quite frankly, the interest, to become a share market expert? Let us first of all examine the background to the situation that faces most of us.

If you, like so many South Africans traditionally did, put your savings into an account at a building society or a bank and agreed to lock them up for five years, they might, at the time of writing, be earning maximum interest of 14,5 percent

They could have been earning quite a lot less if you did not choose your savings account carefully But let us assume you did well and chose the top payer, that would mean that every R1 000 invested would have earned you R145 a year

If you were an average taxpayer, the Receiver of Revenue would have claimed about R39 of that, leaving you with R106 to spend

However, one must assume that the reason you put the money away was to keep it for a rainy day That means you must be aware of the effects of inflation and the need to top up such savings to compensate for it

You will thus, presumably, be painfully aware that the annual inflation rate has in recent years averaged at about 15 percent That means you need, in order to keep the buying power of your R1 000 intact, to add R150 to top it up each year at the present inflation rate. However, after tax, you will have received interest of R106 which would have left you with an annual shortfall of R44 on every R1 000 you invested

In contrast, you could have invested your R1 000 in a representative spread of shares on the stock exchange in February 1991 and by mid-July of that year they would have been worth R1 395 In addition, you would have enjoyed tax-free dividends at an average annual rate at that time of 4,8 percent Although stock exchange gains are cyclical, had the foregoing continued for a whole year, you would have achieved a tax-free capital gain of R948 which, together with tax-free dividends totalling R48 would have boosted your R1 000 to R1 996

After deducting for inflation you would thus be in pocket by R846 That is R890 better than had you left your money in the savings bank

Sadly, of course, there is no way you can buy a representative spread of shares on the stock exchange unless you are a multi-millionaire You could, however, have bought into a number of unit trusts

Let us consider the prices you would have paid in September 1986 for units in some of the funds that were then operating and what you could sell them for five years later

- Old Mutual Investors — 1 177,80 (1986), 2 452,26 (1991), 108,21 percent gain
- Guardbank Growth — 1 025,84, 2 074,74, 102,25
- Sage Fund — 1 075,02, 2 147,66, 99,78.
- Sanlam — 818,25, 1 489,92, 82,09
- Standard — 564,35, 1 004,30, 77,96.
- UAL — 1 071,23, 1 792,67, 67,35

An investment in a representative spread of JSE shares would have increased in value from R1 000 to R1 822,09 in the same time

Top performer

That, if you care to work it out, is not quite as good as the 89,59 percent average gain of these top five unit trusts It is, however, better than three of the funds and is equal to only 75,97 percent of the growth achieved by the top performer, Old Mutual Investors Fund

Footsteps to Fortune is a serialisation of Richard Cluver's latest book "How to Make a Million".

Portfolio provides safe stake in property

STAR 30/5/92

UAL Merchant Bank has introduced a new property-related investment concept which, it believes, is a first in South Africa and, possibly, the world.

Peter Anschutz, MD of UAL Investment Planning Services, says the Guaranteed Property Portfolio (GPP) is an investment in property which guarantees the capital value of the investment.

It is being brought to the market through a private placing to selected individual clients.

Says Anschutz: "There are strong indications that there will be significant demand for the GPP. Although the huge 'Yes' vote in the referendum boosted confidence in property investment, there is a wariness in the market over some forms of property investment as a result of the failure of certain types of property schemes.

"There is also concern among some investors about tying their investments to the movements of the stock exchange and they see investment in property as being safer than equities."

Sacrifice

The underlying property of the GPP investment is the Newport Property Fund, which is managed by UAL's property management division and comprises a portfolio of Amgrada commercial properties not currently available to the individual investor. The guarantee of capital at maturity of the investment in 1997 is provided by a zero coupon bond.

The investment is expected to provide an increase in income as well as capital growth — particularly when Newport is listed on the Johannesburg Stock Exchange as a property unit trust, which UAL expects to do next year. R50 million will be raised now for Newport through the GPP, with a minimum investment per individual of R50 000.

While there is a assurance of the original capital amount invested, the investor may elect to waive the capital guarantee in favour of an investment in Newport only. By sacrificing the guarantee, the investors will opt, instead, for a higher income stream and capital growth. Income distributions will be made every six months.

Safex comes right at last

232

St Times (Bus) 31/5/92

DIAGONAL STREET by Julie Walker

SAFEX — the South African Futures Exchange — is starting to thrive after a patchy past in which many sought to condemn it to oblivion

Pruning of the non-profit-making exchange's overheads last year, both through cutting heads and abandoning the trading floor, left Safex with only two executives and 12 support staff to run an exchange where daily trade is now worth almost twice the value of the JSE's

Patrick Birley, who has been with Safex through the doldrums, can at last report that the exchange is more than breaking even

Safex is managed by Safcom, owned by the banks and financial institutions

Mr Birley says that this year, particularly with the JSE running at peaks, the pension funds have been actively hedging their portfolios by buying futures contracts on the JSE's indices

Futures contracts are new territory for South Africans, but volumes on other exchanges around the world have far outstripped trade in the underlying equity and gilts markets

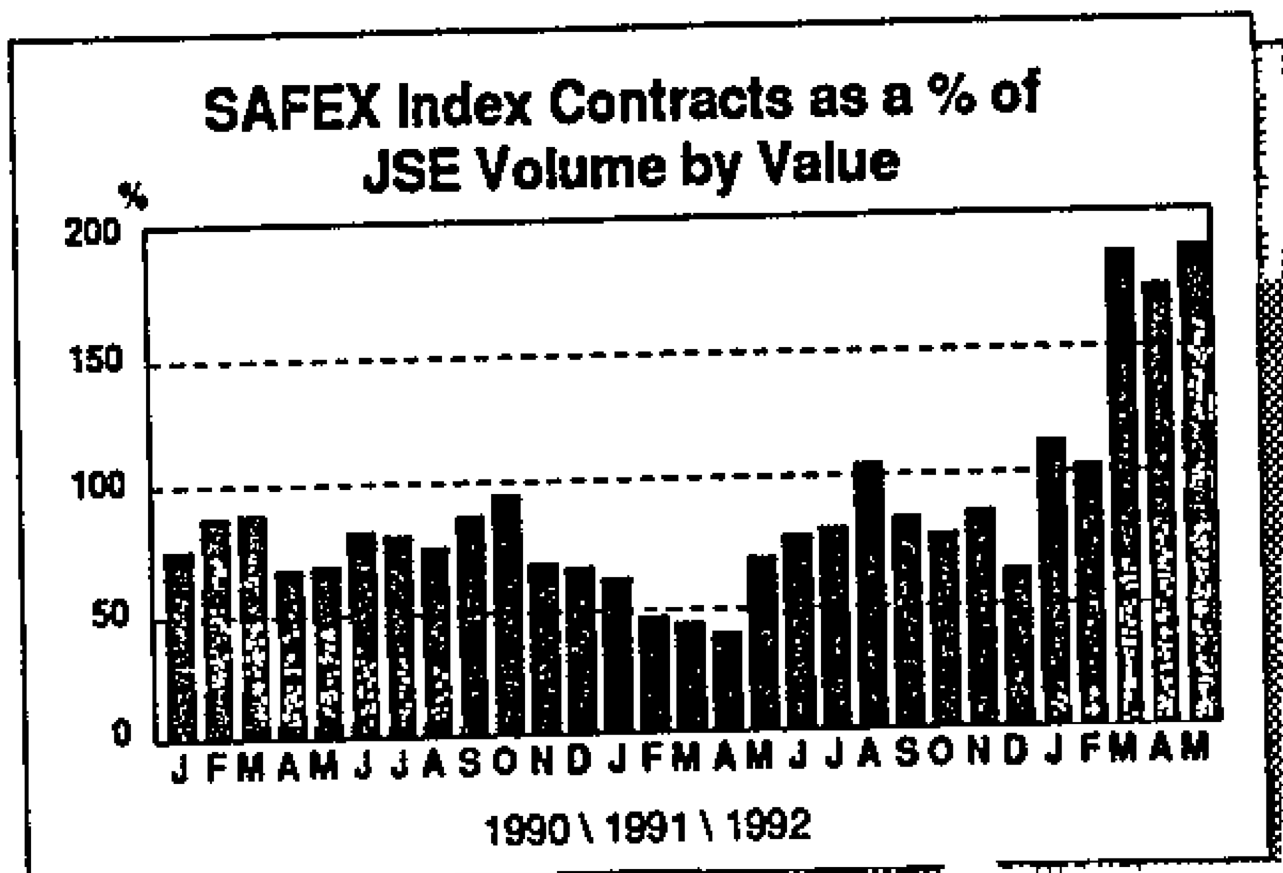
In brief, whether an index goes up or down, futures dealers can make a buck if they call a movement properly They can hedge against the risk of adverse portfolio movement without dealing in physical scrip Considering the JSE's low liquidity, futures are an ideal alternative only now being understood well enough to be useful

To break even, Safex needs daily trade of 2 000 contracts, which it has done for 12 months, and is now exceeding 4 000

Margin balance has risen above R100-million Blocked rands can be used to trade in futures and interest is paid to customers on their margin deposits This is remittable outside SA

Mr Birley says international futures traders, mainly from London, also hold 8% of the open positions on Safex

Safex trade by value is averaging at 180% of the JSE's daily turnover On Monday this week, Safex traded R287-million whereas R65-million was handled on the JSE



Globally speaking, trade in futures is predominantly in gilts A challenge facing SA's Bond Market Association (BMA) — it opens soon — is the low cost of trading on Safex

The cost of trading R1-million of Eskom 168 stock on Safex is only R6 — the BMA will struggle to undercut that. Mr Birley says there is room to cut costs further once Safex's arrears are settled

Developments under way at Safex include the launch of options on futures contracts There is already a significant over-the-counter market in such options running to about twice the number of futures contracts

Options on futures and futures contracts themselves expire at the same time, so are effectively the same thing

The advantage of options is that there is limited downside Margin is still deposited and drawn down, but once it has been used, there is nothing more to pay

It could be the kiss of death for the JSE's hyper-costly Traded Options Market — TOM. Options on futures contracts based on the JSE's indices serve the same purpose TOM is virtually unused six months after its overdue, overbudget launch

Another plan is to turn E168 and later the R150 futures contracts into deliverable futures If the contracts are deliverable, it is the same as having their underlying security — something Mr Birley says the market likes

Mr Birley is relieved that Safex is coming right

Paper power in law

THIS snippet from the Sunday Telegraph concerns Sappi's recent European foray.

Amid much to-ing and fro-ing, legal representatives from England proposed that six of their party advising finance house Warburg Securities should fly to SA on a fact-finding mission.

The Telegraph says: This proposal was averted in the politest way, without Sappi's team even mentioning that the temperature in London last week was actually hotter than in Johannesburg But the experience has left Sappi chief Eugene van As bullish about his business "There will never be a paperless office," he sighed, "so long as there are London lawyers "

ment on the legal issue

Back on the JSE in Servgro colours

S/Times (BUSS) 3/5/92 (232)

By JULIE WALKER

ONLY two years after the delisting of Federale Volksbeleggings in a minority buy-out by Sankorp, a good whack of the assets are to be re-listed under the Servgro banner

Servgro, which is to be listed soon, is Sankorp's services arm

Fedvolks — a perennial dog if ever there was one — used to be a miscellaneous bag of bits. They included tyres, china, drugs and tractors as well as some of the investments now under the Servgro logo, such as Interleisure, Teljoy, Avis, Interpark, Fedics and Price Forbes.

To these six has been added 22% of Nasionale Pers (Naspers), the unlisted holder of interests in magazines, newspapers, M-Net and outdoor marketing

Tender

The amount paid in this intra-house deal — the sellers were Federale Pension Fund and Sanlam — is not disclosed Such trade in listed shares would have had to go through the JSE at least as a nominated deal.

Servgro bought 2,4-million Naspers, the last tender for which was at R30 a share

Managing director Peet van der Walt says Fedvolks is history and that Servgro has focus

It is hard to spot focus in such diverse operations as cinemas, TV rental, car hire, car-park management, catering and actuarial evaluations as well as publishing.

Mr Van Der Walt says Servgro is the new image of a services group developed with strategy over 15 years He says the institutions accept this and say they will place a premium rating on Servgro.

In 1990, Fedvolks' share price jumped from 235c to 300c ahead of the minority take-out proposal, which was done at 460c a share. Alternatively, members could take part cash and part SA Druggists, Teljoy and Fedfood scrip.

The scheme of arrangement cost Sankorp more than R300-million

In the year to March 1991, Fedvolks made R124-million attributable profit. Since then, restructuring in the greater Sankorp empire has resulted in Fefood and SA Drugs going to Malbak and the engineering-type entities, such as Fedstone, to Murray & Roberts, leaving Servgro with a batch of service companies

Servgro made R39-million attributable profit in the year to March 1992 — up by a quarter on the previous year.

Mr Van der Walt says 66% of the group's income comes from the leisure-related services

His challenge is to see that Servgro is listed in the premium-rated hotels, beverages and leisure sector of the JSE as opposed to the duller industrial holding sector.

Servgro has management responsibility for most of its investments without necessarily having 51% control

PEET VAN DER WALT In focus

Nosa gets the nod

S/Times (BUSS) 3/5/92

THREE executives from Australia's and the world's largest mine are in SA to sign a licence agreement for the National Occupational Safety Associations (Nosa) five-star safety and health programme.

The signing of this agreement is seen as a coup because the team from Hamersley iron-ore mine travelled the world before deciding on Nosa

COMPA

PRELIMS	Turnover (Rm)
Keeley	191 4
Kelgran	191 4
Multi	19 4
Crookes	44,0
Molyslip	14,9
Amaprop	—
Lenco	455,1
Absa	—
Trans Hex	—
Twins▲	476,9
Yabeng	—
Jasco	72 3
Eureka	108 6
Fenix*	N/A
Higate	—
Histonec	—
Coastal	20 0
C-Matic	17,4
Tollgate	551 5
Propcor*	—
Aroma	N/A
Sondor	24 6
Aida	N/A

▲13 months *18 months

INTERIMS	
Oakfields	0,8
Norvic	N/A
Usko	109,6
Metpol	—
Disa	N/A
Corsyn	—
Tweefnt	—

Join good company with property unit trusts

MONEY TALK (232)

PROPERTY values in most areas of SA are at low levels, mainly as a result of the deepening recession and the gloom that normally accompanies the low point of the business cycle.

Investing in property at a time like this can be extremely profitable. Unfortunately property investment is highly specialised with few of us able to achieve real success in a competitive environment.

Yet the smaller investor can participate in any future growth by making use of existing organisations, such as the property unit trusts listed on the Johannesburg Stock Exchange

Apart from the fact they provide excellent cash returns there is also the virtual certain appreciation of the capital value of their underlying properties

The 15 property trusts listed on the JSE cover virtually the entire spectrum of real estate investment in SA. Your money is safe as the trusts are regulated by the strict provisions of the Unit Trust Control Act of 1981, the same act that controls the activities of the popular equity trusts C/Press 3/15/92

But note that equity trusts are so-called open-ended trusts in that they continue to grow by selling new units to investors, while they also guarantee to buy back your units, less certain fees, at any time Property trusts are close-ended in that they do not issue new units automatically, nor do they buy back these units They acquire new capital by making regular rights issues to unit holders

To buy units in property trusts you must go to a bank or stockbroker to buy them on the open market for you.

Some of the country's leading banks and financial institutions have invested millions in property trusts.

They are popular with these institutions because they are well-managed and provide a spread of risk by holding a number of properties in different parts of the country These properties are normally occupied by well-established organisations.

At current prices yields of up to 16 percent are obtainable on property trusts and with the prospects of rising property prices and lower interest rates as the economy recovers you can be assured of capital appreciation as well

R100m hopes for unit trust

(232)

TIM COHEN

THE Community Growth Fund (CGF) trade union unit trust could grow to R100m by the end of its first year, a spokesman for the trust's managers said at the weekend

The fund, which will invest workers' pension and provident funds in blue chip companies on the JSE, officially comes on stream today, but it has already attracted several millions from investors.

It will be managed by Syfrets, which has itself invested R2m in the CGF Contributions of R1m have already been raised from Times Media Limited and the NUM's Johannesburg branch.

And Syfrets spokesman Ian Hamilton said pledges and commitments had been received from "mining houses, banks, retail groups and industrial conglomerates".

"We can safely say that the market response has far exceeded everyone's expectations," said Hamilton

The fund aims to marry high returns and socially responsible investment. It is being backed by the NUM, the Construction and Allied Workers' Union, the Transport and General Workers' Union and the Paper, Print, Wood and Allied Workers' Union.

Nactu unions are also involved Portions of the pension and provident funds of these unions will be invested in the CGF

The fund will target a portfolio of blue chip shares, but will exclude those of companies involved in weapons manufacture, environmentally harmful businesses and offshore investments with little benefit to SA workers Three union representatives will serve in a joint Syfrets-union company managing the portfolio

NUM spokesman Martin Nicol said the

☐ To Page 2

CGF unit trust

(232)

☐ From Page 1

fund would invest in companies promoting job creation, recognition of trade unions, affirmative action and environmental awareness

B/Day 1/6/92

"It is not a fund which seeks to invest in low-return housing projects, for example," Nicol said He said the fund would also attempt to influence companies to follow policies consistent with criteria decided on by the managers and the unions.

Hamilton, who is also a director of the fund, said client confidentiality precluded him from disclosing names and figures, but said the commitment from major investors had exceeded expectations

"We have been constantly on the road presenting the concept to major pension funds," Hamilton said "If this level of interest continues, we would not be at all surprised if the fund reached R100m within the first year"

Labour Research Services (LRS) — a Cape Town-based labour advice unit — would play a major role in investment selection Chief LRS spokesman Gordon Young said three provident funds and two pension funds had committed money to the CGF Two of them are connected to the NUM A large provident fund associated with the Paper, Print, Wood and Allied Workers Union had committed a large sum from both cash flow and assets

NUM assistant general secretary Marcel Golding said "Companies have been taken by surprise by the CGF They had not thought of applying social criteria before".

Syfrets expects the fund to remain fairly liquid in the initial stages until a well-rounded portfolio of shares is put together

Syfrets will make the initial share selections based on standard commercial and investment practices

A joint board, chaired by Prof Anthony Asher of the Wits Actuarial Science Department, will then approve these investments after receiving input from the LRS and the unions

Servgro buys 22% of Nasionale Pers

JONO WATERS

SERVGRO, the services arm of Sankorp, has purchased 22% of Nasionale Pers from the Federale Pension Fund and Sanlam in a tidying-up operation within the Sanlam group. (232)

The amount paid in this intra-house deal was not disclosed, but the sum is thought to be in the region of R72m.

Naspers, which has interests in magazines, newspapers and M-Net, is unlisted and shares trade sporadically on a tender basis with the latest price being quoted at R30.

Naspers profits stood at R45m in the year to end March 1991 and for the six months to September 1991 they rose 51% to R20,7m over the same period in 1990 BDay 1/6/92

Servgro chairman Peet van der Walt said the investment in Naspers would blend neatly with Servgro's interests which included Interleisure, Teljoy, Avis, Interpark, Fedics and Price Forbes.

Leisure-related services account for 66% of the group's income.

Servgro is to obtain a JSE listing after its holding company Fedservices issues 25% of its 100% stake in Servgro to the public.

The price at which Servgro is to be issued has not yet been decided The Rand Merchant Bank valued Servgro at R687m without Naspers.

Servgro increased its attributable profit by a quarter to R39m in the year to end March 1992

D-Day for union-linked unit trusts

Staff Reporter STAR 1/6/92 May 4 (232)

The Community Growth Fund (CGF), a union-controlled unit trust dedicated to investing in "socially responsible" JSE-listed companies, officially starts operating today.

The fund, managed and administered by Cape-based Syfrets, has attracted unprecedented attention from investors and employers since it was first announced on May 4

Syfrets spokesman Ian Hamilton said the market response had exceeded expectations

"We have received commitments and pledges from mining houses, banks, retail groups and industrial conglomerates

"If this level of interest continues, we would not be surprised if the fund reached R100 million within the first year," he said

Labour Research Service, the Cape-based union advisory organisation which devised CGF, will play a pivotal role in investment selection.

Three provident funds and two pension funds have committed money to the CGF Two of them are connected with the National Union of Mineworkers and another with the Paper, Printing, Wood and Allied Workers Union.

Capital market rates harden

B/Day 2/6/92 (232)

2/6/92 SHERIDAN CONNOLLY

CAPITAL market rates hardened yesterday following threats of imminent mass action by the ANC and the organisation's adoption of a hardline investment code.

Dealers said rates moved higher on the back of the ANC's statements.

The benchmark Eskom 168 finished 10 points up at 15,83% yesterday compared with 15,73% on Friday, while the government RSA 150 stock weakened to 16,02% from 15,96%.

Disappointing consumer inflation and money supply data also boosted bearish sentiment. Rates were expected to edge up a further 10 points by the end of the week.

The financial rand weakened as foreign investor sentiment waned.

The unit dipped to R3,5087 a dollar at the close of trade after finishing at R3,4550 last week.

Analysts said the ANC's nationalisation stance and investment policy that eliminated incentives for foreigners and limited domestic borrowing would harm confidence.

Sacob said yesterday that it would be difficult to create sustainable economic growth unless there was substantial agreement on important aspects of policy.

It said the continued emphasis on nationalisation and curbs on foreign investors would weaken foreign investor interest.

Sacob said clarity could only be reached with in-depth discussions between the ANC and business.

● Comment: Page 10

Langeberg listing livens up JSE trading

(232) MADDEN COLE

LANGEBERG Holdings, which made its debut on the JSE's food sector yesterday, exceeded an expected listing price of between R6 50 and R7 to open at R8 a share

In heavy trading on a quiet market, 642 000 shares valued at R5,4m were traded in 68 deals

The share price quickly climbed to a R9,25 high B/Day 2/6/92.

However, after a sell off in the afternoon the price dropped to a R7,75 low before rising slightly to close at R8

The food processing and canning conglomerate has forecast a 26,7% increase in earnings to 49,3c (38,9c) a share for the financial year ending September 30

This is based on the directors' estimate that taxed profit of at least R78,8m will be achieved in the current financial year

Langeberg is 56% held by Tiger Oats and 30% by Langeberg Co-operative Other co-operatives have smaller stakes

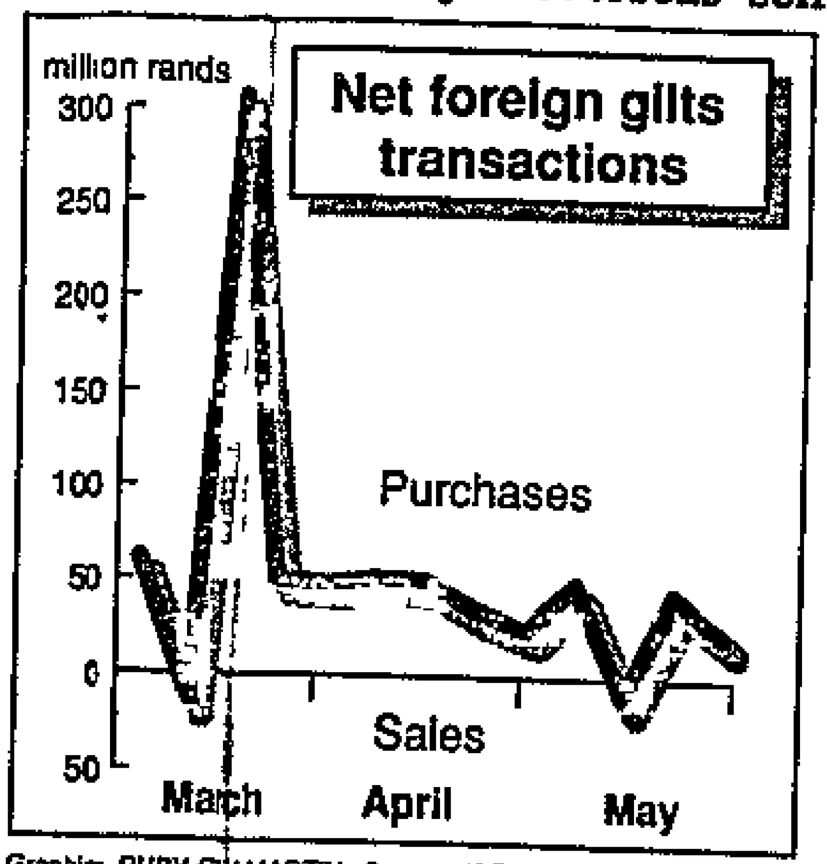
The last new listing was in March

Jitters, but no big sell-off on ANC stance

B/Day 3/6/92

SHERIDAN CONNOLLY

NERVOUSNESS in the capital market continued yesterday following the tough line on foreign investment adopted by the ANC this week — but there were no major overseas sell orders, analysts said



Graphics RUBY-GAY MARTIN Source JSE

They said the ANC's rejection of investment incentives or special treatment for foreign investors would not encourage much needed inflows of foreign capital in the short term. In the meantime, foreigners would still benefit from buying SA gilts at a discount via the financial rand while earning interest at the commercial rand exchange rate.

The ANC's foreign investment stance had promoted bearish sentiment in the market and rates were expected to be steady in the next week or so, they added. The yield on the benchmark Eskom 168 climbed another ten points yesterday to finish at 15,92% from its previous level of 15,82% and the RSA 150 closed at 16,15% from 16,02%.

Analysts said although capital market rates were sensitive to foreign sentiment, overseas investors had not reacted as strongly as expected to the ANC's policy announcement.

In a future market environment, the abolition of the financial rand would remove the present investment incentive for foreigners But, a lower value of a unitary rand might still be cheap enough to attract foreigners to purchase SA gilts, analysts said.

The financial rand at first reacted negatively to the ANC's policy moves It recovered slightly yesterday and firmed to R3,48 per dollar after dropping to R3,50 on Monday

11% earnings rise for Specialty

B/Day 3/6/92

MARCIA KLEIN

RETAIL group Specialty Stores aimed to improve earnings for the eighth consecutive year in financial 1993, joint MDs Stewart Cohen and Laurie Chiappini said in their annual review.

While traditional department stores worldwide had declined, they said international specialty store chains had shown superior growth.

They had the benefit of narrow and deep assortments — which yielded lower purchase costs, shorter lead times, higher sales densities and lower markdowns

These factors gave management confidence and confirmed that Specialty had strategically positioned itself in "the fastest growing and most profitable sector of retailing internationally," the directors said.

They said the group had an advantage as it could respond quickly to changes in consumer lifestyles

Specialty, which owns Milady's, The Hub, Mr Price and Footgear, had an 11% earnings rise to 83,5c (75,1c) a share in the year to end-February on a 19% turnover rise to R293,6m

Cohen and Chiappini said Specialty would continue to focus on maintaining financial strength and improvements in asset management. They said it was comfortable with its 56% gearing as the proportion of cash sales continued to rise and should exceed 30% in the coming year Margins were also expected to increase.

Milady's had performed exceptionally well after an average first half

The Hub's sales were lower than budget, but it showed a 17% increase in its profit contribution.

Seven new Mr Price cash stores had opened, but the chain's rapid growth had stretched management and it had showed a profit decline.

The 11-store cash chain Footgear had made "a meaningful increase in its contribution to group profits"

New plan for sale of Qantas

CANBERRA — The Australian government yesterday announced plans for its international airline Qantas to acquire the state-owned domestic carrier Australian Airlines for A$400m and for 100% of the merged company to be sold to investors and other international airlines

Last weekend Prime Minister Paul Keating proposed a merger of Qantas and Australian Airlines and the sale of a 70% stake in the merged company.

Since then, the government has decided to sell 100% of the merged airline, provided it retains a share that allows it to protect the national interest in the airline. — AP-DJ

Civil debt judgments soaring

232 STAR 3/6/92

By Sven Lunsche

The total value of civil debt judgments could soar to R3,5 billion this year, as the recession is leading to an ever worsening debt spiral for individuals and private companies

Central Statistical Service figures released this week show that the value of default and consent judgments for the first three months of this year reached R927,65 million, an increase of 66,7 percent on the same quarter last year

Credit Guarantee economist Luke Doig comments that the average monthly figure of R309 million this year was significantly higher than last year's average of R214 million and pointed to total debt judgments of R3,5 billion this year

"While this represents an increase of 40 percent on 1992s R2,564 billion there are no indications that the Reserve Bank will drop interest rates — recessionary conditions are now prevalent in most sectors of the economy and will remain unless drastic measures are taken now," Mr Doig warns

Providing a detailed breakdown of the figures he says that the average amount per judgment increased by an annual 49,5 percent from R4 554 to R6 807

JSE concerned at illiquidity of market

232

By Leigh Hassall

STAR 3/6/92

The JSE slogan of "Own a share of South Africa's future" could easily be changed to "Own one share", which would be a fair reflection of the low level of private investor participation on the market

Indicative of this is the case of Lonrho Sugar, with only 0,6 percent of the shares of the company available to the investing public

While Lonrho Sugar represents the worst-case scenario, on average only four percent of shares of any listed JSE company changed hands this year — down from five percent last year

This compares extremely unfavourably with Taipei's 350 percent, Tokyo's 60 percent, New York's 50 percent and London's 30 percent, JSE president Roy Andersen said at a seminar yesterday

He attributed the JSE's illiquid position to a number of factors, the most significant being the government's foreign exchange restrictions and the resulting concentration of power among existing shareholders

The foreign exchange controls prevent overseas investments and largely limit investment opportunities to the JSE markets or fixed property

The big investors, namely the pension funds, life-assurers and unit trust funds, thus compete for a limited number of blue-chip shares that become available to the market

This causes the share prices of these 30 or so companies to spiral upwards and limits tradeability even further as they become too expensive to repurchase

Mr Andersen said the JSE was currently examining ways of boosting liquidity

"The abolition of the existing one percent Marketable Securities Tax (MST) will go a long way to improving liquidity," he says, quoting the case of Sweden where the withdrawal of the tax resulted in a 50 percent rise in liquidity

Efforts are also being made to persuade the big shareholding companies to "unbundle" their existing shareholdings

It is doubtful, however, whether these companies will release their control, while the current foreign exchange restrictions remain in place

7 days a week

Company liquidations rise 72%

B/Day 4/6/92

(232) (180)

GERALD REILLY

PRETORIA — Liquidations of companies and close corporations increased by 72,6% to 711 in the three months to end-April, compared with the same period last year.

The CSS disclosed yesterday that in the previous three months — November to January — the increase was 47,5%

And insolvencies of private individuals tell a similar story

They increased by 18,3% to 1 009 in the first quarter of the year compared with January-March last year.

Over the previous three months the increase was 3,5%

The CSS said 224 companies and close corporations were placed under final liquidation in April alone. This was an increase of 49,3% compared with April last year

Earlier this week CSS figures showed debt summonses in the first three months of the year had increased by 8,5% and averaged about 3 000 a day in the three months Civil judgments for debt increased by 11,5% — and averaged about 1 500 a day in the quarter.

Stellenbosch University's Bureau for Economic Research head Ockie Stuart said the debt pattern was consistent with an economy in deep trouble. And he stressed the number of individuals and businesses going to the wall would continue to rise until at least the end of the year — and well beyond the economy's turning point.

In another CSS release yesterday, figures showed a decrease in the workforce in the manufacturing industry of 14 100 to 1,4-million in the four months to end-February. And in the construction industry, the number of workers decreased by 5 900 to 376 600 in the same four months.

The number of blacks employed in manufacturing fell by 7 606 to 743 500, and in construction the numbers decreased by 4 500 to 268 100.

Policeman misled investigator

B/Day 4/6/92

(252) (252)

SUSAN RUSSELL

A SENIOR policeman investigating the death of assassinated ANC lawyer Bheki Mlangeni yesterday admitted he had misled an independent forensic expert hired by the dead man's family

Capt Andre Kritzinger admitted that when questioned by David Klatzow he had denied knowledge of a police explosives expert, Capt Wal du Toit, whom renegade policeman Dirk Coetzee had alleged was responsible for the booby-trapped cassette player which killed Mlangeni

He told the court he had known Du Toit was in fact a colonel but had misled Klatzow because they had been arguing earlier and he was angry

He denied he had lied to Klatzow

The policeman told the court he had no specific motive for misleading the forensic expert.

Kritzinger made these admissions under cross-examination at the inquest into Mlangeni's death, being heard before Judge B O'Donovan in the Rand Supreme Court.

Mlangeni was killed on February 15 last year when he activated a booby-trapped cassette player posted to him from Lusaka.

The cassette player and a tape marked "evidence of hit squads" had originally been posted to Coetzee in Lusaka where he had taken refuge with the ANC following his claims that he had been a member of a police hit squad.

Coetzee did not collect the package and it was re-directed to Mlangeni who was listed as the sender.

Mlangeni was killed when he put on the earphones to listen to the tape.

Kritzinger, who investigated Mlangeni's murder under Lt-Gen Ronnie van der Westhuizen, has denied police had not made a serious attempt to investigate the case.

It was put to him by counsel for the Mlangeni family, G Rautenbach, that when Klatzow spoke to him a month after the police were informed of Coetzee's allegations about Du Toit and his work at a police explosives laboratory, the allegations had still not been investigated

Share services angry at JSE royalty

DUMA GQUBULE (232)

SERVICES providing electronic information on equity prices have slammed the JSE for introducing royalty charges for private investors BDay 4/6/92

Sharenet, Progressive Systems College and MBM Computers, which disseminate information from the JSE's computer system to about 3 000 small investors, were recently slapped with a monthly R10 royalty charge on each client

However, the charge for corporate clients was reduced to R50 from R200

A spokesman for one of the companies, who did not want to be named, said the JSE was doing little to encourage small investors to return to the market and help solve the exchange's problem of low liquidity

One of the service companies already charges clients R24 a month for the service "This has now risen to R34, an increase of 42% which the small investor is expected to fork out"

JSE president Roy Andersen said the charges were meant only to recover the exchange's costs

The JSE, which had been providing the service at a loss, did not intend to make any profit. Research had also shown that the charges were in line with those on the London Stock Exchange

Andersen said the JSE had readdressed the situation and reduced the charge for corporate clients to R50 The R10 monthly royalty to be paid by individuals was essential to recover costs

Top banks accused of insider trading

Bday 4/6/92

(232)

SHERIDAN CONNOLLY

JSE president Roy Andersen is to protest officially to Reserve Bank governor Chris Stals that commercial banks traded on confidential information when they learned of the Bank's three-point plan to drain liquidity from the money market

Senior capital market dealers yesterday repeated allegations that banking institutions had indulged in insider trading after a routine monthly meeting between Stals and top commercial bankers on Tuesday

Andersen said yesterday he would contact Stals in writing in an effort to avoid a repetition of the matter in the future

"It would appear that Stals made mention of certain factors to bankers and that they may have abused this confidence — the net result being that JSE brokers, who didn't attend the meeting, lost a great deal of money," Andersen said

A source said all of the major banks, including Absa, FNB, Standard Bank, Nedbank, Volkskas and all of the smaller banks and discount houses were present

Senior dealers said the Bank should have foreseen that individuals attending the meeting would act on "confidential" information discussed.

"It was very careless and irresponsible of the Reserve Bank to discuss price-sensitive information during trading hours," one dealer said

Numerous dealers alleged that bankers who attended the meeting contacted their dealing rooms shortly afterwards and divulged details of Stals's comments Around the same time, trade on both the money and capital markets picked up and rates hardened sharply, they said

Stals confirmed yesterday that he would announce measures to curb high levels of liquidity in the market within the next few days Dealers said the move was the result of strong market pressure on the Bank to lower official interest rates after market rates dropped significantly over the past few months

Sources said Stals had proposed plans to drain excess liquidity by raising the cash requirements for banks by one percentage point to 5% from 4% Other proposals suggested were plans to increase the limit of the banks' offshore forex holdings to $640m from $360m and to introduce nine-month Reserve Bank bills

Capital market rates drifted lower yesterday — the benchmark Eskom 168 finished easier at 15,78% from a previous 15,93% while the RSA 150 stock was down to 16,03% at the close from 16,16% on Tuesday Money market rates were unchanged

BDay 5/6/92

Paraguay offers perks

PARAGUAY offered SA investors a potential 200-million consumers for anything from beer to motor vehicles, Gustavo Leite Gusinsky, director-general of its first trade mission to SA, said yesterday. The country offered a five-year tax holiday, free flow of capital and no personal tax Corporate tax was only 30%, he added (233) hattered

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Sapa-AP

Floods force thousands from homes

(233)

GENEVA — Tens of thousands of people have been forced from their homes by devastating floods in Paraguay, Argentina and Brazil, a major humanitarian organisation said yesterday

The International Federation of Red Cross and Red Crescent Societies said heavy and continuous rain since April had saturated the basin of the rivers Parana and Paraguay

Reporting what it said was a very serious situation with generalised flooding in all three countries, the federation launched an appeal for funds to provide food and medicines to refugees

In Paraguay, the federation reported, about 60 000 people were homeless

In northern Argentina, disaster zones had now been declared and 100 000 people evacuated from their homes

In the southern Brazilian states — all declared disaster zones — about 80 000 people had been made homeless — Sapa-Reuter.

EC forges ahead but keeps door open for Danes

STAR 5/6/92

OSLO — The 12 EC states, meeting after Denmark rejected the Maastricht treaty, agreed yesterday that the other 11 states should press on with ratification, Portuguese Foreign Minister Joao de Deus Pinheiro said.

The doors remain open for Denmark to participate in Europe, but all 12 ruled out any renegotiation of the treaty

The EC foreign ministers reaffirmed an aim set at in Maastricht in the Netherlands in Decemberto strive for ratification of the treaty by the end of 1992, to coincide with the formal advent of the EC's barrier-free internal market.

The treaty cannot come into effect unless ratified by all 12 EC governments. It opens the way for a single currency and common foreign policy

British Prime Minister John Major, confronting head-on a mutiny of "Euro-sceptics" in his own Conservative Party, yesterday said he rejected the idea of killing off the Maastricht pact

"It is unrealistic to think that everything has been changed by the Danish vote, just as it is unrealistic to think nothing has been changed by it," he told a rowdy session of parliament

There was also the danger that Britain could end up with a worse deal than the Maastricht treaty on closer economic and monetary union

"If we went back to square one I don't think we could assume that our partners would agree all those matters that were of interest to this country," he said

At the same time, in what may be seen as a warning to EC members talking of going ahead with union without Denmark, he said he was not about to let Denmark be isolated — Sapa-Reuter

● When the people say 'slow down' — Page 13

...e surprises some analysts

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TREADING WATER

Year to March 31	1991	1992
Investment inc (Rm)	1 526	1 654
Equity-acc earnings (Rm)	2 591	2 607
Earnings per share (c)	1 118	1 124
Dividend (c)	325	345
NAV (R)	132,12	152,55

"unwise" They could result in some companies laying off more staff — at a time when unemployment is critical

Deputy chairman Leslie Boyd confirms that the Columbus stainless steel project is well on track and that recommendations to the various boards will be made in July. Columbus, a multibillion-dollar project, is expected to catapult SA into the first league of stainless steel producers

Questions about prospects for Minorco were turned aside at the press briefing. Referring to reports that De Beers is on the verge of opening new mines in Russia, deputy chairman Nicholas Oppenheimer confirmed that ties with Russian producers have strengthened. However, he says "there are no immediate plans by De Beers for the development of new mines in Russia"

On economic prospects, Ogilvie Thompson said SA has experienced an extraordinary decade, including a major debt crisis, a substantial fall in the gold price, a significant war in Angola and a relatively dry decade which impeded agricultural output Since these factors, weather excluded, are not likely to recur, he feels there is scope for "a nice pickup in the economy"

The intimation of satisfactory growth in the 1993 year suggests that dividends may increase to about 380c. Some analysts have a contrary view, however; since the group is powered primarily by precious metals and diamonds, prospects for which are relatively dull, they do not expect exciting results Indeed, they point out that equity-accounted earnings in 1991 are no better than for 1989 and see no reason for 1993 to be exceptional

At R122,50, Anglo is on a p e of 10,9 (equity-accounted) and 17 (attributable) and effectively a future dividend yield of 3,1% It trades at a discount of about 22% to NAV, which must be some comfort to investors But it looks fully priced *David Gleason*

TOLLGATE HOLDINGS FM 5/6/92 (232)

End of the beginning?

The first phase of correctional procedures is almost over Most entities that were either hopelessly unprofitable or required too much

FM 5/6/92 (232)

time or resources have been ended or sold

But neither chairman Julian Askin nor the other members of his consortium anticipated that their plans to resurrect the group would have to be carried out in the worst recession since World War 2 So results for 1991 are not as good as they had hoped for but show signs of significant potential

The 67% rise in operating income to R43,5m is encouraging It indicates that someone is doing something right Granted, much of the improvement comes from eliminating unproductive expenditure but there is clearly a core of quality earnings The year coalesced much activity

UK-based Jaton Holdings, a wholesaler of

Tollgate's Askin
must be doing something right

industrial fasteners and wire mesh products (*Leaders* November 15), was effectively acquired in December The balance sheet includes Jaton, but its earnings will accrue only this year

The assets of Gants Holdings and Norths Industries were finally disposed of These transactions involved the write-off of R31,2m in 1991 and R46,1m in the previous year Complex negotiations finally led to the sale of Cape Town bus company Tramway Holdings soon after year-end.

The Tramways sale will cut interest-bearing debt from R224m to R156m but came too late to have any effect on interest paid, of R35,6m (R47,7m) After various write-backs and adjustments, attributable earnings of R3,6m show a swing of R28,9m.

On a weighted average 28,1m ordinary shares in issue, nominal EPS is 13c, but this is such a gallimaufry of normal and abnormal items that it has no real meaning and is no indicator of this year's prospects Divi-

cont →

 FM 5/6/92 (232)

dends are also 13c

The balance sheet shows permanent capital at R163m, R7m higher than at end-1990 Write-offs were offset by the issue of 12m shares in the Jaton acquisition The balance sheet does not separate goodwill, so tangible NAV cannot be calculated

It is more relevant to read the pro forma balance sheet after the Tramway sale (but not the sale of Tramway properties) But even then, debt remains too high Only when the properties have been realised for about R50m — a deal is understood to be imminent — will net interest-bearing borrowings fall to a more acceptable level

Additional rationalisation under way should reduce debt even further Askin and his board can then get on with running the operation to produce the efficiencies that will make it a desirable share

In SA, the group is poised to focus on tourism and leisure, both areas of great potential In Britain it distributes fundamental necessities of industry, which should be in strong demand as that economy improves It should also not be forgotten that Askin was successfully involved with the pools/lottery industry there and may pursue the possibilities of this activity in SA

Tollgate is a very different organisation from what it was two years ago At 410c, the historical earnings and dividend yields are not attractive but the potential is such that it deserves thorough investigation Maybe the annual report will allow a more realistic appraisal of the outlook *Gerald Hirshon*

THE JSE

Grasping the nettle at last

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FM 5/6/92

Despite the long bull market, trading is light.

These days the journalists, not traditionally noted for their affluence, take the stockbrokers to lunch

The Johannesburg Stock Exchange (JSE) is exhibiting all the signs of gross illiquidity Since stockbroking is a volume business, with brokers earning commissions on the deals they conclude, an inevitable consequence is that all firms are struggling to cover their overheads In some cases, firms have been obliged to retrench staff

The burning issue is that very few shares are changing hands It is widely known that the JSE needs to do a cash volume of about R80m a day in widely spread business if its members are to tread water R100m a day would provide levels of profitability which would enable brokers to begin returning to their desired lifestyles

However, brokers are not, by and large, a much-loved section of the community Indeed, there is a perception that they are among the fat cats of society and when they fall on hard times there is not much sympathy for them And hard times are much in evidence The Porsches are disappearing, there is concern about job security The crisis which Tony Norton described in November 1990 as "very, very unpleasant" has deepened

The curious contradiction with the JSE, however, is that its current difficulties are accompanied by a prolonged bull market which has been in place since October/November 1990 During these 19 months the market has risen ever higher (see graph), powered by a resurgent industrials index

Why, then, should so many broking firms be struggling to keep their heads above water? And why should there be so many persistent rumours about mergers, take-overs and impending failures within the broking community?

The reason is that it is one thing for share prices to rise almost unabated, it is quite another for this to be accompanied by heavy volumes of trade On the JSE, trade has been light, share prices are reflecting large increases on the basis of small volumes of shares changing hands

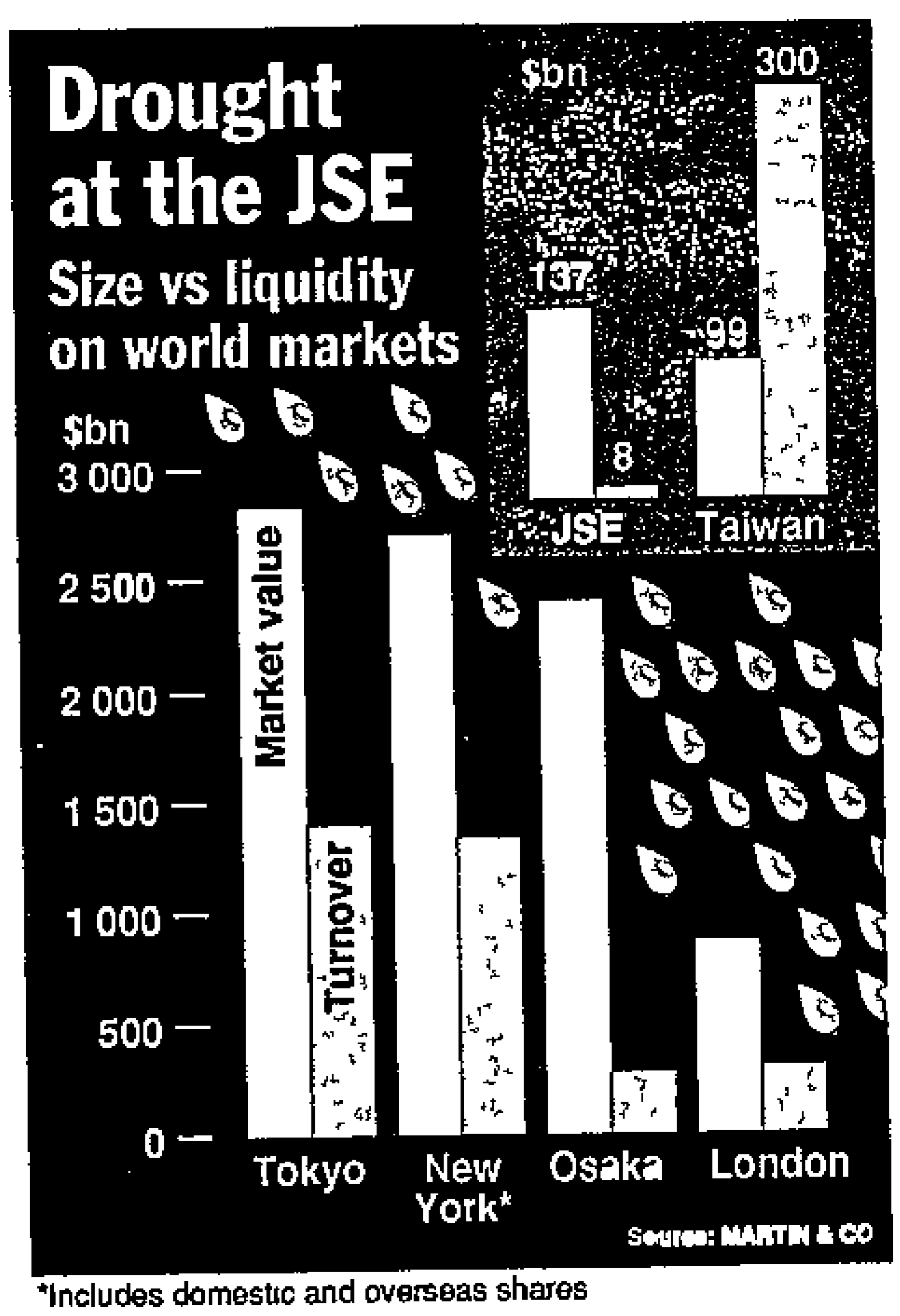
This state of affairs cannot simply be wished away and the reasons for it illuminate a deeper malaise The new president of the JSE, Roy Andersen, repeats an accepted wisdom in the recent annual report He says that a healthy stock exchange lies at the heart of every strong economy But last year, our market traded shares with a value of a mere 4,3% of the total capitalisation of all companies listed on the JSE

Comparisons are necessary here Johannesburg is the 14th-ranked exchange out of 38 in terms of market capitalisation (US$137bn at end 1990) However, 19th-ranked Taiwan achieved a turnover last year of nearly 350% Tokyo and New York, with market capitalisation of $2 822bn and $2 692bn respectively, achieved turnovers approaching 50% Zurich is at 240% and London is close to 30% (see hologram)

So what is wrong with Johannesburg? Recognising early that this will be one of the most critical issues of his tenure, Andersen has moved swiftly to identify the causes At a closed meeting held recently, a cross-section of the financial community began the process of analysing the problems

The broadening of the net to include the major users of the JSE is in itself encouraging at least brokers are recognising they can no longer cocoon themselves in a private club, isolated from the businesses they purport to serve

Interestingly, the ANC's Tito Mboweni was the only representative of a political organisation present Andersen says the ANC was invited because Diagonal Street felt it was important to involve the ANC in the JSE's planning for the future



*Includes domestic and overseas shares

The JSE's miserable illiquidity resolves into a number of separate but interwoven issues

First among these is exchange control, coupled with the weight of funds syndrome The financial institutions, principally the insurance giants and the pension funds, will this year receive an inflow estimated by some to be about R40bn This money has few places to go, locked in as it is by exchange controls to the domestic market One area is property, now heavily oversubscribed as managers of commercial buildings throughout the country will confirm Another is the capital market (Eskom and RSA stocks), the third is into equities

Our institutions, by and large, choose to invest heavily in equities They spend much of their time chasing the same 30 or so blue-chip stocks

One result is that the prices of those stocks are driven to levels at which they no longer offer reasonable value

This is certainly the view of potential overseas investors who perceive better opportunities in our gilts — and it is one of the reasons Old Mutual's efforts to establish an international SA fund last year met with such a muted response

Another effect is that the stocks themselves achieve a certain scarcity, institutions are reluctant to part with their preciously compiled holdings for fear they'll never get them back

During the delivery of a carefully worded script, which one delegate said sounded very much like an impassioned defence of exchange control, the Reserve Bank's Tom Euijen told the JSE meeting that the intention was to narrow the gap between the financial and commercial rand and then to proceed cautiously with the lifting of exchange controls over a four-year period, provided adequate levels of stability were achieved and maintained

This merely repeats statements made two years ago in London by the State President No visible progress has been made since then and the only conclusion is that the fear of an instant flight of capital is so substantial that the removal of exchange controls at any foreseeable time is a chimera

The second issue revolves around tax — specifically, marketable securities tax (MST) and the treatment of profits arising out of share trading

Andersen says that the removal of MST in Taiwan and Sweden produced an instant increase in the volumes traded on those markets In Sweden, where MST was phased out over two years, a 50% increase in liquidity levels was noted in the first year, followed by a further 75% when MST was scrapped entirely

During his Budget speech last year, Barend du Plessis undertook to remove MST over two years, beginning this year But when the 1992 Budget came around, overshadowed by the referendum excitement, the MST issue was simply ignored If government takes seriously the matter of the poor performance of the JSE, then this is one area in which it can act, Finance, Trade & Industry and Economic Co-ordination Minister

Derek Keys must be persuaded to honour his predecessor's promise

The taxation of share trading is vexatious There are no simple rules, in the absence of capital gains tax, to indicate when profits fall within the Receiver's net Previously, Du Plessis indicated he thought stock should be held for 10 years before trading in it qualified for tax-exempt status Later, this was amended to five years, a number which the Receiver is now treating as written in stone It is known, for example, that a number of unit trusts have received letters recently from the Receiver asking for reasons as to why certain share transactions should not be taxed — which prompted an uproar in that industry

Andersen *not much to smile about*

But the fact is that there is no clarity as to when profit from share trading is deemed a capital gain — with no tax payable — and when the Receiver believes it should be taxed at the marginal rate This is a matter which the Receiver has been asked by the JSE to rectify by issuing a practice note

Before he does, the Department of Finance would do well to examine the experience of the Taiwan Stock Exchange

Taxation on share trading was removed for one year Volumes on the exchange boomed The exemption was extended for a further year, an action which has been continued progressively for six years The result is that Taiwan has the most active exchange in the world, with trading volumes exceeding the market's capitalisation more than three times Even discounting the well-known Chinese propensity for a gamble, this is a remarkable result

There are other issues, too There is the matter of the JSE making a major effort to encourage the small investor, the man in the street, to return to the market Andersen says he recognises that there is very little spare cash available in the form of individual discretionary savings, but he is anxious that when this changes the small investor should be clearly aware of the benefits available through the JSE

To this end he is instituting a PR campaign which will concentrate on the market as the best hedge against inflation, without suggesting that it's risk free He wants members to participate by publicising their own services, specifically in the area of the sound advice they can give (though cynics would question that), and he will be questioning why unit trusts are automatically considered to be the most appropriate investment medium

Of course, there have been similar campaigns in the past These mostly yielded small returns What will attract the man in the street will be the perceived opportunity to make money That will require both buoyancy and liquidity, neither of which is much in evidence on the JSE

Splitting shares, another area to which thought has been given, does not appear relevant to long-term liquidity While it offers an immediate one-off solution, its effects are soon neutralised

The consequences of pyramids for market turnover are rather more complex At worst, pyramids may mildly depress turnover because they permit the presence of strong owner-shareholders who don't normally trade their shares On the other hand, pyramids minimise the underlying equity needed to retain control of a company On that basis, it can be argued that pyramids actually have the effect of releasing stock on to the market However, preliminary evidence from stockmarkets around the world shows no clear pattern as to the effect of pyramids on market liquidity

Then there is the matter of the market in derivative instruments Andersen says, in what must be a candidate for the understatement of the year, that " there have been disappointing volumes in the traded options market (TOM) "

Considering that trading in TOM in a two-week period recently resulted in a solitary deal, his disappointment is hardly surprising

The reason is that many people simply don't understand the underlying principles, or the mechanics, and they are distrustful While it is true that poor liquidity can be overcome substantially by the use of derivative instruments, the JSE and its members have only themselves to blame if they haven't vigorously pursued the business of educating potential users

It would help, of course, if more stocks were listed But Johannesburg hasn't done badly on that score, it is ninth-ranked in the world for the number of domestic companies on the boards Besides, any board of directors looking at the present moribund state of trading on the JSE must be asking themselves whether a listing is something they really need

Other issues, all of which will impinge to some degree on turnover levels, need to be attended to These include the continuance of an open outcry market, whether dual capacity dealing should be introduced, and how the institutions can be permitted participation in the market mechanism Some of the banks have strong views on these matters, and have expressed themselves forcefully — particularly in regard to the heavily restricted membership of the JSE, and on negotiated commissions

One senior member of the JSE is known to have expressed his profound disapproval that Andersen permitted the involvement of the banks and institutions in a consideration of the JSE's future But a stock exchange must serve its users and provide them with a means of raising capital for economic development There can be no good reason to exclude them

The conclusion must be that there is no quick fix to the JSE's liquidity problems But at least the nettle has at last been grasped Countermeasures are being considered through the JSE's recently appointed Katz Committee

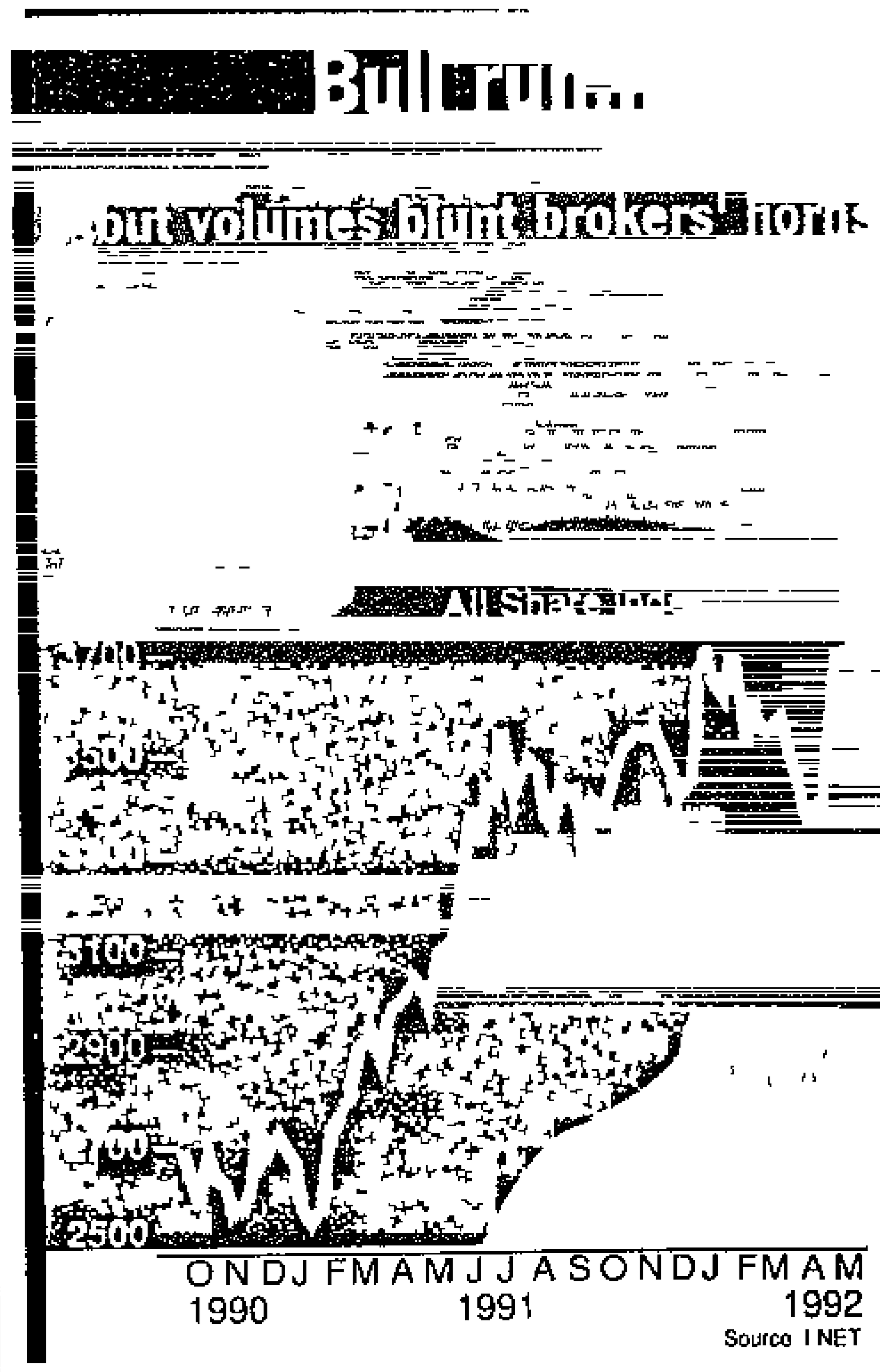
A comprehensive package must now be put together which includes the removal of MST, a clear delineation of when share trading constitutes taxable income, and a determined movement towards the removal of exchange controls, however much that may horrify our central bankers

There are a few other areas worthy of consideration First among these is a resumption of the privatisation programme which has stuttered to a whimpering halt It is not enough for government, paralysed as it is by a lack of will and mesmerised by the strident protests of the ANC, simply to walk away from its own programme The successes of privatisation policies, notably in the UK, are too immediate for the programme to be aborted in mid-stride

Putting public ownership directly into the hands of the public is what matters and greater liquidity on the JSE will be a consequence

The second is to get our inflation under control, and that means below 10% Nothing will spur interest in the JSE more than this, when individuals see that channelling their money to the institutions runs a poor second to direct investment in well-run companies through the JSE, a concomitant result will be growing demand and better trading

Then we might have a stock exchange worthy of the name ■



What you can do for your portfolio

STAR 6/6/92.

(232)

LAST week's article dealt with the professional investment manager of a large stockbroking firm and what the service of investment management should include This week we look still more closely at the individual investor and the difference he can make to the success of his portfolio "He" also stands for "she", women are significantly successful as professionals in the field

Dominated

The healthiest patients a doctor has are those who live healthy lives, the best legal clients are those who don't get into trouble with the law! The most successful investors are those who take the trouble to know what is going on and understand something of the stock market

Old-time stockbrokers say the market is dominated by two emotions fear and greed Both are the extreme of what are otherwise useful feelings concern for what one has, and desire for financial gain

Knowledge precedes rational thinking — very important for the investor. This should not totally exclude the hunch, but watch out for hunches — there are not many good ones.

Apart from knowledge of facts and figures, there are also investment principles or axioms that the wise investor should bear in mind. Here are a few:

● Don't be seduced by promised returns that are far higher than the norm, the risk factor will also be higher Not only will these returns not materialise, but the money you invest will probably vanish.

● The goals of able, ethical management are the same as yours, the investor; the goals of the fly-by-night or even the wheeler-dealer will seldom if ever be the same as those of the investor

● If someone floats a company on the market and takes all the proceeds of the flotation for himself, don't buy those shares The chances are that that company will be cash-starved and will battle to survive

FRANTIC TRADING: But fear and greed, suitably controlled, make the stock exchange function.

Investing on the JSE

THIS is the fourth of 10 articles dealing with the relationship between the stockbroker and his client. The author is GEORGE JOUBERT, executive director, Davis Borkum Hare.

● Markets tend to overreact When prices are highest, all news is good, when lowest, all is disaster But when the dust settles, it is seldom as bad or as good as it seemed Decisions made at such times often prove wrong

Successful investors tend to be those who buy good-quality shares and hold on to them Trying to double-guess the market seldom works, its short-term movements are too unpredictable

● Don't buy promises buy assets with cash, management and prospects How do you buy management? Look at the track record.

What is the difference between promises and prospects? Promises are someone else's words. Prospects can be assessed in terms of gaps in the market, potential demand for a new product or a better one, skills of management, and many more factors, depending on the circumstances

This is not to say that all investors should undertake really deep investigation before buying shares Why then would we need the professionals? But if one is interested in learning about and handling one's own portfolio, one can learn quickly There are many successful individual investors

Skill

The team formed by you, the well-informed investor, and your stockbroker with his wide knowledge, experience and skill, is the strongest and surest way to successful investment

Next week we look at the important role of the stockbroker's research department as a processor of information and producer of comment on companies.

What is best? Investors' Club seminar will help you d

Parastatal threat to private sector

232 [redacted]

ST Times (Buss) 7/6/92.

By CIARAN RYAN

THE Government's commercialisation programme is running into opposition from the private sector which fears unfair competition.

Under the programme, State corporations are required to start paying their way before being privatised

The private sector fears state corporations will have a pricing advantage because their assets were bought with taxpayers' money or low-interest State-guaranteed loans

There is no cost of servicing capital and borrowings are generally long-term with interest rates below 15%

Wing

Of particular concern is the possibility that the privatisation programme will be prolonged in the face of ANC opposition.

SA Chamber of Business deputy director-general Ron Haywood says: "It is imperative that commercialised corporations, such as Transnet, Telkom and Denel, Armscor's industrial wing, be privatised quickly

"We support privatisation and we do not want to see the process delayed."

Transnet's attempt to expand its laundry service into the private sector was halted by the Competition Board because it had nothing to do with its core business

Complaints were also received from the telemetry industry that Denel was competing unfairly.

The complaints fell away when Denel was commercialised, says Competition Board chairman Pierre Brooks

Commercialised parastatals are expected to improve their return on assets, but not necessarily make a profit in the early stages. This could also cause an unfair pricing advantage, says Michael McDonald, of the Steel and Engineering Industries Federation of SA.

"Private firms must reward the providers of capital and this means they must make a profit. The same is not always true of government-owned corporations. They can afford to trim their margins"

Another cause for concern is the valuation of State-owned assets If overvalued, they can claim large write-offs for depreciation If undervalued, prices can be adjusted downwards to achieve an acceptable return on assets

Mr Haywood says "It depends what they consider an acceptable return on assets Private-sector companies have to make positive returns, taking into account high interest rates and inflation, provision for their business to grow, depreciation of assets and dividend payments

"An acceptable return would be 25% State-owned companies may go for less."

Pieter van Huyssteen, chairman of the Policy Unit for Public Enterprises and Privatisation, says "It is of major concern to us that assets in State-owned companies be properly valued and accounted for State-owned assets should not be abused The Competition Board is instructed to act pro-actively where it sees unfair competition But in improving the efficiency of State assets, some competition must be expected"

Fire

The damage caused by State corporations unleashing their assets on private-sector markets has been severe in some instances Sasol, now listed on the JSE, hammered AECI in explosives with a ruinous price war Sasol's capital was relatively cheap and it enjoys import protection.

Iscor has come under fire for its pricing and efforts to lift import tariffs

But Mr Haywood says Sasol and Iscor are trying to help downstream businesses geared to export markets by offering discounts

"We have to look to the future, not the past. In this sense I think the cost of Sasol was worth it"

Most parastatals operate under monopolistic conditions But as deregulation opens the door for more competition, they will look for new markets.

Telkom, for example, may start biting into the electronics markets occupied by the likes of Grinaker and Altech.

RON HAYWOOD Let's get privatisation under way quickly

SA Airways is fighting off the challenge from Safmarine-owned Flitestar, which has taken a large slice of its domestic market. It opposes licence applications by Flitestar for foreign destinations

Transnet has started to compete with transport equipment companies It and Eskom have taken on the private sector to make use of spare capacity in their workshops

Pitted against Transnet in transport equipment is Dorbyl. Chief executive Dawid Mostert says competition is good provided it takes place on a level playing field

"We hope that these businesses are self-standing and not cross-subsidised. Where we suspect this happens, we speak to them I believe the parastatals should stick to their core businesses Maintenance workshops should leave manufacturing to others."

Denel expects taxed profits of R210-million in the 1992-93 financial year on assets of R1,9-billion — an 11% return It is converting arms factories for civilian production and will seek markets where there are monopolies Its explosives factory could compete with AECI and Sasol Its electronics and chemicals plants are also a potential threat to private-sector firms

Government and Reserve Bank get to work

New plan for SA's revival

S/Times [BUSS] 7/6/92.

By CIARAN RYAN

FINANCE Minister Derek Keys and Reserve Bank Governor Chris Stals are laying the foundations for an economic programme to nurse the economy out of recession and back to economic growth.

Measures were announced this week to restore business confidence and maintain monetary stability

Dr Stals told Business Times that the time had come for SA to implement a structural adjustment programme (SAP) to break the deadlock of stagflation, high interest rates, low capital and labour output ratios

The Reserve Bank was developing a programme which could catapult economic growth through 3%, a level at which economic bottlenecks traditionally developed It would bring sustainable long-term growth.

"We need to start looking beyond cyclical and short-term economic stimulation and introduce a more permanent restructuring of the economy

"Because of the political transition, economic reform will be difficult. But the time has never been more favourable. Political reform cannot succeed without economic reform

"We must realise that we can get back on the growth path Sooner or later radical action must be taken"

The Reserve Bank stuck to its decision not to drop interest rates this week in the face of falling money-market rates and rising liquidity

CHRIS STALS Action stations

Among this week's developments were:

- The Reserve Bank announced a plan to soak up excess liquidity in the money market, issuing special nine-month bills to the banking sector, doubling the permitted foreign-currency holdings of the banking sector to $632-million and requiring institutions to maintain an additional cash reserve equal to 1% of short-term liabilities

The new measures are aimed at curtailing money creation by commercial banks — a major cause of inflation One of the targets is banking margins which have widened in recession Money-market rates are expected to firm following the Reserve Bank's mopping-up operation

- Finance Minister Derek Keys boosted investor confidence by scrapping tax on interest earned by foreigners

Stable

The concession will not result in a large loss of revenue because the tax ruling was difficult to enforce

- In an apparent reversal of statements that SA was not overtaxed, Mr Keys vowed to rein in State spending, one of the main reasons for low growth. This would open the door for fiscal reform and stimulate economic growth
- Dr Stals reiterated his commitment to positive real interest rates, a stable exchange rate, curtailment of money creation by commercial banks and an increase in the gold and foreign-currency reserves

The first prerequisite of a SAP is to bring stability, the line now being pursued by the Reserve bank, followed by a liberalisation phase and then a stimulatory one The three phases can be run simultaneously, says Dr Stals, monetary policy playing a lesser role in the stimulatory stage.

Taxation, the Budget and public finance, monetary [illegible], labour and trade policies have to be consistent and be geared to common objectives

Goals

Economists welcomed Mr Keys' plans to bring runaway State spending under control Without a cut, there is little hope for tax relief

"I don't want to sound unduly negative, but Derek Keys' predecessors all promised to bring down State spending — and it just went up and up," says Econometrix's Tony Twine

"If Mr Keys has a demonstrable way of doing this then I welcome it"

Board of Executors senior portfolio manager Rob Lee says the programme should not find too much opposition from the ANC because it shares many of the goals

"Both the ANC and the Reserve Bank support the control of money supply, promotion of manufactured exports and control of State spending Taking a short-term view, I think there is room for a cut in interest rates But I do not disagree with Dr Stals' view of the economy's longer-term prospects"

Ducking and diving in great bank leak

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S/Times [BUSS] 7/6/92.

By JULIE WALKER

FINGER-pointing about insider trading was rife this week on the back of JSE president Roy Andersen's intention to complain to the Reserve Bank about confidentiality leaks.

The row began when Reserve Bank Governor Chris Stals gave bankers notice of his intention — announced on Friday — to mop up liquidity in the market.

Dr Stals is loath to bring down bank rate while inflation remains high, but bankers query how he could manage this in a highly "liquid" market.

Market rates have fallen since February, but jumped on Monday

Early sellers, it appears, had access to the confidential information and tried to take advantage of it. Those attending the meeting would have been sworn to confidentiality

Blame

But the temptation to use the information and so avoid serious financial loss must have been great

Mr Andersen says. "We do blame the Reserve Bank. It acted in confidence which appears to have been breached I have written a polite letter asking that price-sensitive information matters be discussed and released outside trading hours"

Mr Andersen says it would be foolhardy to try to quantify losses

"We think we know what brokers lost, but not those suffered by their international clients. This kind of thing does the reputation of the country no good"

Tony Norton, president of the Council of SA Bankers, says he does not have facts about alleged insider trading by dealing rooms of banks which attended Dr Stals' Monday meeting

Mr Norton says he will take the matter up with the clearing banks

Johannesburg Options Market managing director David Bullard maintains that the JSE brokers should have made a lot of money if they acted as intermediaries because the volumes were high, generating brokerage

Mr Bullard, an independent trader, says: "If they lost, it means they must have been holding positions that went against them,

"That means they must have acted as both principal and agent. Although they are allowed to do that, stockbrokers have insufficient capital bases to act as principals and withstand large market movements"

Mr Bullard finds it interesting that JSE trade in Umgeni Water Authority stock was most active ahead of Finance Minister Derek Keys' announcement that interest earned by non-resident investors would not be taxed

"The JSE can't accuse others of insider trading on the one hand, then be guilty of it on the other"

Mr Bullard says it took nanoseconds — not seconds — for the information to be dispersed His view is that the market moved up because jobbers acted on impulse.

"It is a huge non-issue," says Mr Bullard

Marilyn Visser, gilts analyst at stockbroker Simpson McKie, says insider trading is difficult to prove in any circumstances and most dealers adopt a pragmatic approach.

"There was a timely upward correction in rates on Monday, but nobody regarded it as a reversal," says Miss Visser "There were many stale bulls and a lot of jobbers hurried to get out of the market Institutions were willing to come back once positions were cleared. They were not keen to buy at the lower levels and saw value when stability had been restored after the correction.

"The correction could have been on technicals only, or on a combination of technicals and inside knowledge It is hard to say exactly what was responsible."

Blood

Neville Boner of Boner & Freemantle confirms that certain people were selling stock before others and ahead of rates hardening

"There was a lot of blood on the floor," says Mr Boner, "and quite a lot outside Sentiment had been bullish until then"

He says market speculation was that the Reserve Bank was buying finrands ahead of expected foreign interest in the gilt market. Rates steadied by Thursday and resumed their bullish descent

"That is the irony," says Mr Bullard. "The best thing the insiders could have done was to have done nothing. They have probably lost more by selling short and have not benefited at all in the long run"

Cluff to seek JSE listing

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St Times (Buss) 7/6/92

CLUFF Resources plc, the UK-based gold producer and oil company with gold interests in Ghana and Zimbabwe, is to seek a listing on the JSE.

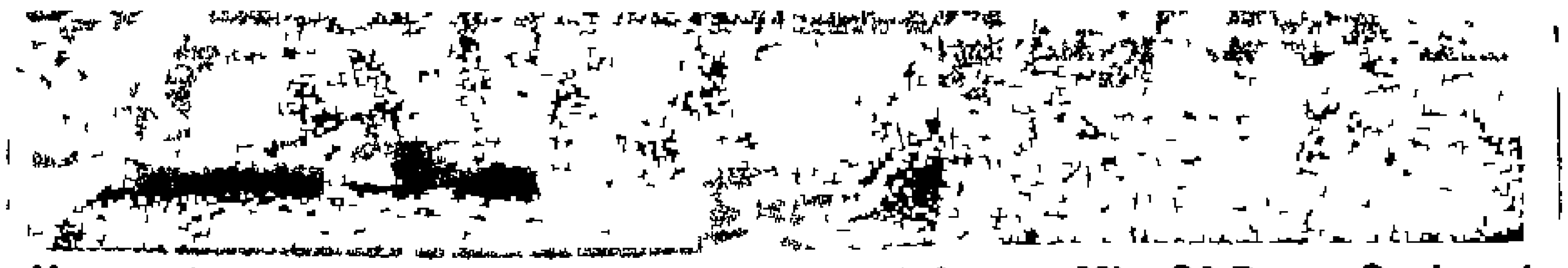
Chairman and chief executive JG Cluff says "The decline in the London market as a centre for mining investment following the disappearance in recent years of most of the major UK mining companies is reflected in a lack of interest in mining stocks.

"We have thought about this and the desireability of broadening our shareholder base and are considering a listing on the JSE as the foremost mining market in the world as well as in Africa"

Company representatives will visit SA soon with a view to placing some shares with institutions

Cluff aims to reduce or sell its oil interests, but Mr Cluff says the past year was not a sensible time to do so

One London broker recently placed a value of $40/oz on Cluff's 1,8-million-ounce gold reserves



Yvonne Hulett (right), wife of John Hulett, with former Miss SA Penny Coelen at the 1988 launch of their book, Penny Coelen and Yvonne Hulett on Beauty

P, the DP and the ANC … and Privileg

By ROY RUDDEN

A FOUR-YEAR feud involving leading members of the "royal family" of Natal's sugar barons, the Huletts, ended with a court ruling this week.

The Appellate Division found that Mr Brett Hulett had fraudulently induced family and close friends to sell shares and loan accounts on which he knew he would immediately make a huge profit.

The ruling reversed a 1990 Supreme Court verdict, which had absolved Mr Hulett of wrongdoing, and has split him from friends and relatives with whom he had shared decades of holidays and parties

The row started in 1988, when Mr Hulett persuaded his cousin Mr John Hulett and three family friends, Miss Paula Townsend, Mrs Angela Fowlds and Mrs Sally Maingard, to sell their shares in Stanger Quarries to his own family trust for R700 000 (232)

S/Times 7/6/92

Loved

The women are daughters of Mr David Townsend, who, with Mr John Hulett, has been a fast friend of Mr Brett Hulett since their schooldays The men had played sport together, taken joint holidays and shared each another's family occasions.

Mr Justice GG Hoexter ruled in the Appeal Court that major factors in their decision to sell their holdings to Mr Brett Hulett were this friendship, the fact that he had told them he "loved the quarry", which was on his farm and which he wanted for himself, and that there was no thought of other potential purchasers

Meanwhile, at the time of the negotiations, Mr Brett Hulett had the clear, undisclosed intention of selling the quarry to a third party, with whom he was already negotiating, for a higher price, the appeal judge found

Mr John Hulett and the three women, collectively holding 60 percent of the shares in the quarry, sold

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Pik sticks on federal model

S/Times 7/6/92.

THE ANC has told the government it will not renege on agreements reached at Codesa over a six-month period — but little else was achieved at a closed-door meeting this week aimed at averting civil protest in July.

By MIKE ROBERTSON
Political Correspondent

The ANC, represented by secretary general Cyril Ramaphosa and negotiation committee members Mohamed Valli Moosa and Joe Slovo, and the government, represented by Acting President Pik Botha, Constitutional Development Minister Roelf Meyer, his predecessor, Gerrit Viljoen, and Law and Order Minister Hernus Kriel, met at the Presidency in Pretoria on Tuesday this week.

Government members said Mr Botha had bluntly told the ANC the government insisted a new South African constitution be based on a federal model which made provision for power sharing at all levels.

ANC members said their negotiators had made it clear they were not even prepared to discuss these concepts before clarity had been reached on the election of a body to draw up a constitution and the manner in which it would operate.

Participants said the meeting was generally cordial. They agreed to meet again next week to discuss

- Time frames for the implementation of Codesa decisions;
- The functioning of structures that would be appointed to oversee elections for an interim government,
- Regional and local government in the transition,
- Deadlock breaking mechanisms

Mr Botha said after the talks it was his impression the ANC was not reneging on agreements already reached at Codesa

Positive

Another top government member said this was confirmed by an agreement reached by Codesa's management committee that working groups, which had already achieved substantial agreement, should be mandated to finalise outstanding matters

He said the meeting with the ANC had been positive in that the government had been able to clarify its position on regionalism and power sharing.

The source said the government had made it clear it would insist on Codesa agreeing that the new constitution should contain important elements of a federal model.

Mr Moosa said the statements made by Mr Botha and by President FW de Klerk while abroad in Japan were an attempt to cloud the real reason for the deadlock.

Voters

The ANC believed the government was not prepared to allow a democratically elected body to draft a new constitution

He said Codesa could not decide on important constitutional matters, such as federalism, as many of its participants had no support base

The voters of the country, he said, should be allowed to elect the people who would make decisions on these crucial issues

Mr Moosa said the ANC agreed that a final constitution should be decided by a special majority But that majority should not be so high as to allow the minority to dictate the contents of a new constitution

DP calls for judge to hear CCB evidence

S/Times 7/6/92.

By MIKE ROBERTSON
Political Correspondent

DEMOCRATIC Party finance spokesman Jasper Walsh has called on the government to appoint a judicial commission of inquiry to hear evidence from Civil Co-operation Bureau members.

However, he supported a decision by the chairman of Parliament's public accounts committee, Dr Francois Jacobsz, to refuse to allow CCB members to appear before the committee, "as it was not the right forum"

Mr Walsh said he had spoken to former CCB managing director Joe Verster

"There is obvious concern on the part of the CCB members that they are being blamed for things such as the murder of David Webster and the Goniwe killings. They claim they were not involved.

"Now that the CCB has been disbanded and accused of acting beyond their instructions its members will continue to be convenient scapegoats for allegations, such as those about the murder of activists That suspicion will continue until the full truth emerges about their operations"

Mr Walsh was not happy with the decision by new Defence Minister Gene Louw to refer all outstanding matters relating to the CCB to Ombudsman Mr Justice Piet van der Walt.

CCB members and SADF representatives were scheduled to meet Mr Justice van der Walt yesterday.

Mr Walsh said the matter should not be resolved behind closed doors and called for an open public inquiry

He said he was particularly concerned by an allegation made by Mr Verster this week that SADF General Eddie Webb had ordered CCB files to be removed.

A recent report by the auditor-general said CCB members had R3-million of pension fund money in their possession. They also controlled an overseas account which contained R800 000

Fraud splits sugar barons

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their shares to the Brett Hulett Family Trust, in which they had held 30 percent.

The trust had then sold its total shareholding to Attest Finance (Pty) Ltd for R2-million. Attest sold the shares to Baystone Sales.

The appellants contended they would not have sold to the trust had they known of the Baystone interest and had claimed damages in the Natal Supreme Court for the loss they suffered.

Mr Justice PW Thirion absolved Mr Brett Hulett in 1990 after finding "it had not been proved the shares were sold to the trust because of a fraudulent misrepresentation"

However, Mr Justice Hoexter said it was common cause that at the time Mr Hulett was clinching the R2-million deal, he was fraudulently misrepresenting to the appellants that, if they sold their shares to him, he would retain them in order to exercise control over the company and continue running the quarry business.

The appeal judge quoted a report from the manager of the Stanger branch of First National (Mr Brett Hulett's bank) to his general manager, which said, regarding an overdraft application related to the deal. "He is negotiating a deal (behind his co-directors' backs) to sell the company and land to Murray and Roberts for R2-million"

In assessing the close relationship which had existed between the defendant and the appellants, the appeal judge recorded that Mr John Hulett's wife, former top model Yvonne, was godmother to Brett's daughter, and that Brett and his wife were godparents to John's son.

The Townsends were not related to the Huletts by blood but in his evidence, the appeal judge recalled, Mr John Hulett had said that "Townsend's family and our families were very, very close"

The appeal judge said Mr David Townsend had testified "The defendant and I have been best friends for the last 40-odd years We have been on holiday together, we had houses at the beach together, alongside each other, the defendant proposed a toast at my eldest daughter's wedding"

Damages of R250 205 were awarded to Mr John Hulett, R84 890 each to Miss Townsend and Mrs Maingard, and R80 423 to Mrs Fowlds The claimants were represented by Mr David Gordon, SC, and the defendant by Mr Peter Olsen

Broederstroom guerrilla indemnified

THE fifth member of the ANC's all-white Broederstroom guerrilla cell has been granted indemnity and has returned to SA. Bldam 8/6/92

Paul Annegarn, who left the cell to return to ANC headquarters in Lusaka before his fellow cell members were arrested in 1988, has been given indemnity from prosecution for deserting the SADF, entering SA illegally and making an illegal explosive device.

Annegarn had been variously reported to have been held by the ANC at its Quatro detention camp, executed by the movement, and to be studying in London. A family member said he returned to SA this year. His indemnity was published in the Government Gazette at the weekend.

Three other Broderstroom cell members, Damian de Lange, Iain Robertson and Susan Westcott were jailed but released early last year.

Viability study of Masterprop firms is mooted

(232)

LINDA ENSOR

CAPE TOWN — An immediate audit and viability study of nine of the 11 Masterprop syndicated property companies had been called for, companies representative Donald Slade said at the weekend. Bldam 8/6/92

Executive committees consisting of three members each were elected last week to manage the affairs of the nine companies under boards of directors' supervision. The boards were elected by shareholders recently.

Former Masterprop MD Graham Manchip has been appointed CE and manager of all nine properties

Slade said the first task of the executive committees — which had limited delegated powers — would be to assess the companies' current affairs and report to shareholders Focus would also be on centralising the functions of the individual companies

Negotiations to defer legal action were in progress with bondholders whose bond interest was in arrears Slade said possible tax liabilities in certain of the companies were also receiving the executive committees' urgent attention after Inland Revenue raised objections to certain tax deductions made

Three members elected to most of the committees were Slade — a consultant for Masterbond's curators — Manchip, and Chris Bruyns, a shareholder with a long history of involvement in property matters

The other people elected were J H Isaacs director Peter Holling (on the executive committee of Masterbloem), Bill van Wezel (Mediforum Welkom and Brackenfell committees) and Johan Swiegelaar (Main Street, Port Elizabeth committee)

"The composition of the various executive committees was determined with continuity and depth of knowledge in property development management and finance in mind," Slade said

Manchip was not involved with Masterbond's collapse His deep knowledge of the properties would provide continuity in their management, Slade added

Fancourt to seek R90m JSE listing

PETER GALLI (232)

UPMARKET leisure resort Fancourt would seek a R90m JSE listing to ensure its 1 600 debenture holders received an interim return, chairman Andre Pieterse confirmed yesterday

The listing on the property loan stock sector is subject to the approval of debenture holders and the Masterbond curators

Effectively debenture holders will be issued with loan stock units to the value of their debenture holdings They will then be able to trade these freely on the exchange

In addition, they will be given an equity share in the Fancourt Group, which is also set to list BDay 8/6/92

"We believe it is necessary to list the debentures in property loan stock while simultaneously equity listing the Fancourt Group It has not yet been decided what equity stake the debenture holders will be given, but it will be sizeable," Pieterse said Those who wanted or needed to cash in the loan stock in the short term could do so while retaining their equity interest.

Meetings will be held in all major centres to allow debenture holders the opportunity to vote on the listing Should this be rejected, the recent agreement with Group Five, the Masterbond curators and Fancourt shareholders, will remain in force.

Under this agreement, until all infrastructural work on the development is complete, debenture holders could have to forego interest payments if there are insuf-

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Fancourt

BDay 8/6/92 (232)

□ From Page 1

ficient funds from sales to cover both

"As Golf Investments directors — the controlling shareholders in the Fancourt group — we anticipate this return will be higher than the original return promised by Masterbond," Pieterse said

This move, designed to distance the group from its Masterbond connection, would further allow Fancourt to gain bank finance

This would result in debenture holders, who had been kept waiting for interest payments on their R90m worth of debentures issued by Masterbond in Fancourt since October, to realise the maximum return on their investment, Pieterse said

No major problems were envisaged in securing the listing

"A JSE listing provides additional security for the debenture holders as a listed company is subject to rigorous reporting and disclosure requirements"

About R10m still had to be spent on additional amenities like a conference, health and sports centre, an equestrian centre and a beach club, but the listing would ensure this happened, he said About R41m still had to be received from sales concluded, while R20m worth of sales were pending

"We have never been a Masterbond company They were our bankers/financiers, and the sooner we can put that ghost to bed the sooner debenture holders will receive their returns," Pieterse said

NEWS IN BRIEF

BDay 8/6/92

JSE sets an example

A MISSION to decide on the most suitable stock exchange for Zambia has chosen to recommend the model set by the JSE (232)

A Zambian Finance Ministry treasury counsel who led the four-man mission to SA, Botswana and Britain said in Lusaka the JSE model was best suited to the Zambian environment.

Forbes halts trading pending merger

MERVYN HARRIS and TIM MARSLAND

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ANDREW Forbes & Co withdrew its dealing team from the JSE trading floor at noon on Friday in a move which triggered speculation among stockbrokers about the firm's position

Director Andrew Forbes said the stockbroker had voluntarily withdrawn its team pending a merger He said talks about a merger were at an advanced stage, but would not give further details.

JSE president Roy Andersen said on Friday the JSE was told the firm had withdrawn its dealers "while addressing the recapitalisation of its business"

BDay 17/8/92

A source said the firm had done the honourable thing by taking early action before outside intervention was necessary

The firm's problems come at a time when the broking community is under siege from low volumes arising out of poor liquidity on the exchange. Difficulties have been masked by surging blue chips which have lifted the JSE industrial and overall indices to record highs. However, there has been little trade on the rest of the market

Clients reject JSE claim on royalty charges

DUMA GQUBULE 232

CLAIMS by the JSE that its new royalty charge for information drawn from its databank was "only meant to recover costs" have been rejected by clients using the service.

The royalty charge would swell the exchange's coffers by about R250 000 a year, they said at the weekend. The JSE made a surplus of R567 000 for the year to end-February.

In a Business Day report last week JSE president Roy Andersen, responding to criticism from Sharenet, Progressive Systems College (PSC) and MBM Computers, said the service had been provided at a loss and that the new charges were in line with those charged by the London Stock Exchange.

Sharenet, PSC and MBM Computers passed on information from the JSE's databank to about 3 000 small investors and were recently told they would be charged R10 a month for each client using their services.

At the weekend PSC chairman Jack Milne said it was simply not true that the JSE had been providing the service at a loss. He said the data were a by-product of the JSE databank, "a facility which they would need even if there were no download users. The additional cost to the user is virtually nothing."

Milne said the JSE, after wasting money on white elephants like the Traded Options Market (TOM) and its own massive mainframe installation, was now recovering these costs from the small investor. The exchange would receive an additional R9 000 a month from PSC alone.

MBM Computers MD Derek Kreunen, whose company will pay an extra R6 000, said it was wrong to compare the JSE with the London Stock Exchange because the two did not operate in the same way.

Andersen, however, said the new charge was genuinely meant to recover costs. Stockbrokers had been paying for the service all along, and it was only right that other users made a contribution.

Competitions Board to probe SAB-Guinness deal

232 CT 9/6/92

Own Correspondent

PRETORIA. — The Competition Board was investigating about 50 alleged restrictive business practices, chairman Pierre Brooks said yesterday, including the iron and steel and paper industries as well as SAB's agreement with Guinness

Brooks said the board was conducting about 30 preliminary investigations either at the board's initiative or as the result of complaints. These relate to refusals to supply, restraint of trade clauses in agreements, unwarranted tariff protection and alleged restrictive practices

Unfair competition by Unifruco and certain parastatals were also being looked at, he said.

Brooks said another investigation into alleged restrictive practices in the distribution of iron, steel, stainless steel and scrap metals was in its initial stages.

The allegations were against companies reprocessing metal products, he said.

Brooks said the SAB/Guinness probe was aimed at ensuring there was nothing in last month's brewing and distribution agreement between the two companies which could be seen as undesirable in terms of the Maintenance and Protection of Competition Act

An SAB spokesman said the board had asked for copies of the agreement and later for clarification on some issues. No formal investigation had been launched

The Unifruco probe resulted from complaints by smaller deciduous fruit producers that Unifruco had a monopolistic marketing advantage which excluded them from marketing their products abroad.

Complaints had also been received from private sector organisations that privatised parastatals such as Armscor were competing unfairly.

Brooks said a probe into claims that paper companies Mondi and Sappi enjoyed unwarranted tariff protection was at a preliminary stage.

Complaints had come from other sectors of the paper industry and from the Press

Brooks said investigations were continuing into alleged collusion in the fixing of the bread prices and the supply, price and distribution of school textbooks.

A draft report on school books had been completed but still had to be reviewed

R59m raised to salvage Phinda

SHARON WOOD

THE UK-based Hambros Bank yesterday formally announced R59m had been raised by SA and offshore investors for the Conservation Corporation

BD 9/6/92

The announcement is the final step in salvaging the Conservation Corporation subsidiary, Phinda Game Reserve. The Corporation owed Phinda debenture holders R43m, raised by Masterbond prior to its collapse.

At a meeting on May 22, Phinda debenture holders approved the release of R43m to Masterbond curators for distribution to debenture holders.

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Of the R59m raised, foreign organisations had invested 40% and local investors 60%.

Foreign investors were Scottish fund management company Martin Currie, the Getty family and Hambros Bank, while local investors were the AECI Pension Fund, Anglo American, Fedlife, Southern Life, Metropolitan Life, De Beers, Investec and Harry Oppenheimer.

The funds raised offshore had been used to buy a tranche of SA Reserve Bank debt, Hambros Bank director Jonathan Klein said.

An investment company on the Isle of Man — Conservation Corporation International — had bought the Reserve Bank debt and lent it to the Corporation.

CNA Gallo takes control of Nu Metro

(232) MARCIA KLEIN

CNA Gallo (Cnagalo) has acquired the remaining 50% of the Nu Metro Entertainment Group in a R29,7m cash deal

With the group's full resources behind it, Nu Metro could become a more serious competitor to Ster-Kinekor, which has a larger slice of the entertainment cake.

Cnagalo said yesterday it had also entered into a joint venture in scholastic publishing company Heinemann SA, which was owned by Heinemann UK.

The acquisitions were aimed at positioning the group for growth and had a long-term strategic value, Cnagalo MD Dennis Cuzen said B Day 10/6/92

"They represent excellent opportunities to boost growth in operations directly related to our core businesses."

In September 1990 CNA Gallo acquired 50% of the Nu Metro Group, which comprises 125 cinema screens, Nu Metro Home Video and Nu Metro Distribution The group had now acquired the remaining 50% from Avi Lerner with effect from April 1.

In addition to the cash consideration, Cuzen said further amounts could become payable in April 1993 and 1994 "dependent on the profits achieved by Nu Metro" in the

To Page 2

Nu Metro

(232) From Page 1

years to end-December 1992 and 1993 The aggregate of these payments would not exceed R8m B Day 10/6/92

Nu Metro would focus on "strategically placed multiplex cinema complexes" and long-term objectives would be a focus on "the largely unexplored black market" The acquisition would have no effect on Cnagalo's March 1993 earnings

In a second deal, Cuzen said CnaGalo had launched the Heinemann/Centaur joint venture "at a time when SA was actively involved in attempting to improve its educational system"

Cuzen said the general retail book market was worth about R250m, and the current scholastic book market was worth about twice this amount

The group also announced some board changes Gallo Group founder Eric Gallo was appointed honorary life president of Cnagalo

Business confidence rapidly ebbing away

STAR 10/6/92

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By Michael Chester

The overall business mood has slipped into deeper pessimism, with forecasts of still more cutbacks in investment and employment levels in the pipeline, a survey by the SA Chamber of Business (Sacob) shows.

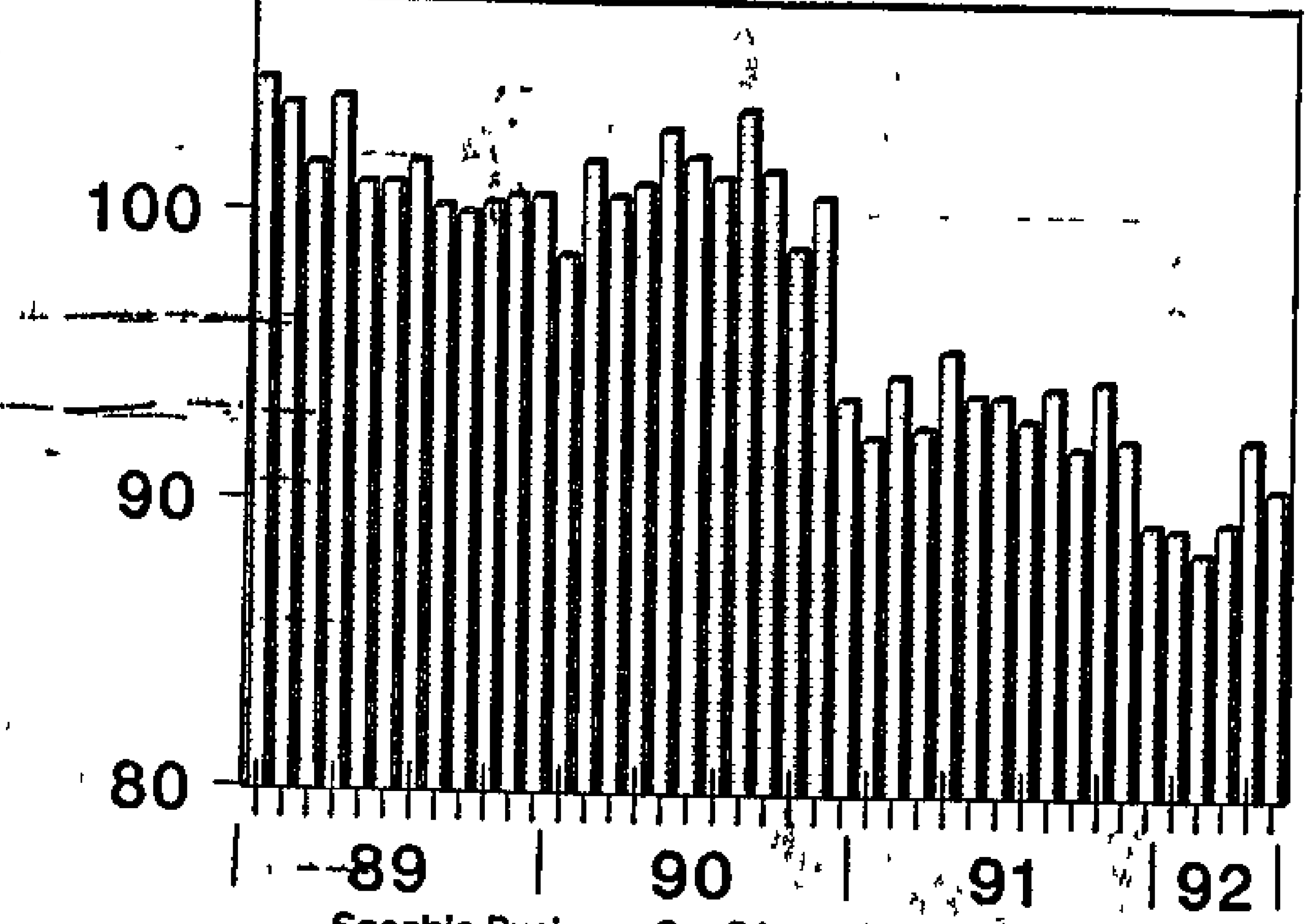
The business confidence index, which sets a base rate of 100 as a neutral marker between optimism and pessimism, tumbled back to 90,7 points last month in a sharp reversal of marginal rises recorded at the start of the year

Sacob director-general Raymond Parsons said the economic evidence showed the recession had actually deepened in the first half of the year rather than showing signs of bottoming out.

Sacob had been forced to revise previous predictions of a recovery timetable It now feared 1992 as a whole would show the economic growth rate at zero — with all hope pinned on the start of an upswing in 1993.

As the initial euphoria sparked by the "Yes" vote in the referendum wore away, the level of business confidence was both volatile and vulnerable

No fewer than eight of 13 main economic indicators had declined in the May count, despite a slight improvement in the rand/dollar exchange rate, a marginal slowdown in inflation and stronger share prices on the JSE.



Sacob's Business Confidence Index

The contraction of the economy in the first quarter had been the most severe since the recession started in late 1989

Confidence has also been badly hit by·

- Growing evidence that the impact of the drought looked likely to be even worse than first estimated.
- The apparent political logjam in Codesa, and the economic damage threatened by mass action or general strikes (Sacob calculates the cost of a total standstill at no less than R1,2 billion a day)
- Recent policy statements by the ANC, which, Sacob said, though showing signs of more realism, "still reflected a reluctance to accept the domestic and global imperatives of a market-driven economy".

Sacob economist Keith Lockwood said confidence in the manufacturing sector was at its lowest since mid-1990 Nearly all the main indicators measuring the outlook over the next month and over the next 12 months were down.

Especially worrying, he said, were signs of cutbacks in capital expenditure in the industrial sector, which were almost bound to deter overseas investors from pumping more funds into SA.

"If foreign investors see that new fixed investment is being cut back at domestic level," he said, "it is not surprising they will be reluctant to plough in cash themselves."

The employment outlook was bleak, with forecasts of labour cutbacks among both skilled and unskilled workers reported from all regions

Looking ahead, however, said Mr Parsons, Sacob had been encouraged by the speed of the normalisation of foreign trade relations and the record number of inward and outward business missions that were creating opportunities for expanding two-way import and export trade

More and more, he said, exports had to be regarded as the key to a sustainable economic recovery

Sacob now pinned hopes on a recovery next year.

More bad news for motor industry

STAR 10/6/92

By Sven Lunsche

New car sales are running at almost 20 percent below the depressed levels of the same period in 1991, with industry leaders expecting sales to fall well below 200 000 for 1992.

Figures for May, released by National Association of Automobile Manufacturers (Naamsa) yesterday, show that new car sales at 13 727 dropped by 19,3 percent, compared with May last year, even though there was a nominal 0,6 percent increase over April 1992 sales

Sales for the first five months of the year, at 75 368 units, were well below (13 percent) the 86 593 units sold in the same period last year

The trend was also evident in light commercial vehicle sales which in the first five months were 12,2 percent down.

Medium and heavy vehicle sales declined by 17,9 percent and 12,2 percent respectively

The fall in sales indicated an ever-deepening recession, Naamsa said, warning that unless the industry managed to improve sales substantially in the second half of the year, aggregate sales would be well below those of 1991

It said difficulties in the industry were due to the generally low level of consumer and business confidence, tight monetary and fiscal policy, the instability surrounding socio-political development and the impact of the drought.

Stephanus Loubser, MD of Nissan SA Marketing, said "Even if there is a moderate recovery in the second half, the worse-than-expected first half of 1992 could result in a market in the order of 190 000 passenger vehicles, which would be four percent down on a disappointing 1991."

Brand Pretorius, MD of Toyota SA Marketing, said his company had been forced to adjust its sales forecasts

"At the beginning of the year Toyota's forecast for passenger vehicles was 205 000. We now believe that a realistic figure will be 185 000 units," Mr Pretorius said.

While both Messrs Pretorius and Loubser call for more affordable cars, there is no indication as yet that this is being achieved.

Industry sources say prices so far this year have risen by just over seven percent, although some manufacturers, benefiting from the local content requirements under the Phase VI programme, have managed to maintain increases below inflation.

Soft shoe shuffle 'from one elite to another'

(232)

ST 11/6/92

Reports by MAGGIE ROWLEY

NATIONALISATION on its own would merely result in the shifting of wealth and resources from one elite group to another, said general secretary of the Pan Africanist Congress (PAC) Benny Alexander yesterday

He told about 500 delegates to the 25th Annual Convention of the South African Property Owners Association (Sapoa), whose 100 members control total assets well in excess of R50bn, that nationalisation on its own would not result in redistribution on all levels

"History has shown that any transfer of wealth from one elite group to another elite group with the sincere belief that the latter will control it for the interests of all has run into problems

"The PAC believe redistribution needs to take place at the point of production"

"This does not however mean that we are opposed to nationalisation, but that it cannot constitute the primary approach to the redistribution of wealth"

Alexander said the PAC had targetted three categories to benefit from redistribution — namely black workers, black managers and black entrepeneurs

The PAC, he said, believed redistribution needed to take place through programmes supported by the state

Private business and estates would be asked to create black equity programmes of some scale either through the issuing of new shares or by the reduction of other shareholders interest Voting rights and representation at management level would have to go hand in hand

In addition business would be required to contribute to a human resource enhancement programme through an entrepeneurial promotion and development fund established by the state Interest bearing and non-interest bearing loans from the private sector were also a real possibility

Alexander said these contributions could be either on a short term or permanent basis

He stressed the country could not afford bad management of its economic transition and the form and structure of negotiations that had occurred at Codesa which had resulted in deadlocks would have to be avoided Neutral facilitators would be required

The PAC's policy regarding redistribution did not emphasise a retribution for past injustices

Telemetrix a star performer on JSE

B/Day 12/6/92 (232)

DUMA GQUBULE

THE shares of UK electronics group Telemetrix had become one of the best performers on the JSE since they were listed in November

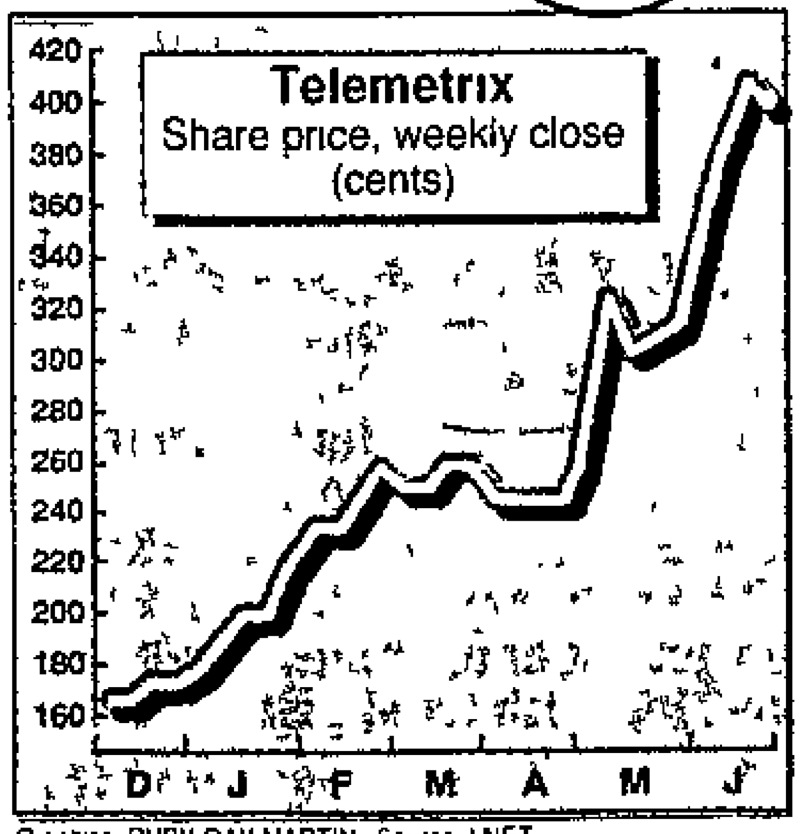
The shares of the little-known company, once Altron's offshore arm, were listed with little fanfare when Altron reduced its holding to 7,2% from 67%

Altron and Ventron shareholders were given the opportunity to buy the shares at 140c They opened at 165c and soared to a high of 410c this week, before easing to 400c yesterday

The shares, on a price of 43 times historic earnings and a dividend yield of 1,4%, are the most highly rated on the JSE's electronics sector

After the listing, SA shareholders held 16% of the company, while shareholders on the London Stock Exchange held 35% Altron and its executive chairman Bill Venter held the remaining 49%

The Telemetrix share price has



Graphics RUBY-GAY MARTIN Source I-NET

mainly been driven by the performance of listed US company GTI Corp, in which Telemetrix has a 65% stake GTI, which is involved in the growing local area network (LAN) market, reported an 83% increase in earnings for the year to end-December First quarter 1992 results showed a 114% increase in earnings

Altron deputy chairman and Telemetrix director Charles Stride said the market was now recognising the value of Telemetrix and GTI's investment in the company GTI shares traded at a low of 1,7/8c on Wall Street during 1990 and have since risen to 16,3/4c

Telemetrix's investment in GTI was always worth more than the market value of Telemetrix itself, but UK investors never gave Telemetrix a high rating because few were satisfied with its management's performance

That came to an end in October when Stride, who sits on the Telemetrix board with fellow Altron directors Bill Venter and Don Snedden, spearheaded a major restructuring of the company

The investment profile was altered when Altron reduced its stake and the entire board and management were restructured The UK operations were trimmed and more discipline and cost-control enforced

JSE broker declared a defaulter

MERVYN HARRIS (232)

STOCKBROKING firm Andrew Forbes & Co has been declared a defaulter by the JSE It is alleged that clients' funds have been misappropriated and the matter has been referred to the SAP's commercial crime unit BDay 12/6/92

The JSE said in a statement yesterday that investigations into the affairs of Andrew Forbes showed that the firm was not in a position to meet its obligations to clients and creditors

"In view of this, the JSE committee has declared Andrew Forbes a defaulter under JSE rules This follows the firm's suspension from trading on Tuesday"

The statement said the JSE had taken control of the firm's books and records pending an application for its winding up

To conclude the matter as soon as possible, the JSE is appointing a major firm of chartered accountants to assist its inspectorate division in the investigation

Clients of the firm have been requested to direct all queries to the JSE general manager, administration

The firm's problems became known last Friday when Andrew Forbes voluntarily withdrew its dealing team from the trading floor at noon

Director Andrew Forbes said the move had been made pending a merger and the JSE later issued a statement saying that the firm was "addressing the recapitalisation of its business"

RETIREMENT FM 12/6/92 (114)

(232) (58) (300)

ANC deals with Sanlam

A decision to invest the provident funds of ANC staff through Sanlam caused some surprise but it is a measure of the extent to

(232) [redacted]

FM 12/6/92

which the Bellville assurer has managed to change its image from a mutual set-up for Afrikaner savings.

"It was a very democratic decision," says an ANC official, adding that several presentations were received and then voted on Derek Hanekom, of the ANC economics unit, says Sanlam made the best all-round presentation from "an investment point of view"

What is not clear is whether Sanlam will be requested by the trustees to put any of the money into the Community Growth Fund, the unit trust announced last month that will invest only in "socially responsible" companies

It makes sense that the ANC would want to join trade unions sending money to the CGF So far, apparently, that issue has not been discussed Hanekom suggests it is possible to separate ANC policies, to some extent, from the wishes of the 600-plus staff who ultimately control the fund But the question was raised, when Sanlam presented, to what extent the sensitivities of fund members would be taken into account when the portfolio was compiled Hanekom says satisfactory assurances on this issue was one of the factors in Sanlam's favour

Sanlam says it will under no circumstances divulge details of a client's investment policies and directions but adds that clients' wishes are always taken into account ■

Market analysis vital to successful investor

Star 13/6/92

Investing on the JSE

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THIS is the fifth of 10 articles dealing ~~with~~ the relationship between the stockbroker and his client. The author is DR DANNY POHL, executive director, Davis Borkum Hare.

LAST week's article spoke of the differences the individual investor can make to his or her success by taking trouble to be informed about the stock market and the quoted companies

This week we deal with the role of the Research Department of a large stockbroking firm and the nature of its work.

Investment research could be described as the gathering and processing of information relevant to the companies listed on the stock exchange. The companies themselves publish results twice a year and make announcements when major events take place such as takeovers, mergers or share issues

These arrive in the Research Department's library in a steady stream Then there are newspapers, journals, research and comment on economic and financial matters from local and overseas banks and other sources

Investment analysis is a relatively young profession and has developed into a highly competitive and demanding occupation.

The constant flow of news has to be scanned for anything that may be relevant to the analyst's work.

Then the companies must be studied, researched and management interviewed.

Companies are classified into firstly, the majors, also known as "blue chips", these companies are large in market capitalisation and have a fairly consistent profit growth record and sound financial position

Then there are the so-called "secondliners" which are medium-sized companies with good prospects, and lastly, the large number of smaller and in many cases financially less secure companies which would not generally be included in most portfolios.

Rerating

Most companies tend to persist in these three groupings over a considerable period of time But some movement takes place and the analyst who accurately predicts such a movement is doing a good job and makes money for the firm's clients who either buy or sell ahead of a rerating of the share by the market.

Then there are cyclical movements of individual shares or sectors In mining, base metals follow world economic cycles In industry, furniture and building are notoriously cyclical, they tend to have fairly short-lived booms, followed by long periods in the doldrums

This is complicated, however, by the exceptions to the rule The brilliantly managed company, or the one that has established itself in a niche market that does not feel the cold wind of the current economic cycle, may totally out-perform its sector The sharp-eyed analyst who spots this company before the rest has scored well

Certain industries such as food and retailing have been less affected by economic cycles but they are not totally immune, and retailers are feeling the pinch of lower consumer spending at the moment

What we have been describing is known as fundamental research There is also technical analysis which is the study of price movements plotted on graphs This is based on the observation that trends often repeat themselves and graphic conformations tend to act as indicators of future movements

The product of the analyst's work is reports on companies and sectors for the market, with recommendations as to whether clients should buy or sell These are circulated to the larger clients and are used by the Client Services Department when giving investment advice The managers of the large pension, insurance and mutual funds receive most stockbrokers' research material

Comment

The responsibility involved in making decisions regarding vast sums of money requires that these fund managers be supplied with the best possible information and quality of comment Good quality comment, based on careful research, is vital to the individual investor

Research in the investment context is motivated by the desire to help the investor make successful decisions based on useful information and comment, and to protect him against loss through incorrect or insufficient information

□ *Next week's article looks at the question of risk in investment and how one survives in spite of it*

Private investors jumping into JSE

THERE's an old saying that it's time to get out of the market when the man in the street starts buying shares. This may no longer be the case.

13/6/92 S Times

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THE small saver with his R50 or R100 a month is climbing into the booming Johannesburg Stock Exchange as never before.

The big companies, instead of getting out, are so desperate to buy good shares that they are bidding up the prices because nobody wants to sell

More than a million people now save through unit trusts, which pool their money to buy shares. And their numbers grow daily. At last count, the assets of the unit-trust industry had soared to more than R12 billion as investors tried to beat inflation.

The stock market, as measured by the Industrial Index, is long past the overheated mark. It creeps higher almost daily, in contradiction to the country's devastating depression

So are these the danger signals that now is the time to get out? Not so, claim the experts, several of whom were warning a year ago "Look out, prices have gone too high and could nosedive"

The picture changed this year with billions coming on to the share market

Value

This factor helped a dramatic recovery in SA share prices in April, when world markets fell in the wake of a crash in Tokyo, where prices plunged to a six-year low

As much as R7 billion a day was wiped off the value of shares on the JSE before bargain-hunting started a recovery Then South Africans took their cue from New York, where heavy buying sent Wall Street soaring

The new cash coming to the JSE is from five main

vest in shares and property for the first time

Previously the government had tied them to low-earning investments, but fund managers wanted to get better returns to protect pension values

Transnet disclosed this month that its pension fund had invested R3,3 billion of its R16 billion in assets into shares and was switching more investments into growth assets.

Brokers say these parastatal pension funds are driving share prices higher because they are prepared to pay premiums for quality shares

John Winship, an investment chief at The Board of Executors, sees other important factors that could help to stoke up the share market

There is improved perception of world economic recovery and because of that, the domestic economy will start recovering, he says

Short-term interest rates here have fallen sharply This normally causes investors to switch funds into shares to safeguard their capital

From a 1992 low at the end of April, the JSE All-Share Index rose by 11 percent to hit a high near the end of May

Positive factors included the strength of world markets, lower money and capital market interest rates and increased optimism about future reductions in the Bank rate, some good company results, a positive statement from the chairman of De Beers and a weaker finrand

An Old Mutual analyst said companies that borrowed heavily from the banks would benefit from lower rates and their profits would increase.

"We are still living in an inflationary environment and the only way to protect yourself is in growth assets and equities"

High

Share prices were high, he said, but to investors looking further ahead than two years they offered reasonable value The JSE was dampened in the first quarter of the year by R8 billion of new shares from rights issues landing on the market But that source had dried up and nothing of that magnitude was on the horizon.

□ The Star Investors' Club meeting on unit trusts, next Tuesday at the Sandton Holiday Inn, has been fully booked. The next meeting of the Investors' Club will be at the same venue on July 13. The subject will be the derivative markets, including futures and options. Bookings: Rosemary at Cordev Marketing at (011) 483-3215. The price is R11 for Investors' Club members and R22 for non-members.

Third strike by JSE

S.Times (Buss) 14/6/92. (232)

Business Times Reporter

THIS week's discovery of a third defaulting stockbroker, Andrew Forbes & Co, in six months does credit to the JSE's improved surveillance

Andrew Forbes, who set up on his own a few years ago, received gentlemanly acclaim when a week ago he withdrew from the JSE floor pending a capital restructure.

The firm was formally suspended by the JSE itself on Tuesday and declared in default on Thursday The firm will be wound up

Thursday's arrest of the pair came after the JSE warned the Commercial Crime Unit The JSE's investigations disclosed that the firm was unable to meet its obligations and customers' funds had allegedly been misappropriated

Speculation is that the amount involved is about R7-million Market sources believe the firm has been in financial difficulty for some time.

Brokers were shocked to learn of Mr Forbes' arrest He is much liked and respected. Many were worried about another knock to the JSE's image. Small stockbrokers are especially vulnerable to a confidence crisis by individual investors.

There has been a high turnover of staff and partners at Andrew Forbes in past two years.

It is believed that some of Mr Forbes' partners resigned last year. The JSE's latest handbook lists him as the only member, but last August's edition named Heather Zietsman and S Neave

Mrs Zietsman declined to comment on talk that the Forbes company or ex-partners were seeking business with Nasala — the National Stokvel Association of SA. They are said to be interested in placing Nasala's large cash flow in shares Nasala's offices are at the same physical address as Andrew Forbes

Stokvels handle about R1,3-billion annual savings of blacks through clubs and societies

The JSE guarantee fund will protect Forbes customers.

The other stockbrokers to fall foul of the JSE committee in the past six months are sole trader Hilary Crosby who fled the country and Koos Bosman who was found guilty of prejudicing clients

Socially responsible investors cannot avoid compromise

While the union-initiated Community Growth Fund is a novelty for SA, "conscientious investment" is common in Europe and North America. DAVID TURNER reports

BDay 15/6/92

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THE notion of what is good and bad seems pretty clear cut in the world of investment — profitable investments are good, unprofitable ones are bad

Quite straightforward really That is, until you start to investigate how these profits are made For example, how would you feel if your investment did well because it exploited a low paid workforce, carried out vivisection on animals or polluted the environment?

If you are uneasy about making money in any of these ways, then perhaps you should consider one of the growing number of investment vehicles which purport to be socially, ethically or environmentally responsible You would not be the first It is estimated there is more than £320m invested in conscientiously run collective funds in Europe, with a staggering $500bn lodged with similar vehicles in the US, home of "responsible" investment

Unfortunately, the definitions of what is good or bad for the world and its population vary from one fund manager to another And just because you have put your money into a conscientious-labelled fund, it does not necessarily mean that every company selected for investment will meet your idea of what is ethical or environmentally friendly Some conscientious investments are far more conscientious than others

Broadly speaking, the sector breaks down into three main areas

☐ Funds with a positive approach which invest in companies contributing to the environment or society, including the so-called green funds,

☐ Funds with a negative approach which avoid investing in repressive regimes like SA, armaments, alcohol, gambling, tobacco and animal exploitation These are the so-called ethical funds, and

☐ Funds which combine both a positive and a negative approach to stock selection

To complicate matters, within these three broad categories, investment criteria vary enormously from one fund manager to another

For example, under the "green" banner the TSB Environmental Investor Fund takes a purely positive approach It will invest in companies making a contribution in one or more of 11 environmental categories, whether in the products and services they supply or through their internal management policies

In contrast, the Clerical Medical Evergreen Trust is a much more selective green fund and uses positive and negative criteria to choose its environmentally friendly companies It does not invest in companies involved in environmentally damaging activities like the manufacture of ozone-depleting chemicals, the supply of tropical hardwoods or the production or sale of meat products

It would, however, also avoid companies which fall foul of certain ethical criteria For example, it would not invest in companies which produce armaments or companies which provide gambling services, tobacco products or pornography

The Fidelity UK Growth Fund excludes only companies involved in tobacco products while the Scottish Equitable Ethical Unit Trust will exclude a long list of companies, including banks, because the fund managers are unable to obtain sufficient information on who the banks are lending money to

To complete the picture, the gulf within the category of fund managers who use positive and negative criteria is well illustrated by the screening techniques used by the Homeowners Green Chip Investment Fund, which was the first conscientious fund in Britain launched back in 1984 and currently accounts for almost half of the conscientious investment market in Europe Green Chip identifies just three positive and three negative criteria for investment decision-taking, while Friends Provident lists six positive criteria and 10 negative factors

Peter Webster, executive director of Ethical Investment Research Service (Eiris), says investors will have to accept some measure of compromise when choosing a conscientious fund vehicle because the individual companies it invests in will always have one or two skeletons in the cupboard

It is also worth bearing in mind that ethical and environmental issues constantly evolve and change What is unacceptable one year may be all right the next, and vice versa. For example, following the reforms in SA, many conscientious funds may soon regard that country as an acceptable area for investment

Most funds encourage unit holders to make any queries they have about the selected companies but NM Financial, which runs the NM Conscience Fund, goes one step further It holds unitholder meetings every six months, and unitholders are encouraged to go along to voice their opinions on the shares held and offer ideas for future investment

In addition to unitholders' views, fund managers usually use an independent committee or advisory board to monitor selected companies for their conduct

Once you have done your homework on which funds meet your investment criteria, you will need to take an equally rigorous look at performance records These vary from the very good to the abysmal

In Britain, Framlington Health Fund is the outstanding performer with a 65,3% return over the past 12 months The worst fund by some considerable margin in performance terms has been the Buckmaster Fellowship Trust (minus 6,6%)

Screened investments, by their very nature, reduce the fund manager's choice However, it would be wrong to assume that screened investments will always, therefore, turn in mediocre performances

Scottish Equitable unit trust marketing manager Charles Henderson says his fund's strict criteria leave only about 250 British companies for his fund manager to select from

This makes it quite difficult to achieve a balanced portfolio of stocks, but not impossible "If your stock and sector selection is good, then at the end of the day you can achieve very good performances As with most successful unit trusts, good performance is inextricably linked to good fund management."

For investors who want even more control over conscientious investments, there are two portfolio management services on offer Pall Mall Money in London has a non-discretionary ethical investment management service for clients with at least £40 000 Pall Mall's David Wheildon says demand has not been "dramatic" but the company does have several overseas clients More wealthy individuals with £250 000 or more can opt for the discretionary service offered by stockbrokers Leopold Joseph and Sons

But for those who prefer to steer clear of equity investments, it is still possible to find ethical or environmental alternatives

The Ecology Building Society in Keighley, West Yorkshire, accepts deposits from savers and, in effect, recycles the money "The money which our investors deposit with us is lent to enable ecologically sound properties to be bought It is often difficult to obtain mortgages from other sources for these unconventional types of properties," explains the society

However, it does admit "While we try to offer a reasonable rate of interest we can't always compete with the big societies"

Another potential home for savings is the Industrial Common Ownership Finance Ltd (ICOF) Ethical Savings Account, offered by the Co-operative Bank This is designed to help workers' co-operatives

Clearly, conscientious investments vary enormously in detail, substance and performance And, as Peter Webster from Eiris says, there is no absolute right or wrong in conscientious investment It will always be a compromise to a greater or lesser extent

☐ **This is an edited version of an article in the May edition of The International, a Financial Times publication, of which Turner is editor**

JSE jittery before today's mass action

MERVYN HARRIS (232)

LEADING industrial shares reeled, capital market rates came under pressure and foreign investors shied away from the finrand as nervousness gripped financial markets yesterday ahead of the start of ANC-led mass action B/Day 16/6/92

The JSE industrial index slumped 1,4% or 67 points to close at 4 523 but futures dealers ascribed part of the downturn to window dressing of share prices on the close out of June futures contracts

The sharp falls of blue chips were seen as an indication that the market was more concerned about the campaign and possible violence than was expected last week

The overall index fell 22 points to 3 688 with losses outnumbering gains by more than two to one and only precious metal shares bucking the softer market trend

The buoyancy of gold shares came on the back of the metal rising nearly \$3 in London to flirt with the \$343 level before easing back slightly Analysts were looking for the metal to break through \$345

But part of the 35-point gain in the JSE all gold index to 1 148 was said to have come from buying of index-weighted shares by futures traders Platinum shares also made solid gains despite the metal slipping back to \$371 in London

The weakness of the financial rand, which tumbled almost 3% to R3,6150 to the dollar from Friday's R3,5150 as jittery investors squared positions, provided support for currency-linked shares

SIMON WILLSON reports that bond prices fell for a second successive day as the capital market viewed with growing alarm the threats of mass action.

The yield on the Eskom 168 bond rose to an intraday high of 15,92% before ending off the top at 15,89% against Friday's closing 15,79%. The R150 gilt yield closed at 16,12% against Friday's 16,01%

Concerned investors given reassurance

BDay 16/6/92

MERVYN HARRIS

THE JSE yesterday reassured investors, worried by last week's default of stock-broking firm Andrew Forbes & Co, by spelling out protective measures given to clients of its broking members

The reassurance by executive president Roy Andersen came in response to queries by investors to the hotline set up by the JSE in the wake of the firm's collapse

Andersen said investor protection was essentially covered by the JSE Guarantee Fund and by Fidelity Insurance taken out by the JSE on behalf of member firms

"In addition, other measures governed by the rules of the JSE provide an added safeguard to clients of broking firms."

Any claims against the fund and the Fidelity Insurance policy were subject to admittance by the Trustees and the insurers, respectively Each claim, including any which might arise from the default of Andrew Forbes, therefore had to be considered on its merits

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Following the final sequestration of a broking firm, claims could be made against the fund for transactions conducted either on an agency basis or on a principal to principal basis

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□ From Page 1

Reimbursements in full included losses to clients.

□ Where cash had been paid by a purchaser or was due to a seller of securities who complied with the relevant provisions of the Stock Exchange Control Act,

□ Where cash and securities had been lodged as minimum cover and in instances when additional minimum cover had been lodged including cover of option transactions

Other losses sustained by clients of the insolvent broking firm, acting as either agent or principal, would be reimbursed to an amount of R1m for transactions in equities and R1m for gilt transactions

Transactions and losses not covered by the fund were Krugerrands, money market instruments, money market deposits not deposited with JSE Trustees, consequential losses, any liability to another broking member or firm or to a member of a foreign stock exchange or foreign dealer

The assets of the Guarantee Fund were R70,9m at February 29 1992

Insurance cover of R120m for all broking firms covered.

□ Loss or damage to actual securities or documents criminally tainted as a result of being stolen or forged;

□ Loss of securities by theft, fraud, dishonesty, conversion or manipulation by a partner, director or employee, including trading losses due to dishonesty with the manifest intent to make an actual improper financial gain, and

□ Other physical loss or damage to securities or cash including transit losses, and financial loss through computer crime

JSE Trustees hold cash belonging to clients of broking firms where managed accounts and other similar arrangements are in operation In the event of a default, monies held on behalf of a client do not form part of the assets of the insolvent firm

All safe custody and minimum cover scrip held by a broker must be tagged with the client's name and deposited with a bank It must be reconciled monthly and a return to this effect lodged with the Inspectorate Department of the Exchange

In the event of a default, securities held in safe custody for a client do not form part of the assets of an insolvent firm

Andersen added that a broking firm may act as an agent only in accepting monies from a client for deposit directly with an institution in the name of that client The institution must acknowledge receipt of the deposit and the client must be advised of the acknowledgement.

The changing face of corporate SA

STAR 16/6/92

By Jacques Magliolo

MAGLIOLO 232 on the MARKET

Serious investors should keep a careful eye on the JSE board because of the rapidly changing corporate environment

With a growing number of listed companies being involved in some form of corporate alteration — official name changes, delistings, consolidation or rationalisation, mergers and takeovers the face of the JSE is changing rapidly Consider the following statistics

The number of companies removed from the JSE board doubled in 1990 — to 30 listed firms across all sectors In 1991 this number rose to about 40

While some listings were terminated by the JSE (Afcom Packaging & Industrial Corporation), other factors include a redemption of preference shares (Derby Industries and Greatermans, Natal & Free State Holdings), mergers (Allied and Volkskas into Absa) and takeovers

In fact, analysts say that while 15 delistings were caused by obvious takeovers, many others were in the guise of "mutual" mergers

Companies which concluded successful takeover bids in 1989 include Momentum Life Assurers (Lifegro Assurance) and Anglo-Vaal (Steelmetals)

In 1990 such companies included Kohler (Graphtec Holdings), Kimet (Interhold), Siltek (M & PD Electronics), AECI (Swimline Holdings), Kanhym (Mielie-Kip), Kangra Holdings (Union Wine) and Metro Group (Jazz Stores)

Other major companies to be delisted in 1991 included Cape Investment Bank, Claude Neon, Cortech Electronics, Gants Holdings, Protea Chemicals, Robor Industrial Holdings and Staalchem

During this period, more than 75 companies formally changed their corporate names This took place across 65 percent of all JSE sectors, with the retail and wholesale sector registering the most changes, while three sectors — diamonds, engineering and beverages — each had only one company changing its name

To add to the difficulty of keeping track of these changes, some of these companies were involved in both a name change and takeover

For instance, Pep recently took over Tradhold, which had previously been known as Kimet and, in turn, had taken over Interhold

Directors repeatedly cite strike action, violence and the recession for their companies' poor performances and thus the need for change either in name, merger or whatever

JSE statistics show that in August 1990 there were 870 companies listed on the JSE with a total market capitalisation of about R434 billion

Eighteen months later, there were 60 fewer companies listed, but the total market capitalisation rose to more than R517 billion

With such statistics at hand shareholders had better keep a serious check on their investment it may just not be there tomorrow

Privatisation still faces obstacles in the bastion of capitalism

BDay 17/6/92

MARTIN DICKSON

(232)

THERE is a tide in world financial and business affairs which normally flows from the western hemisphere to Europe, a little like the Gulf Stream Americans invent an idea, popularise it, and some time later it washes up in plagiarised form on the shores of Britain, France and Germany

In an unusual reversal of this phenomenon, the US is slowly warming to privatisation — the sale of state-owned businesses to the private sector It is doing so roughly a decade behind Britain and contemporaneous with the former east European satellites of the Soviet Union and Latin America's Third World regimes

To non-Americans, it may seem surprising that the US, the most capitalist economy of all, has any significant assets in public ownership. Certainly, the federal government owns very little, apart from the post office, some regional electric power systems, the Amtrak railway and the US air traffic control network

However, state and city governments own and operate a huge range of businesses in the utility and infrastructure sectors, including highways, bridges, tunnels, seaports, airports, power stations and water plants

A few of these local governments, citing the successful example of Margaret Thatcher's privatisation drive in Britain, are now beginning to look at ways of selling existing enterprises, mostly to private corporations, but possibly in public share sales as well They are also trying to get the private sector to finance the construction of new facilities such as toll roads

This, in turn, is starting to create opportunities for bankers, financial advisers ankd corporate investors, be they US companies or European ones with privatisation experience

The Reason Foundation, a Los Angeles-based think-tank which strongly supports privatisation, reckons that the US has about $226bn of existing state and municipal enterprises which could potentially be spun off.

Privatisation on such a grand scale seems highly unlikely, due to a combination of political, legal and financial hurdles. However, President George Bush gave the nascent movement a large nudge forward in April when he signed an executive order which removes some of the biggest financial and bureaucratic barriers to asset sales

The small but vocal privatisation lobby argues there are several strong reasons for selling off assets

First, this could help alleviate the US's serious infrastructure problems Many US roads, bridges and sewers are in serious decay — a fact underlined by the quarter of a billion gallons of water which flooded central Chicago in April when a tunnel collapsed But the states and municipal authorities responsible for maintaining them lack the funds to do so

The privatisation lobby argued that private investors would provide the necessary capital if ownership were transferred to them

The weakness of this argument is that canny investors will want to buy only assets in good condition, leaving local governments nursing those most in need of rehabilitation Still, the money raised from the disposal of "good" assets could then be used by governments to rehabilitate "bad" ones

Some of the money raised by privatisation might also be used by local governments to alleviate other serious problems, such as the plight of the predominantly black underclass in the inner cities This argument is being pressed with particular vigour in the wake of the recent Los Angeles riots

The sale of state-owned enterprises is also the logical corollary of a fast-growing movement in the US to make government more efficient by adopting business practices similar to those of the private sector

Apostles of the movement include some of the most innovative state governors in the country, both Democratic and Republican Bill Clinton, the Democratic presidential nominee and Arkansas governor; William Weld, the Republican who is shaking up Massachusetts, Lawton Chiles, the Democrat who is reshaping Florida's civil service, and Ann Richards, the Democrat running Texas

Their bible is Reinventing Government (Addison Wesley, $22,95), a book which has gone through seven printings since publication in February and, improbably for such a dry subject, spent eight weeks on the New York Times non-fiction best-seller list

Its authors, David Osborne and Ted Gaebler, are consultants on public sector efficiency, who believe government in the US must be more "entrepreneurial" or businesslike if it is to overcome decades of accumulated bureaucratic inertia and financial waste Their solutions include privatisation, decentralising responsibility to encourage innovation and flexibility among civil servants.

Several powerful financial forces have been impelling local governments in this direction a revolt by taxpayers, tired of financing bureaucratic inefficiency, manifested both in anti-tax referendums and votes against high-tax administrations; President Ronald Reagan's cuts in federal aid to state and local administrations during the '80s, and recession, which has further eroded local governments' revenue base.

The cutting edge of the reform movement can be seen in Massachusetts, where Weld took over as governor at the start of last year in a wave of revulsion by voters against the high tax regime of his predecessor, Michael Dukakis

Weld's first budget slashed state spending, while his second proposes modest tax cuts at a time when most states have been raising theirs to cope with revenue shortfalls He has launched a war on bureaucratic red tape and begun contracting out government services, including parts of the hospital system, the vehicle registration system, prisoners' health care and roads' maintenance

Weld has also floated the idea of privatising two of the state's largest infrastructure assets — Boston's Logan airport and the Massachusetts Turnpike, a 217km toll road Studies have suggested that both be sold — the airport for nearly $800m and the road for about $950m — but neither disposal is imminent, partly for local political reasons and partly because of the complexity of such a move

In Massachusetts, as elsewhere, one factor holding back privatisation is the sheer fragmentation of the government machine and the large number of interested parties involved in decision-making

Until now, another difficulty holding back privatisation has been a requirement that any administration selling an asset pay back any grants the enterprise has received from the federal government

Bush's order clears some of the biggest of these hurdles, for it allows a privatising administration to keep the bulk of such grants and also orders federal agencies — such as the Federal Aviation Administration — to co-operate in privatisation efforts

Even so, obstacles will remain Take airports, for example US airlines, concerned that this will mean much higher landing fees, are lobbying against privatisation, and some analysts believe no sale is likely until their fears are allayed, possibly by granting them a stake in a privatised airports' profits — Financial Times

Liquidations of firms, close corporations soar

LIQUIDATIONS of companies and close corporations increased 49,3% to 224 in April this year compared with the same month last year, the Central Statistical Service disclosed yesterday

From February to April 1992 there were 711 liquidations, 72,6% more than in the same period in 1991 There were 1 881 liquidations in 1991, 18,3% higher than in 1991

The number of insolvencies of individuals in the first quarter of 1992 was 18,3%

Sapa EDWARD WEST 232

higher at 1 009 In March 1992 there were 364 insolvencies BDay 17/6/92

Absa economist Hans Falkena said liquidations lagged behind the business cycle and businesses should retain conservative financial management measures

Although an improvement was expected by end-1992, he forecast liquidations and insolvencies would peak only in February or March 1993 cial statistics indicated yesterday

Manufactured output rose by 0,2% in April, having risen by the same amount in March

Retail sales rose by 0,3% in May, after rising 0,8% in April.

This year, not next

BUSINESS Day incorrectly reported yesterday that Simpson McKie economist Graham Boyd said positive economic factors would only impact on the economy in the fourth quarter next year, when in fact he said the fourth quarter this year Business Day regrets the error

REPORTS Sapa-AFP Business Day Reporters

R250m Woodmead office development

B/Day 18/6/92

ANDREW KRUMM

THE Newport Property Fund would go ahead with the R13m first phase of its R250m office park in Woodmead, Sandton, in spite of an oversupplied office market, RMS Syfrets director Mike Deacon said yesterday

Deacon said RMS Syfrets — the development's leasing agents and project co-ordinators — were aiming at a niche market and capitalising on a trend towards low-density, environment-friendly business surroundings

The Harrowdene development, situated near the recently upgraded Woodmead/Buccleuch interchange, would offer 55 000m² lettable space

RMS Syfrets had already had large space inquiries at the R25/m² net rental, but no contracts had been signed

Newport Property Fund MD John Peters said the first phase, of three buildings with 4 500m² lettable space, would cost R13m by completion in early 1993 The fund would risk developing the first phase without pre-let tenants, but subsequent development depended on leases being entered into with major tenants An analyst it could be vacant for months if completed before an upswing

Nietgedacht residents yesterday protested against the resettlement of Zevenfontein squatter families in the area.

Picture ROBERT BOTHA

Bond issue criticised

B/Day 18/6/92

HILARY GUSH

THE Public Investment Commissioners (PIC) was sharply criticised yesterday after the results of the Reserve Bank's zero-coupon bond issue

There had been market speculation that the PIC, a government body in charge of investing public service pensions, had taken up the majority of issues

One dealer accused the PIC of being a "dumping ground" for uncompetitive government stock issues "This indicates a wast of public pension fund money"

PIC secretary Badie Badenhorst said the rates were favourable in current money market conditions "If we obtained the major portion of the tender it has nothing to do with anyone else"

Of the R300m in five-year stocks on issue, the Bank received tenders of R305m and allotted R50m, while R80m of the R320m offers collected for R300m in seven-year bonds was accepted by the Bank

Traders believed the yields were too low and the minimum prices acceptable to the Bank too high One dealer felt the majority of tenders were at prices below the Bank's quoted minimums, hence the relatively small allotment of R130m out of the R600m in bonds

The yield on the five-year stock was calculated by market players to be an effective 14%, while they felt the rate needed to attract investors was at least 14,7%

Privatisation can attract investors — bank

232

SIMON BARBER

B/Day 18/6/92

WASHINGTON — By convincing investors that a government is committed to genuine market reform, the privatisation of state-owned industries can be a major stimulant to foreign investment, says a new World Bank study.

The study cites the experience of Mexico, whose privatisation policies have attracted $15bn in new foreign investment over the past two years

The study, Welfare Consequences of Selling Public Enterprises, considers three sell-offs in each of four countries, Mexico, Chile, Malaysia and Britain.

The study included airlines, telecoms, electricity utilities, a road haulage concern, a state lottery and a container port, most of which were sold between 1984 and 1988

On average, the 12 privatisations produced annual net gains of about 26% of the companies' turnover in the year before privatisation

Only the airline Mexicana showed a loss, while Chile Telecom was able to double its capacity in four years and posted an annual 155% advance on turnover Malaysia's Kelang container facility increased 53%

The ability to raise prices to realistic levels benefited most of the firms, especially Telmex, the Mexican telephone system, British Telecom, Malaysian Airline System and the Chilean electricity supplier Enersis

Consumers gained from four privatisations and were net losers in five In Britain, the cost of long distance calls fell However, British Airways, which was permitted to purchase its sole domestic competitor, British Caledonian, charged higher fares than would have been permitted had its stayed in state hands

In many cases, the companies increased productivity by cutting previously protected workforces

Nonetheless, workers often gained Employees of Enersis, Telmex and National Freight profited hugely from receiving company shares

Sacked employees of Aeromexico, a second privatised Mexican airline, all received a year's redundancy pay

In several instances, foreign investors were big winners and reaped the lion's share of the gains, 90% of them in the case of Telmex

Such gains were more than offset by the investor confidence the privatisation policies generated in and of themselves

Death of two persons at Noeniepute inquest

*8 Adv J J S PRINSLOO asked the Minister of Law and Order †

(1) Whether an inquest was held in respect of the death at or near Noeniepute in the Kalahari in November 1991 of two persons, whose names have been furnished to the South African Police for the purpose of the Minister's reply, if not, why not, if so, (a) what was the result of this inquest and (b) what are the names of the persons concerned,

(2) whether he will make a statement on the matter?

B769E

The MINISTER OF LAW AND ORDER

(1) No

An inquest has not yet taken place The docket has been forwarded to the Attorney General for his decision

(a) Falls away

(b) Jurgens Mattheus White and Johannes Jurgens Grobbelaar

(2) No

Drivers' licences in KwaNdebele: abuses

*9 Mr P G SOAL asked the Minister of Transport

(1) Whether he has been informed of and/or has received any complaints on alleged abuses in the system of the issuing of drivers' licences in KwaNdebele, if so, what is the (a) nature and (b) extent of these abuses,

(2) whether he intends taking any action in this regard, if not, why not, if so, (a) what action and (b) when?

B773E

The MINISTER OF TRANSPORT

(1) Yes The Department of Transport is aware of complaints regarding alleged abuses in the system of the issuing of drivers' licences in self-governing territories

(a) The complaints pertain to the issuing of drivers' licences to people on payment without those people undergoing the appropriate tests

(b) The exact extent of abuses in this regard is unknown as self-governing territories, in terms of the Self-Governing Territories Constitution Act, 1971 (Act 21 of 1971), themselves exercise legislative and executive authority with regard to road traffic, including the licencing of drivers The awareness of alleged abuses is solely based on complaints which are received and media reports in this regard

(2) Yes

(a) and (b)

In terms of Act 21 of 1971, the Department of Transport has no statutory authority to take action regarding the alleged abuses All complaints received are currently referred to the South African Police for investigation The resolution of this issue is, therefore, in the process of initiating discussions with all parties concerned to address this problem in a co-ordinated fashion The strategy will be finalized shortly whereafter further announcements will be made

Steps against taxpayers

*10 Mr D P DU PLESSIS asked the Minister of Finance †

(1) What steps are taken against taxpayers who fail to pay personal income tax,

(2) whether at any time during the past five years it was decided not to take action against politicians who failed to pay personal income tax, if so, (a) when and (b) why?

B781E

The MINISTER OF FINANCE

(1) If a taxpayer fails to submit a return of income, legal proceedings are instituted against him and a court may, upon conviction, impose a fine not exceeding R2 000 or a prison sentence not exceeding 12 months Furthermore, the Income Tax Act authorizes the Commissioner for Inland Revenue to impose an additional penalty equal to twice the tax chargeable

If, after furnishing a return of income, he fails to pay any tax due in respect of an assessment issued to him, civil judgement may be obtained against him

(2) No

Arms/ammunition caches: Umkhonto we Sizwe

*11 Adv J R DE VILLE asked the Minister of Law and Order †

(1) (a) How many arms and ammunition caches of Umkhonto we Sizwe (MK) have been traced by the South African Police in the Republic since 2 February 1990 and (b) in respect of what date is this information furnished,

(2) how many of these caches were pointed out to the Police by MK itself?

B782E

The MINISTER OF LAW AND ORDER

(1) (a) 12

(b) 11 June 1992

(2) In ten (10) of the abovementioned instances arms and ammunition caches were pointed out by MK members after their arrest

Trial of persons Operation Vula

*12 Adv J R DE VILLE asked the Minister of Justice †

(1) Whether the trial of any persons charged as a result of Operation Vula has been completed, if not, why not, if so, how many such persons have been tried,

(2) whether he will furnish the names of those who have been tried, if not, why not, if so, what are their names?

B783E

The MINISTER OF JUSTICE

(1) No Indemnity has in terms of section 2(1) of the Indemnity Act, 1990 (Act No 35 of 1990) been granted to nine of the persons who were involved in Operation Vula

(2) Falls away

Marriages between Whites and non-Whites

*13 Mr W L VAN DER MERWE asked the Minister of Home Affairs †

How many marriages between Whites and non-Whites have taken place in the Republic since the repeal of the Prohibition of Mixed Marriages Act?

B784E

The MINISTER OF HOME AFFAIRS

3 775

The figure is for the period 19 June 1985 till 31 December 1990 Since then, statistics on the group context of persons who married after 31 December 1990, are no longer being kept

Alleged actions of members at Roodepoort counting hall

*14 Mr W L VAN DER MERWE asked the Minister of Home Affairs †

Whether he will disclose his source for the statements made by him in an interpellation debate in this House on 22 April 1992 on the alleged actons of the hon members for Roodepoort and Losberg on 18 March 1992 at the counting hall in Roodepoort, if not, why not, if so, who is the source?

B785E

The MINISTER OF HOME AFFAIRS

The Department has at its disposal statements of persons who were involved with the counting of votes at Roodepoort on 18 March 1992 The information which my predecessor disclosed during the interpellation debate concerned was taken from those statements The statements are available in the Parliamentary office of the Department for the hon member's confidential perusal if he so requires

Companies/close corporations declared insolvent

*15 Mr J CHIOLÉ asked the Minister of Trade and Industry † 232

(1) How many companies and close corporations were declared insolvent in the Republic during the latest specified 5-year period for which information is available,

(2) whether his Department has made any estimates or has any statistics on the number of job opportunities lost as a result of the above-mentioned insolvencies, if not, why not, if so, how many job opportunities were lost over the said 5-year period?

B786E

The MINISTER OF TRADE AND INDUSTRY

232

(1) The number of liquidations of companies and close corporations are as follows

Year	*By Court*	*Voluntarily*	*Total*
1987	1 232	541	1 773
1988	808	653	1 461
1989	881	569	1 450
1990	1 195	393	1 588
1991	1 686	202	1 888
1992 (Until end of May)	953	84	1 037

(2) My Department does not have any statistics on the number of job opportunities lost as a result of the above-mentioned liquidations Legislation administered by the Registrar of Companies and Close Corporations is aimed at the incorporation of companies and close corporations and the protection of members and creditors of these forms of enterprise, and not at employees of same Employees of companies and close corporations are therefore not registered with my Department

Detention of suspect in connection with bombings

*16 Mr H J COETZEE asked the Minister of Law and Order †

(1) Whether a certain person, whose name has been furnished to the South African Police for the purpose of the Minister's reply, is at present being held as a suspect in connection with alleged bombings in Pretoria, Verwoerdburg and Krugersdorp, if so, what is this person's name,

(2) whether he will furnish information on whether this person was at any time a member of a certain service, the name of which has also been furnished to the Police, if not, why not?

B787E

The MINISTER OF LAW AND ORDER

(1) No

(2) Falls away

Unrest damage to school buildings/facilities

*17 Mr H J COETZEE asked the Minister of Education and Training †

What was the total amount of the damage as a result of cases of unrest to school buildings and facilities falling under his Department (a) in 1991 and (b) during the period 1 January 1992 up to the latest specified date for which information is available?

B788E

The MINISTER OF EDUCATION AND TRAINING

(a) R30 000

(b) R404 831,00 until 11 June 1992

School models for pupils at departmental schools

*18 Dr F H PAUW asked the Minister of Education and Training †

(1) What school models are available for pupils at schools falling under his Department,

(2) whether any provision is made for compulsory financial contributions by parents to the running costs of schools attended by their children and falling under his Department, if not, why not, if so, what are the relevant details?

B790E

The MINISTER OF EDUCATION AND TRAINING

(1) According to section 5 of the Education and Training Act, No 90 of 1979, the Minister of Education and Training may establish and maintain public schools He may also register private and state-aided schools (section 8) No "models" are used

(2) No In accordance with the principal contained in section 3(c) of the afore mentioned Act, the education provided by the Department is free of charge Where a school fund does exist, regulation 3(3) of R 830 of 30 April 1992, determines that no parent or pupil can be forced to make a contribution to a school fund

TPA: opinion polls on squatter problem

*19 Mr P H DE LA REY asked the Minister of Local Government and National Housing †

(1) Whether the Transvaal Provincial Administration made use of one or two organizations during the past six weeks to conduct opinion polls by telephone on the Witwatersrand in connection with the Zevenfontein squatter problem in particular and the squatter problem in general, if so (a) what are the names of these organizations, (b) (i) what remuneration was paid to them and (ii) who paid for it and (c) what was the result of the telephonic opinion polls,

(2) whether any of the officials of the organizations concerned were previously in the service of the above-mentioned administration, if so, what are the relevant details?

B796E

The MINISTER OF LOCAL GOVERNMENT AND NATIONAL HOUSING

(1) Yes — one research organization

(a) Market and Opinion Surveys

(b) (i) R12 500 00

(ii) Transvaal Provincial Administration

(c) The result of the opinion polls by telephone, is not at present available as the analysis and evaluation of the response has not yet been completed

(2) No

Safety precautions at public state schools/state-aided schools

*20 Mr F J LE ROUX asked the Minister of Manpower †

Whether the Machinery and Occupational Safety Act, No 6 of 1983, applies to ordinary public state schools and state-aided schools, if not, why not, if so, (a) what precautions have to be taken at these schools and (b) who is legally liable at (i) ordinary public state schools and (ii) state-aided schools for claims that may result from non-compliance with safety precautions?

B797E

The MINISTER OF MANPOWER

Yes

(a) Firstly the Act provides for the safety of persons at the workplace or in the course of their employment That includes all the staff, from the principal to the messenger and the gardener Secondly, provision is made for the safe use of machinery which includes the safety of all exposed persons, namely, staff, scholars and even the public who visit the school Thirdly a safety management system should be instituted and operated at schools in which the employees (staff) shall take part and, fourthly, the regulations promulgated in terms of the Machinery and Occupational Safety Act, 1983, which prescribe certain minimum safety standards should be complied with

(b) Section 10A of the Act provides

"(1) The Chief executive officer shall ensure that the employer complies with the provisions of this Act and is vested with overall authority in matters to which this Act relates

(2) The chief executive officer may delegate any duty contemplated in subsection (1) to any person under his control, which person shall act subject to the control and directions of the chief executive officer

(3) The provisions of subsection (1) shall not, subject to the provisions of section 30, relieve an employer of any responsibility or any liability under this Act

(4) For the purpose of subsection (1), the head of department of any department of State shall be deemed to be chief executive officer of that department "

This should be read with the definition of "chief executive officer", which reads as follows

" 'chief executive officer', in relation to a body corporate or a government enterprise, means the person who is responsible for or is deemed to be responsible for the overall management and control of

cont --

Sappi to list in London despite late JSE hitch

BDay 19/6/92

(232)

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 legitimate political party

Contemporary science has revealed that all events — the

the lesson is one of moderation — that it is futile to place a timetable on what needs painstaking and sympathetic negotiation Haste and hunger led to this week's setbacks. ■

JSE COMMITTEE ELECTION

FM 19/6/92 (232)

Open those doors

It's that time of year again The JSE is about to hold the annual election for its governing body, the committee, which comprises 15 people (paid president included), only two of whom are appointed from outside the JSE membership This year, 13 candidates have put themselves forward for 12 places What this doesn't disclose, however, is that the 13 include 11 present committee members

In other words, it's the same old faces with the exception of Richard Lurie This year's JSE committee will be as last year's, with the gracious addition of one new member This raises some rather fundamental issues about the way in which the JSE regulates itself and conducts its affairs

Conventional wisdom holds that people get the governments they deserve This applies as much to the JSE as anywhere else Many of the exchange's more prominent members will not stand for election They argue that the time it absorbs is prohibitively expensive

This year and next may be the most critical period the JSE has ever faced — confronted as it is by mounting problems, most of which revolve around its lack of trading liquidity And the JSE has a much wider responsibility to the companies listed on its boards, to the investors who trade in its paper — and, ultimately, to the economy

If enthusiasm from the brokers is so limited, then perhaps it is time to draw strength from the diverse sectors the JSE says it serves Doors could be opened to enable companies and major users, along with JSE members, to elect the institution's controlling body It should not be beyond the ingenuity of the JSE's better brains to devise an electoral system that takes these needs into account It's an idea ■

DIRECTORS' FEES FM 19/6/92

232

As you were

Directors of private companies will no longer be subject to PAYE on fees for services rendered to the company, or on advances on those fees The same applies to members of CCs rendering services to the CC This is the effect of proposals in the latest Income Tax Amendment Bill

Coopers Theron Du Toit tax partner Koos van Wyk says the wheel has now gone full circle the position of directors of private companies and of CC members has been

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restored to where it was in 1990, before the Income Tax Act was amended At that point they were subjected to tax on their fees on the provisional basis only

From March 1 1991 directors and members were subjected to PAYE requirements as well as to the provisional tax rules Some companies and CCs had to register as employers to enable them to withhold PAYE from directors' or members' fees or from service-related advances

One damaging anomaly arose because, in most cases, remuneration that accrues to a director in respect of a particular tax year is determined only some time after the end of that year In those circumstances, PAYE might have had to be deducted from fees even where provisional tax had been fully paid on all taxable income

A practice note issued on December 6 1991 set out important concessions It provided that PAYE need not be deducted from advances paid, or payable to, directors of private companies, or from CC members, where the remuneration is quantified only after the close of the year of assessment in which it accrued to the director or member The concession also applied if the company's or CC's year of assessment ended during the last six months of the director's or member's year of assessment

Not surprisingly, many private companies changed their financial year-end to gain this benefit Effectively, says Van Wyk, most directors of private companies and CC members were back fully on the provisional basis Now the 1992 amendments formally reinstate the original position for directors of private companies and CC members

However, to provide for the activation (possibly on July 1) of the labour broker rules for private companies and CCs, the Commissioner for Inland Revenue has retained the power to direct a specific employer to withhold PAYE from remuneration payable to any employee (including a director of a company or a member of a CC) The definition of employee was last year broadened to include any company or CC falling within the definition of labour broker ■

JSE is safe

(232)

FIRST it was a corruption scandal by brokers last year, then claims of insider trading by banks two weeks ago — now the collapse of one of its broking members It's all just coming too fast for the Johannesburg Stock Exchange

In the wake of the collapse of broking firm Andrew Forbes and Co, JSE president Roy Andersen this week sought to assure investors the exchange had the JSE Guarantee Fund and Fidelity Insurance safe-guarding the clients of member firms and that the JSE rulebook provided for clients of other firms W/Mail 19/6-25/6/92

FM 19/6/92

ANDREW FORBES

A curious history (232)

When stockbroker Andrew Forbes was arrested in his firm's offices last week by members of the SAP's Commercial Crime Unit, it was the latest in a line of events that has JSE president Roy Andersen "concerned" Forbes' brokerage, Andrew Forbes and Co Inc, has — according to a press release by JSE executive president Roy Andersen — allegedly misappropriated clients' funds

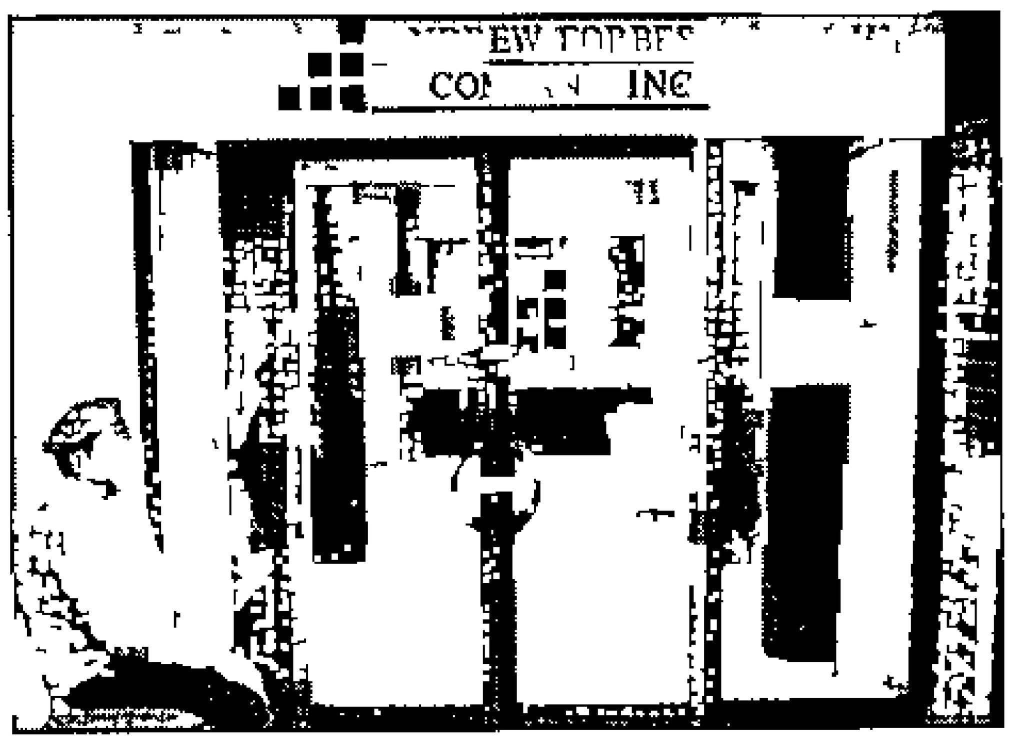
Forbes said from his home as the *FM* went to press that he had not been charged but was cautioned that he might have to appear in court The sum involved could be as high as R7,5m The JSE committee has declared Forbes a defaulter in terms of its rules

The incident follows the default of Hilary Crosby (who apparently fled overseas last year) and the disciplining by the JSE committee of Koos Bosman for prejudicing the interests of clients In August Forbes was instructed by the committee to recapitalise his business, an instruction with which he complied Nothing since then, says Andersen, indicated anything untoward

However, after the submission of the usual twice-yearly audit certificate in respect of the six months to March (which Forbes filed only on June 5), the JSE inspectorate department found Forbes' firm failed to meet the minimum capital liquidity requirements The inspectorate pinpointed significant differences between his monthly statutory reporting and the audit report. Forbes voluntarily withdrew from the market on that day

Four days later, and following further investigation, the JSE committee "ordered" Forbes to discontinue trading activities Two days later — on June 11 — the JSE decided the information it had garnered was sufficient to warrant intervention by the police

The situation now is that the JSE inspectorate, assisted by a professional accounting firm, is examining Forbes' books and records in minute detail Clients of the firm who have proven claims will be protected by the JSE's guarantee fund or by fidelity insurance Andersen says the guarantee fund holds assets exceeding R70m and the JSE's fidelity insurance, carried on behalf of all member firms, is for R120m Andersen adds he is confident clients who complied with the JSE Control Act will be covered *David Gleason*



The business needed to be recapitalised

Guidelines to minimise risk of loss

STAR 20/6/92

Investing on the JSE (232)

THIS is the sixth of 10 articles dealing with the relationship between the stockbroker and his client. The author is Dr MANNY POHL, head of research, at Davis Borkum Hare.

IN LAST week's article we looked at a stockbroker's research department and its main function, which is to analyse the listed companies, determine their investment merits and identify the best opportunities

An important aspect of determining investment merit is the attribution of a risk rating to a company Despite all the laws and regulations that have created a much safer investment environment, these controls are often bypassed, resulting in serious loss to investors

Negligence

"The higher the return, the higher the risk" is a fundamental principle of investment.

Risk of loss through fraud or negligence can be minimised by investing in government stock or debentures, or depositing one's cash with a major bank Unfortunately, loss is thereby guaranteed through inflationary corrosion of the value of money.

Investment in financial assets for preservation of capital, or growth of capital, means investing in equities or ordinary shares where the shareholder receives a share of profits but, of course, will also share losses And herein lies the risk

The allocation of a risk rating to a company is an inexact computation and depends upon several factors, internal and external

The external factors might include an assessment of economic conditions such as the present state of, and outlook for, the industry in which the company operates

Mining shares can be very volatile and will not be a good investment medium when metal and commodity prices are falling Other factors beyond a company's control are interest rate patterns, and the imposition or removal by the authorities of import tariffs or other controls on imports

Textile and tyre companies have had a very changeable operating environment and have suffered from the sudden removal of limitations on imports, resulting in a flooding of the local market with cheap imports

The degree of control which a company has over its existence, its source, its operations, markets and so on is a measure of its probability of long-term success It is also a measure of the skill and motivation of its management

We therefore need to look at the internal factors affecting its risk rating — those under management's control

A high risk rating would tend to be ascribed to a company which has a high level of debt, measured as a high debt equity ratio

A simple measure of the degree of risk to ascribe to a company's debt is the ratio of cash flow to debt Cash flow for this purpose is the net cash which is generated by the business each year after all deductions A simple but useful calculation is to divide the total net debt (that is, after deducting cash held in deposits) by the net cash flow to give you the number of years it would take to repay the debt out of cash flow Obviously, the fewer the number of years, the stronger the business in cash flow terms

A risk factor of a different sort is theft or fraud on the part of a company's employees or even its controlling shareholders

How then does the investor, who does not have a detailed insight into the industry or the company he is investing in, handle the problem of risk? There are a few guidelines to be followed

Firstly, maintain a spread of investment over a number of companies in different industries, with the greater part of the funds in top-quality mining financial, financial and industrial companies

Beware

Invest smaller amounts in mining shares and financially sound secondline industrials with good profit-records Secondly, be as well informed as you can by reading the companies' publications and the financial press

Beware of tips and barroom talk Thirdly, seek the advice of professionals with a track record in the investment industry

An occasional and not too large loss in the stock market fades into insignificance compared with the substantial gains made from sound investment over the long term

Next week's article will deal with administration of stock exchange investment and the vital aspect of trust in the relationship between stockbroker and client.

Success stories must awaken ANC to the joys of privatisation

B|Day 23/6/92. **SIMON BARBER in Washington** (232)

PRIVATISATION remains a dirty word for the strugglers Tito Mboweni, one of the ANC's better economists, says he argued manfully to have it included in the final version of the movement's latest policy guidelines but it evidently stuck in his colleagues' collective throat At this point, the most the ANC can bring itself to say is it will "flexibly" consider "reducing the public sector" in light of "the balance of evidence"

Happily, the World Bank recently pulled together a load of empirical data that tips the balance forcefully in the direction of the unmentionable In a study, The Welfare Consequences of Selling Public Enterprises, the bank has produced what it calls the "first systematic and quantifiable evidence" of what happens when governments implement the P word The answer "Countries, on the whole, are better off after divestiture than they were before"

This conclusion is based on case studies of 12 privatisations in four countries Chile, Malaysia, Mexico and the UK between 1984 and 1988 The industries concerned include telecommunications, airlines, electricity utilities, a lottery, a port and a transport firm

In all but one case — that of Mexicana airlines — the newly privatised companies enjoyed significant gains On average, their annual sales were 26% higher than pre-divestiture levels In more than half, annual gains exceeded 10% Compania de Telefonos de Chile (CTC) saw its turnover grow 145%, Malaysia's Kelang Container Terminal (KCT) by 50%, and Aeromexico, the second of two Mexican airlines studied, by 53%

The study attributes these gains to four principal factors, the first being increased investment CTC, the star example, benefited from the massive infusion of foreign and domestic equity attracted by the sell-off, and which in turn gave the company increased room for borrowing As a result, it has been able to double its capacity since divestiture in 1987, is expanding into a variety of value added services and has dramatically enhanced labour productivity

Of course, the freedom to raise capital can also be the licence to misuse it, which is what happened in the case of Mexicana While its sister company Aeromexico focused on the business travel market, and did relatively well, Mexicana bet $1,6bn — the cost of 22 new Airbus A320s and options on 14 more — on a tourist boom that did not materialise The state would have been more cautious But, as the bank notes, the debacle is "not a condemnation of divestiture It is merely a reminder that sometimes private firms fail"

The second factor in the gains is the improved productivity at nine of the 12 companies, and which in most instances resulted from smaller workforces, improved labour-management relations, better incentives and internal reorganisation

For SA, the most significant example may be Malaysia's KCT which not only did not reduce its workforce but actually raised wages, prompting unions to demand that the non-privatised Kelang Port Authority be spun off too This alchemy was wrought through new incentives, training and participative decision-making which resulted not so much in the growth of output per worker as in lower costs for administration, repair and maintenance

Third, most of the privatised firms raised previously state-controlled prices to realistic levels Underpricing of output under public ownership had regularly led to the waste of valuable resources Divestiture enabled government to restructure prices to better reflect the value of these resources to their economies In most instances, regulation prevented privatised monopolies from exploiting their market power An exception was British Airways, which gobbled up its main domestic competitor, British Caledonian, in order to raise fares

Finally, several divested firms were able to diversify at low cost, capitalising on their existing strength British Telecom and CTC used their existing newtorks and expertise to provide new value-added services. Sports Toto, the Malaysian lottery, introduced new products While many of these activities could have been carried out under public onwership, they had mostly gone unexplored because civil servants had no incentive to pursue them or were prevented from doing so by bureaucratic constraints

Who won and who lost from the divestitures?

Perhaps most important from SA's standpoint, in no instance did workers lose There were layoffs and forced retirements in several cases, most notably British Airways, British Telecom and Mexico's Telmex and Aeromexico Yet all who lost their jobs were compensated, often as a condition of sale, and most quickly found new jobs as privatisation policies helped spur the general economy In several cases, Telmex, Chile's electricity distributor Enersis, and the UK's National Freight, workers enjoyed susbstantial windfalls as equity participants And KCT raised wages as part of its innovative productivity scheme

Consumers won, but not always Those who did win were generally helped by competition and also, importantly, by regulation In five instances, British Airways among them, they were net losers Telephone services in Mexico are now more costly because previous tariffs were too low to cover costs and allow for expansion — but consumers will ultimately benefit from expanded service The Enersis privatision harmed those who had enjoyed free electricity by stealing it

Foreigners benefited By last month foreign investors owned 55,7% of Telmex stock and had reaped more than 80% of post-privatisation gains Yet it must be remembered that it was often foreign capital that made those gains possible in the first place Furthermore, the very act of privatisation has in many cases encouraged outside investors to put their money in countries they previously shunned Since 1989 privatisation has drawn $15bn in foreign investment to Mexico, nearly double the value of debt relief the country has been granted in the same period

Buyers, including a host of small shareholders in the UK and pension funds in Chile, came out ahead in every case except Mexicana So did the governments that sold After divestiture, most state treasuries received more in sale proceeds and new tax revenues than they would have received in dividends and taxes had public ownership continued In only three instances, two of them in Chile, did governments lose, and then by narrow margins

The bank concludes that successful privatisations, defined as those which produced economic gains for society as a whole, occurred where pre-divestiture enterprises were relatively inefficient, where governments established effective post-divestiture regulatory regimes where the state lacked resources for new investment and service expansion and where the sales did not involve concessions to "sweeten the deal"

That said, even efficient parastatals can be usefully privatised to harness "the entrepreneurial spirit of the private sector" Nor is it always essential for government to shed its stake in an enterprise entirely For example, the Malaysian government retained effective control of both KCT and the national airline while letting the private sector take a substantial share This led the state to exercise its control function differently than it would otherwise, to the benefit of the companies and the overall economy

The bank feels its sample — covering three developing and one developed country and firms of widely differing sizes and structures — is broad enough for its conclusion to be widely applicable Exceptions are extremely poor countries with highly distorted and underdeveloped markets and the formerly centrally planned economies Unless the ANC thinks SA belongs in one of those categories, it should pay attention.

Deregulation would bring few benefits to JSE

B/Day 23/6/92 (232)

PETER LEON

RESERVE Bank Governor Chris Stals's recent announcement that a structural adjustment programme is to be formulated by the Reserve Bank in liaison with government to deregulate the SA economy has — following the deregulation of the aviation industry and business licences, together with the promise of an easier regime for liquor licencing and for the marketing of agricultural products — focused attention on the possible "deregulation" of the JSE

At present the JSE is constituted along the lines of the London Stock Exchange (LSE) prior to "Big Bang" in October 1986

It is a national stock market characterised by single capacity, strict restrictions on corporate membership and a sliding scale of fixed commissions

SA's re-entry into the club of nations, the application by the Financial Services Board for membership of IOSCO, the securities regulators association, and pressures from the authorities for greater competition in SA's financial markets have all contributed towards the drive to "deregulate" the JSE on the London model This would entail the introduction of dual capacity trading, negotiated commission and the opening up of corporate membership

Naturally, pressures to "deregulate" the JSE invite a superficial comparison with the LSE, which was transformed overnight on October 27 1986 Although at first blush, the comparison with London pre-October 1986 appears well made, closer examination reveals a major difference

While the process of deregulation in London was driven by Prof Gower's investigation into investor protection and the Office of Fair Trading's strictures of single capacity, the driving force behind "Big Bang" was the abolition by the new Conservative government in October 1979 of all UK exchange controls.

This had the effect of radically opening domestic capital markets and pressurising the City of London to develop itself as the world centre for trading in international securities

While "Big Bang" has clearly transformed the city, it has done so at enormous cost

Inadequately capitalised broking firms have disappeared, most leading stockbrokers are now owned by banks, retail investors have taken flight from the market and major conflicts of interest have arisen in bank-owned broking firms acting as market-makers in shares in which they have a proprietary interest

Add to this that the broking conglomerates are also merchant banks and the picture becomes disturbing

Appalling levels of liquidity on the JSE (representing some 4,3% of overall market capitalisation in 1991) combined with a perceived need to be part of the new international order in capital markets, have driven the proponents of deregulation to argue that not only is it a matter of following international precedent, but that by eliminating restrictive practices and creating a so-called level playing field, liquidity on the JSE will not only be enhanced, but become resurgent

This argument is a makeweight First, and most importantly, in the presence of an extensive system of exchange controls, far more pervasive than that in Britain in 1979, liquidity will never be enhanced on the JSE if domestic capital is, in effect, trapped by state edict

Second, the continued existence of marketable securities tax and the taxation treatment of the sale of securities within a five year limit, has had and will continue to have an inimical effect on liquidity

Given SA's endemic levels of corruption, a strong argument against dual capacity is that by permitting a stockbroker to sell a client his own shares, a charter for the dishonest could well develop

While no system is perfect, single capacity promotes the interest of market surveillance and transparency by, on the whole, ensuring that a broker acts in his client's best interests

In an economy characterised by excessive concentrations of economic power — four major institutions control almost all the blue chip companies listed on the JSE — it must be debatable that the major beneficiaries of deregulation, the banks, not only stand in a symbiotic relationship with their largely institutional shareholders, but will face a conflict of interest in dealing in first line securities which share the same institutional parentage

The ending of financial sanctions is, in the presence of extensive exchange controls and considerable foreign investor uncertainty, unlikely to turn the JSE into a second London or a Taipei

The move of international, particularly American, business to London which followed in the wake of "Big Bang" is, for these very reasons, not likely to happen to Johannesburg

Nobody will disagree with the Kimber Committee in Canada that "the principal economic functions of the capital market are to assure the optimum allocation of financial resources in the economy, to permit maximum mobility and transferability of those resources, and to provide facilities for a continuing valuation of financial assets"

But there is no empirical evidence to suggest that the deregulation of the JSE will promote any of these laudable economic aims

☐ Leon is a partner in Webber Wentzel's corporate services department.

LETTERS

Finrand tumbles as share prices dip

B/Day 23/6/92 (232)

MERVYN HARRIS
and HILARY GUSH

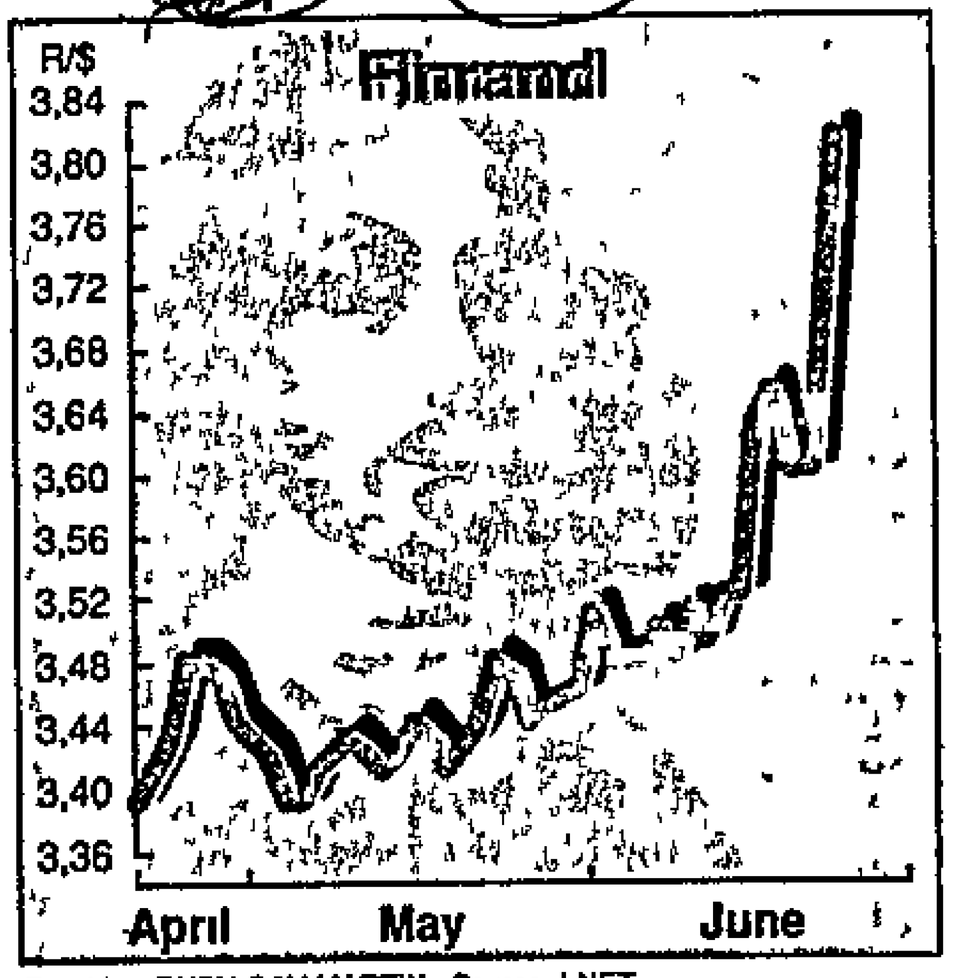
THE financial rand tumbled 6% against the dollar to a three-month low yesterday, and the withdrawal of foreign and local buyers because of the political crisis resulted in a sharp markdown of share prices Losses on the overall market outpaced gains by 120 to 19

Capital market rates also fell

The JSE overall index slid 1,1% or 44 points to 3 637 as the lack of buyers left prices largely unaffected in rand terms in spite of a sharp drop in the finrand investment unit, which usually tends to support rand hedge shares A dealer said. "While we did not see much selling from overseas, there was minimal buying This indicates that the events of the past week will delay potential foreign investment."

The industrial index declined 1,1% or 52 points to 4 470 as a 3,6% fall of the Tokyo Nikkei index to below 16 000, a tumbling London FTSE and sharply lower Wall Street also weighed on the market. But the Dow Jones industrial index rose last night to close just 4,5 points down at 3 280,80

The JSE all gold index slipped 15 points to 1 143 as precious metals held steady, with attention focused on the start of the World Gold Conference in Montreux



Graphics RUBY-GAY MARTIN Source I NET

London bullion traders said reaction to escalating violence in SA would be seen first in platinum, as supplies from SA would be affected more quickly than gold

Gold recouped early losses to trade between \$342,50 and \$343 for most of the day in London, while platinum was fixed at \$363,80 at both London fixing sessions In New York gold ended up \$2,75 at \$343,45 Platinum rose \$2,50, trading late at \$366,50

The finrand ended at R3.83 from Fri-

☐ To Page 2

Finrand

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☐ From Page 1

day's R3,61, after touching a low of R3,89 Dealers said Frankfurt and Hong Kong had been active sellers from the local opening, with light buying coming from Germany around the R3,85 level later in the day

Dealers expressed disappointment that the Reserve Bank had not taken a more visible stance in the market, but speculated it had provided support around the R3,85 level The Bank refused to comment

Dealers said "gapping" — which occurred when there was no physical dealing between the quoted closing and opening rates — had taken place "This adds to the nervousness in the finrand market," one dealer said.

The unit gained support at R3,85, and was expected to firm to a range of R3,70-R3,57 after the ANC had clarified its position on negotiations

Dealers said the financial to commercial rand discount widened to 27% yesterday Analysts usually expect the Bank to intervene when the discount exceeds 20%

Reserve Bank Governor Chris Stals announced in March that the Bank would, at its discretion, intervene directly in the financial rand market to try to reduce the unit's volatility Market players warned yesterday if the Bank did not intervene and support the currency, foreigners would unwind their positions and sell off finrands Confidence would fall and investment plummet, traders predicted

The benchmark Eskom 168 traded at 15,84% yesterday afternoon after reaching a mid-morning high of 15,87% Foreign selling was seen in the capital market

Government R150 stock traded at 16,09% after reaching highs of 16,14%

(232) CT 23/1/92

Study proves positive points to the issue of privatisation

"PRIVATISATION" remains a dirty word for the strugglers Tito Mboweni, one of the ANC's better economists, says he argued manfully to have it included in the final version of the movement's latest policy guidelines but it evidently stuck in his colleagues' collective throat At this point, the most the ANC can bring itself to say is that it will "flexibly" consider "reducing the public sector" in light of "the balance of evidence"

Happily, the World Bank recently pulled together a raft-load of empirical data that tips the balance heavily in the direction of the unmentionable In a hefty new study entitled *"The Welfare Consequences of Selling Public Enterprises"*, the bank has produced what it calls the "first systematic and quantifiable evidence" of what happens when governments implement the P word The answer "Countries, on the whole, are better off after divestiture than they were before"

This conclusion is based on case studies of 12 privatisations in Chile, Malaysia, Mexico and Britain between 1984 and 1988 The industries included telecommunications, airlines, electricity utilities, a lottery, a port and a transport firm

In all but one case — Mexicana airlines — the newly privatised companies enjoyed significant gains On average, their annual sales were 26% higher than pre-divestiture levels In more than half, annual gains exceeded 10%

Compania de Telefonos de Chile (CTC) saw its turnover grow by 145%, Malaysia's Kelang Container Terminal by 50%, and Aeromexico, the second of two Mexican airlines studied, by 53%

The study attributes these gains to four principal factors, the first being increased investment CTC, the star example, benefited from the massive infusion of foreign and domestic equity attracted by the sell-off, and which in turn gave the company increased room for borrowing As a result, it has been able to double its capacity since divestiture in 1987, is expanding into a variety of value-added services and has dramatically enhanced labour productivity

Regulation

Second is the improved productivity posted by nine of the 12 companies and which in most instances resulted from a smaller workforce, improved labour-management relations and better incentives and internal reorganisation

Third, most of the privatised firms raised previously state controlled prices to realistic levels Underpricing of output under public ownership had regularly led to the waste of valuable resources Divestiture enabled governments to restructure prices to better reflect the value of these resources to their economies

In most instances, regulation prevented privatised monopolies from exploiting their market power An exception was British Airways, which gobbled up its main domestic competitor, British Caledonian, to raise fares

Finally, several divested firms were able to diversify at low cost, capitalising on their existing strength British Telecom and, as already noted, CTC, used their existing networks and expertise to provide new value-added services Sports Toto, the Malaysian lottery, introduced new products While many of these activities could have been carried out under public ownership, they had mostly gone unexplored because civil servants had no incentive to pursue them or were prevented from doing so by bureaucratic constraints

Who won and who lost from the divestitures?

Perhaps most important from South Africa's standpoint, in no instance did workers lose To be sure, there were layoffs and forced retirements in several cases, yet all who lost their jobs were compensated and found new employment as privatisation policies helped spur the general economy

Consumers won, but not always Those who did win were generally helped by competition and, importantly, by regulation In five instances, British Airways among them, they were net losers Telephone services in Mexico are now more costly because previous tariffs were too low to cover costs and allow for expansion — but consumers will ultimately benefit from an expanded service The Enersis privatision harmed those who had previously been enjoying free electricity by stealing it

Buyers

Foreigners benefited As of last month foreign investors owned 55,7% of Telmex stock and had reaped more than 80% of post-privatisation gains Yet it must be remembered that it was often foreign capital that made those gains possible in the first place Furthermore, the very act of privatisation has in many cases encouraged outside investors to put their money in countries they previously avoided

Buyers, including a host of small shareholders in Britain and pension funds in Chile, came out ahead in every case except Mexicana So did the governments that sold After divestiture, most state treasuries received more in sale proceeds and new tax revenues than they would have received in dividends and taxes had public ownership continued In only three instances, two of them in Chile, did governments lose, and then by narrow margins

The bank concludes that successful privatisations, defined as those which produced economic gains for society as a whole, occurred where pre-divestiture enterprises were relatively inefficient, where governments established effective post-divestiture regulatory regimes, where the state lacked resources for new investment and service expansion and where the sales did not involve concessions to "sweeten the deal"

That said, even efficient parastatals can be usefully privatised to harness "the entrepreneurial spirit of the private sector" It is not always essential for governments to shed their stakes in an enterprise entirely For example, the Malaysian government retained effective control of both KTC and the national airline while letting the private sector take a substantial share This led the state to exercise its control function differently than it would otherwise, to the benefit both of the companies and the overall economy

The bank feels that its sample — covering as its does three developing and one developed country and firms of widely differing sizes and structures — is broad enough for its conclusion to be widely applicable Exceptions are extremely poor countries with highly distorted and underdeveloped markets and the formerly centrally planned economies Unless the ANC thinks South Africa belongs in one of those categories, it should pay attention

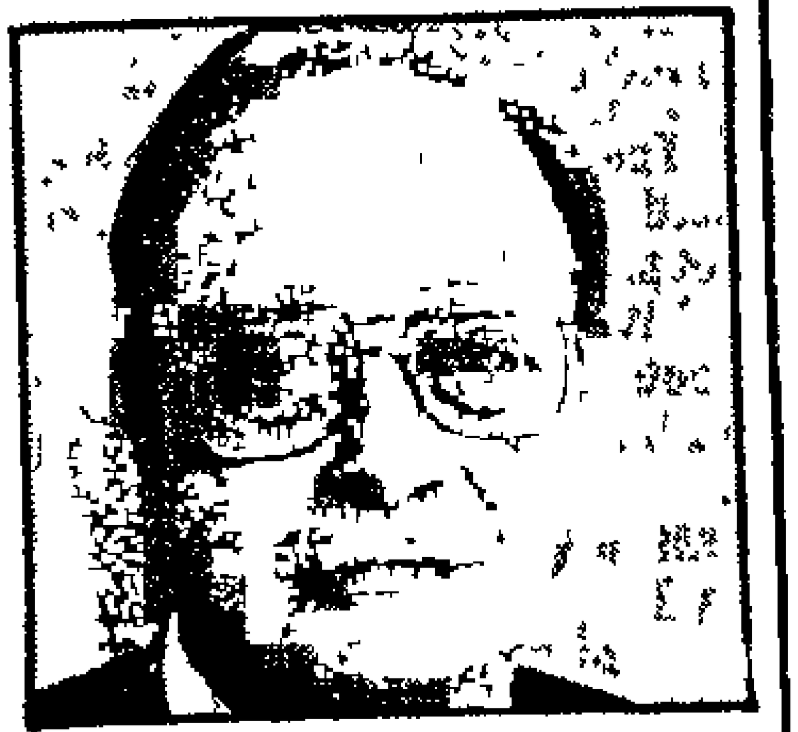
In my view . . .

A daily commentary on current economic affairs by writers of The Star.

Capital gains tax difficult to justify

(232) STAR 24/6/92

By Derek Tommey



From time to time people of leftist persuasion, possibly dazzled by unit-trust claims about how they have generated untold wealth for unit-holders, advocate a capital gains tax on share market investments.

The question that has to be asked about any new tax is whether it will generate sufficient revenue to make it worth while — whether the income will justify the additional cost and the public resentment.

With this in mind, I did a few rough calculations to find out just how large have been the capital gains made by investors in JSE shares in recent years.

The result is rather staggering for it shows that over the past eight years there have been no real capital gains. In fact, investors have actually suffered fairly substantial losses.

It is true that shares listed on the JSE have in nominal terms risen sharply in recent years. In fact, according to Reserve Bank figures, the prices of commercial shares on average have doubled in the past eight years and the prices of industrial shares have trebled.

As the consumer price index virtually doubled in this period, it is clear that the value of an investment in shares generally has to keep abreast and even ahead of inflation.

But the rate of inflation is not the only thing to be taken into account when determining whether a capital gain has been made.

A factor that tends to be overlooked, but which is most important in determining capital gains, is that every year most companies reinvest a large sum of money in their businesses.

This is equal to a half to three-quarters of their taxed profits and belongs to the shareholders

If this annual injection of capital adjusted for inflation is taken into account, a completely different picture emerges.

It shows that without any internal growth, prices of commerical shares should not be double but treble their 1983 levels and that prices of industrial shares should be almost four times higher than in 1983.

What this means is that if industrial and commercial shares fully reflected the capital investment, they would be 61 percent higher today than they actually are.

If one were to add in a 2,5 percent annual increase in productivity — which is what company chiefs are supposed to achieve in order to justify their big salaries, prices of industrial and commercial prices should be almost double what they are today.

These calculations, admittedly, are not precise, but they are accurate enough to show what the real situation is.

This is that in the past eight years SA commercial and industrial companies have dreadfully underperformed so that capital gains have been non-existent, which is understandable, given the poor performance of the economy.

However, there is a silver lining in the dark cloud.

Once the resources amassed by commerce and industry in the past eight years are fully utilised, one should be able to expect industrial performance, profits and share prices to soar.

In my view . . .

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232

STAR 24/6/92

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Malbak revises forecast as recession tightens its grip

BDay 25/6/92

(232)

MARCIA KLEIN

THE Malbak group has made a downward revision to its earnings forecasts for the year to end-August in view of the poor economy

Yesterday Malbak issued a special third quarter report to investors, revising its earnings forecast for the year down from 117c a share to 105c a share

Executive chairman Grant Thomas said advance warning of lower than expected earnings was necessary due to the marked deterioration in business conditions and the fact that there was no likelihood of any improvement before the end of the current financial year

In April, when it published its interim report to end-February, Malbak said the group was on track to achieve its earnings forecast of 117c a share made at the previous year-end

"This forecast recognised the fact that the full effect of the recession was only then being felt by the consumer and that there was unlikely to be a significant upturn in demand for the group's products in the second half of the financial year"

However, consumer demand had weakened markedly in the quarter to end-May, and trading conditions had been "far worse than most expected"

Malbak directors said there had been no indication of any improvement in consumer demand In addition, the threat of extended stayaways added to the short-term uncertainty

Malbak said earnings for the third quarter were below expected levels, and this had necessitated the downward revision of the group's earnings

Earnings for the full year would be down 15,4% on a weighted average basis and by 13,2% on a fully converted basis

The previous forecasts had pegged the earnings decline at 5,7% and 3,3% respectively

BDay 25/6/92.

Among Malbak's interests are Foodcorp, Holdains, SA Druggists, Kohler and Tedelex

Drop in tax rate pushes up profit

232 DUMA GQUBULE Bday 25/6/92

TRADE Finance group GDM Finance has reported a 12,6% advance in attributable profit in the year to April, helped by a sharp drop in the tax rate.

Attributable profit increased to R9,7m (1991: R8,6m) which translated into earnings of 38c (33,7c) a share The total payout for the year rose to 15,5c (13,5c).

MD John Cowper said business conditions had deteriorated in the second half of the year, which was reflected in the fact that second-half earnings were only 1c a share ahead of the first half.

He said group pre-tax profit and tax payable had been reduced by the need to write off bad debts incurred during the year.

The tax rate fell to just under 6% from 20% last year.

Cowper said the group's 64%-held subsidiary African Shipping had showed a 68% increase in after-tax profit to R2,4m, reflecting the company's growing market share and economies of scale.

The turnover figure was not disclosed in the preliminary report, but pre-tax profit slipped marginally to R11,5m (R12m).

The sharp drop in tax paid boosted after-tax profits by 14% to R10,9m (R9,5m).

Looking ahead, Cowper said he expected difficult trading conditions to continue for some time.

Notwithstanding this, management believed the company could deliver a further satisfactory performance in the new financial year, he said.

Malbak revises forecast as conditions deteriorate

STAR 25/6/92

Finance Staff (232)

Malbak has revised downwards its profit forecast for the year to August

In February it forecast earnings of 117c a share, but this has now been revised to 105c.

Chairman Grant Thomas said yesterday that in the March-to-May quarter conditions weakened markedly

"There is as yet no indication of any improvement in consumer demand and the threat of extended stayaways adds to short-term uncertainty," he said

Two key subsidiaries, SA Druggists and Ellerine, have reported reduced earnings and there have been problems in what is now Foodcorp

Malbak's fortunes are now tied to consumer spending

Mr Thomas said that as there was no likelihood of any improvement before the end of the current financial year, the board believed it was only correct to give shareholders advance notice of lower earnings

"We take our communications with our shareholders seriously and don't like them to give them surprises, hence the revised forecast," Mr Thomas said.

JSE tightens up as another broker collapses

B/Day 26/6/92

SYLVIA DU PLESSIS (232)

THE JSE had stepped up its surveillance of stockbrokers' financial affairs because of the weak economy, JSE president Roy Andersen said yesterday

The announcement led to speculation that further closures of cash-strapped traders could be imminent

Andersen's comments on the surveillance came hard on the heels of news during the day that stockbroking firm Ben Janse van Rensburg & Co had been prohibited from trading

Sole trader Ben Janse van Rensburg was unavailable for comment, but market sources said the firm's four JSE staff members were informed of the move soon after Wednesday's market close

This brought to four the number of stockbroking firms which had closed since December The others were H G Crosby, J Bosman & Co and Andrew Forbes & Co

Andersen confirmed that Ben Janse van Rensburg & Co had been unable to meet the JSE capital requirements regulations

In terms of these rules, sole traders needed at least R40 000 in capital. Firms with three or more partners needed an additional R10 000 for each partner

"We need to be super-vigilant to protect the interests of investors and the broking community," Andersen said

He would not comment on speculation that as many as three other firms were being scrutinised by the JSE Most firms were healthy, he said

Sagging volumes were affecting mostly the smaller stockbroking companies "The JSE needs around 2 000 equity deals daily just for it to break even, and these have amounted to an average of 1 900 deals so far this year June has been a particulary good month, and the JSE's own profitability is now on budget."

Andersen said a further statement on the probe into Ben Janse van Rensburg & Co's affairs would be issued today

Financial rand goes for a burton

Wmail 26/6 - 2/7/92

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By REG RUMNEY

THE African National Congress' withdrawal from negotiations after the Boipatong massacre was reflected immediately in the key indicator of overseas political and economic confidence — the financial rand discount.

The discount is the gap between the amount of ordinary or "commercial rand" a dollar can buy, and the amount of cheaper financial rand it can buy.

Stripped of its complexities, the financial rand discount shows the desire of non-residents to disinvest from South Africa.

The commercial rand rate midweek was around $1 = R2,80. The financial rand rate midweek was $1 = R3,82. This is a discount of around 27 percent. The discount at the close of trading on Wednesday, before the Boipatong massacre hit the headlines, was 22 percent.

It had dwindled to an average 8,6 percent for November 1991 after hitting a high of 52 percent over the month of January 1987.

The JSE overall index was 3638,0 midweek, only 1,6 percent down on the figure recorded a week ago. The index of gold shares was 1121, just 2,7 pecent down. The index of industrial shares was 4 474, hardly changed from 4 545 a week ago.

Indicative of a lack of consumer confidence is the sudden quiet in the residential property market. Coming on top of the already depressed economy, the political uncertainty seems to have knocked the breath out of it.

Aida Holdings managing director Aida Geffen remarks that a surge of activity after the referendum meant May sales doubled Aida's turnover.

June, even before the Boipatong massacre, saw the property market slump, says Geffen. "Our computer listing of buyers has halved," she notes, and only desperate sellers are putting their houses on the market.

Threats of sanctions will also have an effect on business and consumer confidence. So far, however, sanctions threats have been confined to a delay in lifting trade sanctions still in place, such as those imposed by Sweden and major US cities.

"I don't see the European Community and the US going back to sanctions," says South African Foreign Trade Organisation economist Bruce Donald. "These are the primary areas of concern."

Aside from dealing a further blow to business and consumer confidence, a political impasse will hurt growth prospects — if not this year, then next.

●See PAGE 22

BUSINESS

Disunity over union fund

W/Mail 26/6 - 2/7/92.

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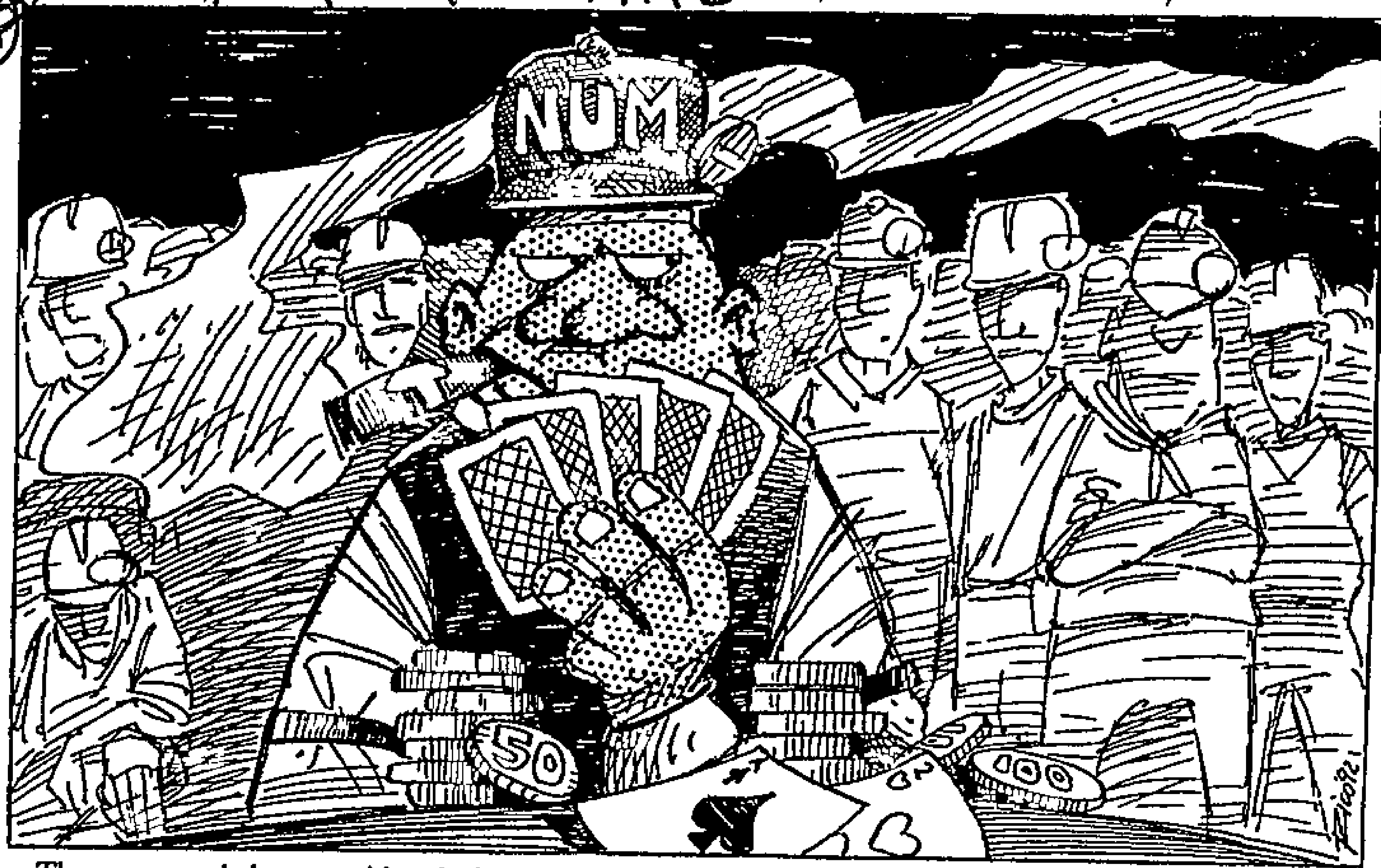
A union-initiated avenue for investment was launched to acclaim. But not all unionists are overjoyed.

FERIAL HAFFAJEE *reports*



LEADING unionists have questioned the timing and the rationale of the union-initiated Community Growth Fund.

The fund was launched with much fanfare recently as a socially responsible way for unions to invest in the Johannesburg Stock Exchange

Some unionists argue its launch is premature and that the time is not right for union investment in the JSE Others accuse the National Union of Mineworkers — one of the unit trust's biggest proponents — of blazing ahead and taking other unions by surprise when other investment options are still being considered

Only seven affiliates of the Congress of South African Trade Unions and the National Council of Trade Unions endorsed the fund

A number of wealthy and well-organised unions are notably absent from the list of endorsements Among these are the following Cosatu affiliates· the National Union of Metalworkers of South Africa, the Chemical Workers Industrial Union and the South African Commercial Catering and Allied Workers Union

Nactu's largest affiliate, the South African Chemical Workers' Union, has also not endorsed the fund

A Numsa member, who did not want to be identified, told *The Weekly Mail* the discussion on union investments had been left open-ended after a Cosatu workshop a year ago

"At the time people believed the JSE was problematic and there was no way to identify socially responsible companies The JSE is precarious Your money is never safe, you are gambling with workers' money," he said

The same workshop considered the establishment of community banks, which offer guaranteed returns albeit at lower interest rates, an option which now seems to have been forgotten

"You cannot invest money now, especially if you don't support the country's present growth path," he concluded Other union leaders contacted by *The Weekly Mail* agreed that the National Union of Mineworkers had jumped the gun and not considered other investment options

A Cosatu representative said the federation may discuss the fund at its central executive committee meeting next month But he added the Fund had taken Cosatu by surprise and that it would have been preferable if the launch had been co-ordinated and been endorsed by the whole labour movement

Nactu assistant general secretary Mahlemola Skosana said his federation was "still looking at the CGF" But Skosana believes the CGF is premature "It puts the cart before the horse," he believes

"It uses the economy to tame black people and favours employed workers over the unemployed "

He also thought it was was problematic that only individual members of provident funds benefited from the profits of the fund and suggested that a percentage of the profits should go to union coffers.

But Skosana did concede the fund's plans to invest only in companies with sound social responsibility programmes and industrial relations practices was positive "It will force companies to listen," he said

Gordon Young, of the Labour Research Service (LRS) which designed the fund, said "We followed the correct channels through both federations and consulted properly "

He said that discussions with Cosatu about the fund had "gone into limbo" The LRS had also met Nactu head office officials as well as with representatives of all affiliates

Young believes only a limited number of unions have joined the CGF because provident funds are at different stages of development. Unions which have endorsed the fund all have well developed funds

Young knows that "a couple of individuals are not convinced of the merits of the Community Growth Fund", but added "When we address workers, they immediately understand what we are trying to do "

Responding to the accusation that the LRS and the NUM had jumped the gun in launching the fund, he said "There is a lot of competition in the financial market When you move, you have to move fast."

He also added that if union funds wanted to beat inflation, they had no choice but to invest on the stock market

"Many of the reservations about the CGF is that is does not solve all the problems We know that there must be other options as well," says Young

To this end, the LRS is also considering ways in which unions can invest in co-operatives and fixed interest funds which could make low interest loans available to members.

In the meantime, the CGF is going full steam ahead It has had indications that three more unions will soon join the fund and Cyril Ramaphosa also pledged African National Congress support for the fund

The LRS also recently launched a provident fund training programme for provident fund trustees

PROFESSIONAL APPOINTMENTS

Pros and cons of reducing the interest rate

STAR 27/6/92 (232)

Finance Staff

RUMOURS have resurfaced that interest rates are to be reduced. Investors have heard the story before and are wondering whether this time it will provide them with a real increase in purchasing power.

While this will be the second interest rate reduction this year, investors are still waiting for February's cut to have an influence on the market.

Market pundits are questioning the Reserve Bank's objectives. Is it to lift the economy out of the recession or merely to boost public morale?

The rumour on the JSE trading floor is that rates are to be reduced by one or two percentage points. The question now is whether such an amount will influence the market.

Economists are divided on the subject.

The optimists say such a reduction would be beneficial to the JSE and, in turn, to the market as a whole, basing their assumption on a three-fold argument.

Firstly, that a decrease makes holding interest-bearing securities less attractive. The alternative to such an investment (placing money in the bank, buying gilts or debentures) is for investors to channel these funds into the equity market.

Secondly, a decrease lowers the interest burden on corporations. A look at a number of companies across numerous sectors shows there will be a rise in pre-tax profits and bottom-line growth will improve.

Thirdly, if interest rates are low, companies and individuals are induced to borrow, for example, to expand businesses and acquire new equipment and machinery or other assets which they expect will yield a positive rate of return.

It follows that if business expansion does get off the ground, corporate profits will grow, unemployment levels will fall and the purchasing power of the individual will improve.

The pessimists' view — the gloomier, more realistic side to a rate cut — is seldom published.

An analyst and head of research says: "The rumour was recently started as a result of the one percentage point fall in bond rates, which usually preceeds a cut in interest rates.

"However, while we would gladly welcome such news, it would make little difference to stock prices."

He believes rates have to fall by at least four percentage points before a difference can be felt by the market.

For instance, a two percentage point reduction in the rate would hardly make a dent in a company's ability to finance a bank loan of R1 million.

If the company was paying prime of 19 percent, its interest bill would be more than R2 million a year, but a rate cut would save the firm only about R200 000.

Another problems associated with a cut in interest rates could be a weakening of the rand, increasing costs for importers, but be beneficial for exporters.

A lower interest rate would also dissuade overseas investors

Strict stockbroking regulations there to protect clients

STAR 27/6/92. (232)

Investing on the JSE

THIS is the seventh of 10 articles dealing with the relationship between the stockbroker and his client. The author is NORMAN BAKER, head of administration, Davis Borkum Hare

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THE administration of the Johannesburg Stock Exchange (JSE) and its members is covered by the Stock Exchanges Control Act of 1985, amended by the Financial Institutions Acts from 1986 to 1991, and by JSE rules

The degree of regulation to which stockbrokers must conform is much greater today than it was 20 years ago — a steady trend throughout the Western world

Its purpose is to protect the investor

The effect is more stringent requirements for both the stockbroker and his client to settle the money and scrip aspects of transactions speedily and correctly Scrip is the word commonly used for the share certificates which record ownership of shares

Let us look at the administrative side of dealing in shares listed on the JSE

There are basically two categories of clients defined by the Stock Exchanges Control Act

These are described as "the cash client" and "the cash delivery client"

Settle

The first deals directly with his broker, the second makes arrangements for his bank to settle his transactions for him or is a corporate body which has assets exceeding liabilities by R1 million

In terms of the Act, the cash client has seven business days in which to pay for shares purchased for him.

The cash delivery client or the corporate client can settle when the scrip is delivered by the broker.

As delivery could take place at any time, it is essential that the cash be available to pay for the shares

If the cash client has not paid by the seventh day, the broker is obliged by law to sell on the eighth day the shares purchased unless he is satisfied that the cash is in the process of being remitted The profit or loss resulting from such a sale goes to the client's account

Where shares are sold, the same rule applies to both categories of client They then have seven business days to deliver the shares They will receive payment only if and when the shares are in good order

When a cash client does a switch, using the proceeds of a sale to pay for a simultaneous purchase, the sale leg of the switch should be done first or finance must be available for the purchase in case the sale cannot be done immediately

It can happen that there are no buyers for a particular share at the time If no transfer deed is submitted with the shares sold, the purchase is not automatically deemed as paid Signed transfer deeds should always accompany scrip for speedy processing

Registering shares in a buyer's name can take seven to 21 days from date of purchase, depending on the company concerned

Mandates

Other administration services offered by brokers include protection of the client's rights to dividends or rights issues where shares purchased have not been delivered to the client by the last day to register for a dividend or rights issue

Under different mandates from the clients, a broker may hold shares in safe custody or deposit surplus cash on the client's behalf with JSE Trustees or in the money market Some brokers will manage investments under a mandate

□ **Next week's article will deal with investment in gilts, options and futures on the JSE**

Protect your portfolio

HERE are a few tips which are, in effect, safeguards for investors:

□ Keep share certificates in a safe place Replacing a lost certificate is nowadays a costly business,

□ Always insist on a receipt or cheque when delivering shares sold,

□ Make sure you receive computer-generated monthly statements,

□ If your broker provides a portfolio service, check that the shareholdings reflected on the portfolio agree with your records of shares in your possession Mistakes are easily made if these do not reflect the same holdings and decisions can be taken on portfolios showing incorrect holdings

This is only a brief look at the work of the stockbroker's administration department and the controls under which it operates But, no matter how many rules and regulations are made, there remains the question of trust between broker and client. Nothing truly replaces the value of a harmonious relationship that is formed by a real sense of service and sound practice on the part of the broker and honest and co-operative behaviour on the part of the client.

Devices that profit market operators

STAR 27/6/92

FOOTSTEPS TO FORTUNE

232

RICHARD Cluver

THERE is more to dealing on the stock exchange than simply buying and selling shares And by being a little imaginative you can substantially increase your potential profits Let me list and explain some of them

□ Call Options are among the most popular devices of the sophisticated market operator They are rights to buy (call) specified shares within a specified time (known as the option period) at specified prices

By paying a small premium, perhaps less than 10 percent of the quoted price of a share, you can buy the right to demand delivery of the shares at any time during the currency of the contract, usually about 120 days and at the price ruling when the call option was bought (the striking price)

Obviously the buyer of a call option expects the share price to rise over a period, but by taking such an option he risks only a fraction of his capital

Expectations

Alternatively if he is something of a gambling man he might risk his entire capital in this manner, thus buying the right to 10 or more times the shares that he could otherwise afford

Assuming the shares do fulfill his expectations, he can then exercise his option and immediately sell the shares at the new higher price

However, call options really come into their own when they are used by the cautious investor to hedge his bets, much in the same way that bookmakers lay off their bets or insurance companies use underwriters

An investor might, for example, decide that the price of his shares has risen sufficiently to provide him with an attractive profit if he sells But what if he sells and the market keeps on rising? Won't he be left behind?

His is a classic dilemma He wants his cake and eat it as well

Bull market

The call option is the magic device that allows him to do just that He sells his shares and simultaneously buys a call option, ensuring that at the cost of the call money he can re-enter the market if the rise continues

□ A Put Option is the reverse of the call option It gives one the right to deliver shares at a specified price within a specified period It is a useful option to have if one fears a market fall might be imminent, a form of insurance that allows the investor to hold onto his shares in a rapidly rising market, such as the final tertiary phase of a bull market

When the inevitable crack occurs he can get out via the back door of his put option It is a less risky variation of the short sale or bear trade

Buying a put option allows delivery of the shares at the price agreed when the "put" was purchased If, however, the rise continues or if the price remains static, the put merely falls away

□ Double Options are extravagant variations of the above two They give the purchaser the right to either buy or sell the shares in question, hedging against any loss and offering the potential of speculative profit at low cost

□ Short Sales are, as I explained recently, the Russian roulette of the share market People who indulge in them are known as bears and such transactions are officially defined as, "Selling on extended terms, shares which the seller does not actually own, in the hope that he will be able to purchase them after the price has fallen"

Clearly there is the potential to make or lose considerable sums

The bear trader who concludes that the price of a particular share is likely to fall steeply, simply offers to sell Usually he will offer them in considerable volume for by doing so he aids his own initiative

Scramble

Ordinary investors who notice that increasing numbers of a particular share are changing hands while the share price is declining will, fearing that someone knows something bad about the shares that they do not know about, often scramble to protect their capital by selling their own shares at the same time

When the price has fallen sufficiently, the bear starts buying in shares so as to be able to deliver what he has already sold If he has been lucky, he will have made a bundle of money for no cash outlay.

Of course, the primary danger the bear faces is that, instead of falling, the price might rise In order to honour his undertaking he would then have to buy in at whatever price the market dictated, and there is nothing like a desperate buyer to push up the price of a share!

There have been many celebrated cases where foolish bears have sold more shares than were actually in public hands

The Stock Exchange Control Act stipulates that bears must inform their brokers in writing of their intentions and the brokers must in turn inform brokers representing prospective buyers of beared script of the nature of the transaction

The bear must also lodge sufficient funds with his broker in order to cover the deal in the event of it going wrong It is thus no longer the heady option it once was

□ Buying on Margin is another of the more common market devices This is the reverse of short selling The margin operator makes use of the credit facilities offered him by some stockbrokers

Such transactions are regulated by the Stock Exchanges Control Act which stipulates that the indebtedness of an individual to the broker may not exceed half the market value of shares which he lodges with the broker as security

In such cases the operator buys on credit in the expectation that a share will rise in price, and he will probably sell again within hours or days His risk, however, is that instead of rising, the shares fall

Regardless of the type of deal, brokers charge the same In the case of puts and calls, there is no basic charge, though brokerage and Marketable Securities Tax are collected

If the call is exercised then tax and brokerage are collected on the striking price as well (that is upon the balance of the money that changes hands) Margin and short deals of course attract the same charges as normal transactions for they are, technically anyway, indistinguishable from the more normal type of deal

A million

□ Taking Stock is a serialisation of Richard Cluver's latest book "How To Make a Million" which, together with his other titles, "Making Money With The Mutuals" "Investment Without Tears" and "Advertising For Free" is available from Richard Cluver Investment Services, 23 Aberfoyle Rd, Westville, 3630 They are priced at R40 each inclusive of postage and VAT Demonstration disks of his ShareFinder sharemarket analysis computer programmes cost R35

□ *The use of puts and options, among other derivative investment instruments, will be discussed at the next meeting of the Star Investors' Club, to be held at the Sandton Holiday Inn on July 13 For more information please call Rosemary at Cordev Marketing on (011) 4833214/5 Booking for this meeting is essential*

Holdains to apply for delisting of Sunpak

PAPER and packaging groups Holdains and Sun Packaging (Sunpak) have announced details of their proposed scheme of arrangement involving Sunpak, Sunvest and Biopolymers BDay 29/6/92

Holdains said it would apply for a scheme of arrangement whereby the Sunpak group of companies would be delisted and become wholly owned Holdains subsidiaries

Business Day Reporter 232

Sunvest minority shareholders will receive 130c for every ordinary share or 123c for every deferred ordinary share Sunpak shareholders will receive 144c a share and Biopolymers shareholders 50c a share

Holdains last year acquired 65% of Sunvest, an investment holding group which controls Sunpak and Biopolymers

Left to write

Dividends worry property analysts

BDay 29/6/92

(232)

PETER GALLI

THE property industry was worried about whether listed property loan stock and property trust companies could maintain or improve dividends to shareholders under present market conditions, property analysts and market players said at the weekend

There are 30 such companies, some of which are battling

Abcon MD Niki Vontas said the past year had seen a relatively insignificant performance from all the companies in these sectors, with growth in an 11% to 11,5% range This would be quite diverse this year

Frankel Max Pollak Vinderine analyst John Rayner said vacancy levels were high, the number of bad debts was increasing and present market conditions were not allowing any rental growth

Attractive

"All of these factors contribute to a very tough market until the middle of 1993 at the earliest Listed property vehicles which normally react positively to an interest rate cut have shown no response at all," he said

The market needed at least a 2% cut in interest rates to make the yields of these sectors look attractive The index yields for the loan stock sector was 12,5% and for property trusts 11,2% at present

"However, the sectors have already discounted a lot of bad news and I do not think they have much more downside potential beyond a further 5% to 10% They are currently trading at a price that is far lower than the value of their underlying assets," he said

However Vontas said there were two elements to these shares, capital appreciation and income growth Regarding income growth, the present financial year would separate the good portfolios from the bad, he said

On capital growth, the shares were rated on a historic yield basis and discounted events as far as 18 months down the road Thus the present feeling was bearish as 1993 was not expected to show rental growth or any real improvement

However, at the beginning of 1993 factors for 1994 would be discounted and the mood would be more bullish as rental growth on the back of reduced vacancies was expected

"Abcon expects to beat its distribution forecast at the time of listing as we have secured rental income for 1993," Vontas said

Property loan stock company KH Props financial director Peter Whewell said the company's portfolio was holding up well and was 98% occupied

The company had budgeted for growth of between 10,5% and 11%

Certain companies had overdeveloped as they had not properly investigated market needs or the economic cycle "The industry needs to exercise caution and watch the development and letting scenarios closely, particularly in the decentralised nodes," he said

"If a portfolio finds itself with vacancies, these affect rental income However, the installation of new tenants also affects this as partitioning and other such expenses, as well as agents fees for letting the property, have to be covered," Vontas said

COMPANIES

Unit trust 'with a conscience' launched

MICK ELLINGHAM (232)

A NEW unit trust aimed at "socially responsible" investors is to be launched by Southern unit trusts tomorrow

The Southern Pure Specialist Fund targets investors whose moral code prohibits investment in certain industries, as well as those groups which are environment-friendly

B[usiness] Day 30/6/92

Southern investment GM Shams Pather said in Johannesburg yesterday "The new fund is not specifically a Muslim or Islamic fund investing only in Halaal companies"

Pather said the fund would not invest in companies concerned with any of the following intoxicants such as alcohol or tobacco, hotels, gambling, pork, interest-bearing instruments such as banks or insurance companies

"The fund will also not invest in companies that produce commodities deemed harmful to the environment," Pather said

Although the fund would be limited to about 60 JSE-listed companies, Pather was confident the Pure Specialist Fund would not underperform relative to the unit trust industry

"The portfolio will consist of share investments in gold, mining, industrials and property as well as cash," he said

OWNERSHIP & CONTROL

1992

JULY — AUGUST.

Life Offices come to the aid of the under-privileged

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STAR 1/7/92

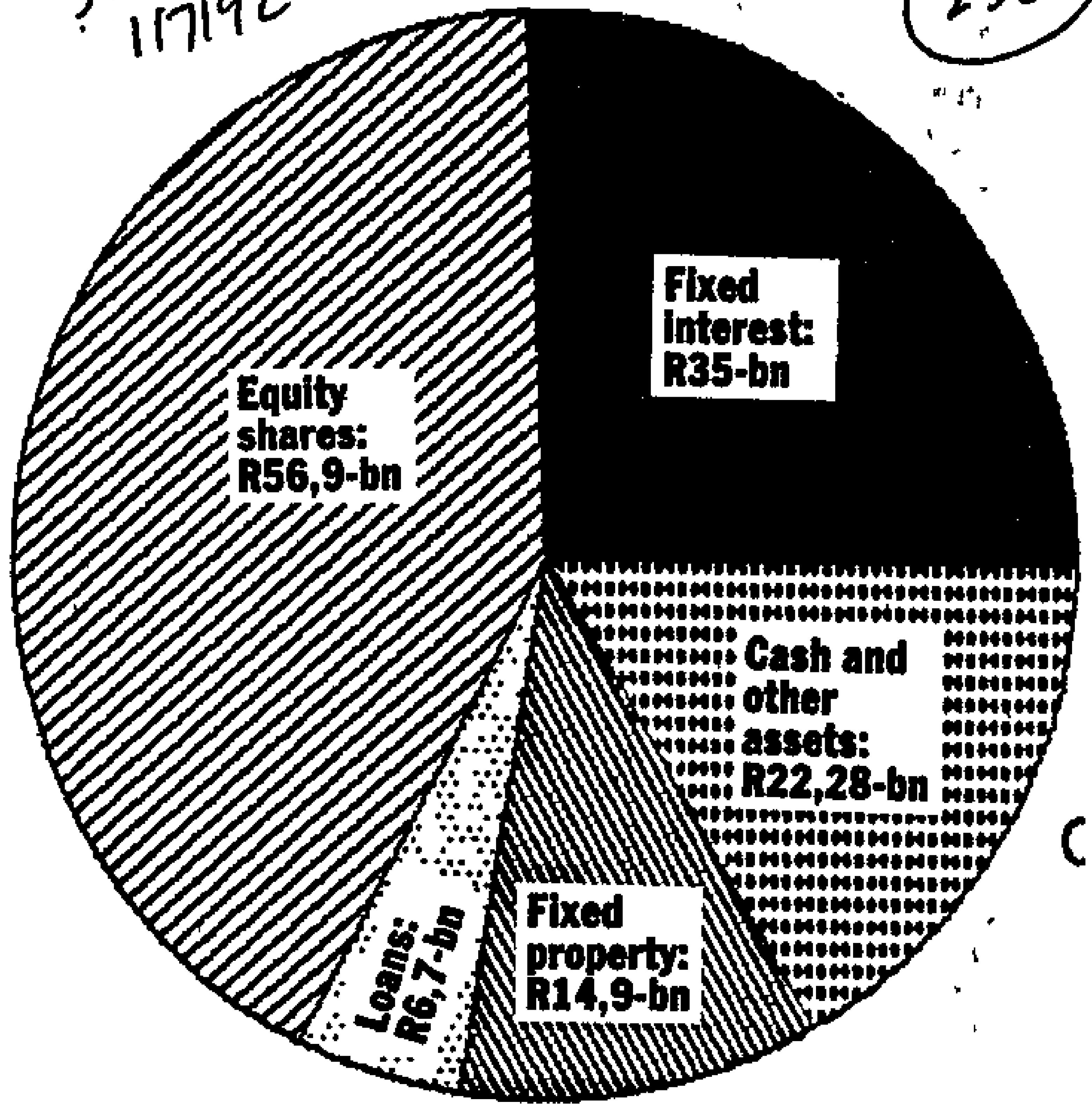
By Derek Tommey

The life insurance companies have formed an investment development unit to assist in projects helping the under-privileged obtain funds from the life industry.

But companies made it clear yesterday they did not intend simply to hand out cash to any supplicant with a plausible case.

Finance would be forthcoming for projects only if they satisfied reasonable investment criteria, they said.

Louis Shill, chairman of the Life Offices' Association, said the task of the investment development unit would be to evaluate and develop investment projects benefiting deprived communities, while providing investors with security and adequate long-term returns.



Assets of the Life Offices total R135,7 billion.

Criteria

Mr Shill said it was not possible to say how much the insurance companies would invest through the unit.

"The only limitation will be the ability of a project to satisfy reasonable investment criteria.

"If acceptable projects are made available, the money will be forthcoming."

He said that Barry Adams, former managing partner of Arthur Andersen & Co, and currently chief executive of ABR Corporate Finance, and David Geary, a former Sanlam executive, and until recently managing trustee of an investment trust, had started work at the unit.

They would initially set investment criteria and establish project ratings.

It was intended that initial investments would be in the areas of greatest need, such as housing, education, health and related infrastructure.

The unit would also actively seek investments to create sustainable employment in the commercial and industrial sectors.

The move is seen as a reply by the life offices to the continual criticism by labour unions and political groupings in recent years that they have not used any of their billions in investment funds to benefit the socially and economically deprived communities.

Mr Shill strongly denied that the insurance companies had not helped the under-privileged.

He said the life insurance companies had already committed some R10 billion to social development projects.

It also had some R45 billion invested in the broader infrastructural sector.

This excluded their substantial investments through shares, properties and other instruments which provided the country with long-term development capital.

The unit was a more obvious manifestation of the life insurance industry's more intensive support for development investments which would provide both social upliftment and adequate returns, he said.

"Given the current socio-economic situation in South Africa, the life insurance industry feels that a more focused approach is necessary, if it is to assist in developing a phase of societal and economic growth."

The unit has been under development for some months.

Extra-parliamentary groups such as the ANC, PAC, IFP, Cosatu and Nactu, together with the Government, have been involved in the development of the unit, or have been kept informed about its development.

Progress's shares drop

B/Day 17/7/92 232

MICK ELLINGHAM

CLOTHING, footwear and textiles group Progress Industries' shares yesterday reached a low of 100c, having fallen by 33% since the beginning of June

The share stood at 290c a year ago, but fell steadily to its present low of 100c.

Fergusson Bros analyst Howard Cantor said the drop was probably a result of poor consumer demand.

Cantor said it was also possible that investors were getting out the market, as shown in the high volume of shares traded over the past two weeks.

The Natal-based group recorded a R250 000 trading loss for the year ended December 1991

COMPANIES

Investec's Metfund wins fight with inflation

MICK ELLINGHAM

METFUND, the Investec group's unit trust, has earned an inflation-beating 19,8% return for the year ended June 1992

Fund manager Hendrik du Toit said the fund's exposure to the mining sector had been increased, despite the reduction of its Anglo American holdings.

"This action is consistent with Metfund's stated strategy of increasing exposure to commodities and other beneficiaries of an expected US recovery," he said

In the mining sector, De Beers was partially switched into Anamint on rating considerations, while Metfund's direct gold holding was reduced to around 2,7% of the portfolio through the sale of Vaal Reefs

"The disposal of Tiger Oats, Shoprite and a portion of the SAB holding is consistent with a move away from consumer stocks," Du Toit said. 232

It was highly unlikely the SA economy would attain a positive rate of growth during 1992 BDay 1/7/92

"Due to the drought and recently created political uncertainty, the onset of the local recovery is unlikely to commence before 1993," he said.

W&A in R118m foreign acquisition

DUMA GQUBULE

2/7/92

INDUSTRIAL holding company W & A Investment Corporation has made a strategic offshore acquisition of an undisclosed scaffolding business for R118m

Late last night chairman Jeff Liebesman refused to disclose the name of the company or its location "The matter is still too sensitive," he said

However, sources said the acquisition was the Kwikform scaffolding business in Australia which was in direct competition with the W & A group Kwikform is said to have net assets of about R150m

Liebesman said the deal had been funded by equity and all major future acquisitions would be funded in the same way. The deal would be settled in five tranches, the first of which had already been raised

The group had, in the past few days, raised R88,5m by way of a placing of 21,9-million W & A 12% "C" unsecured debentures of 400c each and 1-million ordinary shares issued at 400c each with selected SA financial institutions (232)

Sources said the institutions included Momentum, Sanlam, SA Eagle and Genbel

The W & A statement said application would be made to the JSE for the listing of the ordinary shares and convertible debentures on July 10 and July 23 respectively

The statement said the remaining

To Page 2

W & A

Bday 2/7/92

tranches, falling due over a four year period commencing July 1 1994, would be effected from future cash flows emanating from the acquisition

W & A, through its AAF subsidiary, recently bought a number of scaffolding companies in England and Liebesman said his group was now one of the biggest companies in the world in this sector

He added it was group strategy to dominate certain world markets where strong growth opportunities had been identified and where entry into the maintenance and service applications of the industry could

(232)

From Page 1

be seen

The acquisition would enable W & A to increase product offtake and service overseas markets more effectively

Little is known about the group's offshore interests, except for UK-based AAF Investments It is estimated that the group's offshore interests now have a net asset value of between R350m and R400m

The W & A statement said the acquisition, if it had been effective for the year to December, would have resulted in a 6,86% decrease from 78,7c to 73,3c in fully diluted earnings a share

Futures a good hedge against market moves

B/Day 27/7/92 (232)

BEING relatively high risk investments, the downside value of listed shares can be hedged amid equity market uncertainty using derivative instruments.

Investors in a portfolio of shares are encouraged to use futures as a hedging tool against market movements which might adversely affect the value of their shares.

Mathison & Hollidge head of derivatives William McKinnon, who cautions against using futures contracts as a means of speculation, says it is not necessary to hedge one's portfolio at all times.

A normal portfolio hedging strategy would leave it hedged or insured to the same degree that the market is likely to fall.

"Ordinarily, this would be up to 25% and thus the investor need not invest vast sums to take advantage of the futures market."

Futures also do not suffer from the same liquidity problems as equities.

"They can therefore be used to increase or decrease the liquidity of a portfolio, without costly delays and handling fees."

Weighting

Since each futures contract is a representational "portfolio" based on the index weighting of certain shares it will accurately reflect the general trend of the market.

"It is thus possible to hedge against a fall by taking a contrary view and selling a proportional amount of a portfolio in the form of a future.

"In this way, should the market fall the cash appreciation of the futures contract will offset any diminution in value of the portfolio."

McKinnon says that by using futures, which are not without risk, one obviates the need to sell and then buy back stock.

Futures contracts can be used to boost the performance of a portfolio by increasing its sensitivity to market movements.

By buying and selling futures contracts at the correct time one can make additional profits which may later be used as insurance for the portfolio.

Contracts may be entered into and closed out faster than the underlying shares can be bought or sold. They are also cheaper to deal in on a percentage basis than equities.

"Given a reasonably volatile market the indices which futures represent can easily move by 40 to 50 index points a day.

"In terms of the standard futures contract this represents R4 000 to R5 000, or 4% to 5% of a R100 000 portfolio."

He says that investors should know that when trading futures one takes a view, either bullish or bearish on a potential market movement.

Investors would need a minimum up-front collateral or margin of R20 000 as required by the SA Futures Exchange. In addition, a booking fee of R40 per trade (10 contracts minimum) is paid to the clearing bank.

"Remember, a futures contract is open until closed out. Once bought it must be sold within the contract lifetime of three months," he says

JSE creates post of surveillance director

B/Day 2/7/92. (232)

MERVYN HARRIS

THE JSE yesterday announced it was creating the new post of surveillance director to strengthen its surveillance procedures as part of a continuing strategy to ensure the securest possible market

The new official will be appointed from the accountancy profession and will be seconded to the JSE for a period of two to three years

The person appointed will be selected in consultation with the SA Institute of Chartered Accountants and will have full authority over the exchange's inspectorate and surveillance department

In another move to improve surveillance of trading by broking firms, the JSE plans to introduce volume and value of foreign legs of arbitrage transactions in daily trading statistics

Sources said had this system been in place it would have exposed arbitrage deals of the nature which were said to have taken place in the alleged Old Mutual share dealing irregularity scandal

The exchange also announced that a former director of expelled stockbroking firm J Bosman & Co, Jacobus Oosthuizen, was yesterday suspended for one year as a non-broking member after being found guilty of transgressing market rules

The two charges related primarily to the sharing of brokerage with persons other than broking members, and the operation of a branch office without the consent of the JSE committee while he was a director of J Bosman

The penalty in each instance was suspension as a non-broking member with retrospective effect from April 29 for one year The penalties will run concurrently

JSE INDICES FM 3/7/92

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Second-tier poser

The JSE, contrary to fears voiced recently by some investors, has not dumped the idea of an index relating to second-tier companies But it appears the idea is on hold until somebody works out just how to construct such an index.

Shareholders' Association of SA chairman Issy Goldberg has fired the latest volley in the long debate, claiming in the association's newsletter that while "the JSE was prepared to listen and comply, almost enthusiastically" to his pleas for an index representing second-tier shares to be formulated, "their enthusiasm has been killed by a pronouncement by the Actuarial Society that such an index is not necessary."

Goldberg's views, however, seem a little strong Actuarial Society spokesman on JSE actuaries indices Isak Mostert says the organisation would construct a second-tier index — if it knew how

"It's almost a mythical index We know how to construct it mathematically, but I doubt we could formulate a so-called second-tier index capable of relevantly mirroring the performance of the portfolio of the man in the street," he says "The companies that make up those portfolios are just too diverse, and many include blue-chip shares"

He believes that, to be effective, a second-tier index must give an indication of what happens to second-tier portfolios, and this is not possible because of the number and diversity of companies involved "The relationship seen in an index reflecting blue-chip shares breaks down when it is extended to second-tier companies The danger is that it could be another white elephant index"

But it's not only small investors who want the index Intrust chairman Bas Kardol, in the company's latest annual report, says that judging the performance of Intrust is made difficult by the lack of an index relating to what he calls "green-chip equities."

Intrust's policy is to invest in second-tier companies in which it has identified above-average returns, though Kardol's argument for a second-tier index probably holds true for most of the investment trust industry

Though the JSE does not regard the index in quite the same mythical terms as Mostert, they have been playing around with the idea, on and off, since 1990 But nothing has yet seen the light of day.

President Roy Andersen says the JSE has not abandoned the idea "Conceptually, we believe a second-tier index is of value and will be of interest to investors, particularly non-institutional investors," he says

"But we do understand the difficulties the Actuarial Society raises We are now devoting our attention to the merits of a Top 30 index Once finalised, we will revert to putting together a second-tier index," he adds

That is, of course, when somebody works out how it can be done Meanwhile, the indices being used remain heavily influenced by a comparatively small number of counters with large market capitalisations and thus give only a limited view of market movements.

TOP COMPANY WINNERS

The first *FM* Top Company Awards were presented by Editor Nigel Bruce in Johannesburg last week The overall Industrial Company of the Year is Royal Corp, which is also the winner for companies with total assets of R100m-R500m in the last financial year.

Other winners are:

☐ Top Industrial Company with total assets exceeding R500m: Murray & Roberts Holdings;

☐ Top Industrial Company with total assets below R100m. Scharrighuisen Holdings,

☐ Best Investment Performance: Trencor

The top industrial companies are selected from the Top 300 table in our *Top Companies* survey, published last week, by calculating the average rate of increase over the previous financial year of total assets, market capitalisation and net profit

To qualify for consideration a company must show growth in all of these measures as well as in turnover It also has to be profitable in the previous two years.

The overall winner is chosen from the three top industrial companies by the *FM*'s senior staff. The overall winner is not necessarily the company with the fastest growth rates because these may be a function of size The panel considers other factors of concern to investors, such as the quality of management, growth strategies and ability to seize opportunities.

Royal Corp executive chairman Vivian Imerman

Royal Corp was chosen because it:

☐ Had consistent growth in all three criteria;

☐ Showed itself to be an imaginative and creative company with a controlled acquisition policy, seizing opportunities presented by disinvesting multinationals;

☐ Is strongly developing its trademarks,

☐ Has a strong export-orientation, earning about 70% of turnover from exports

The top five companies in each category are:

☐ Assets exceeding R500m Murray & Roberts Holdings, Engen, Pepkor, Malbak, LTA;

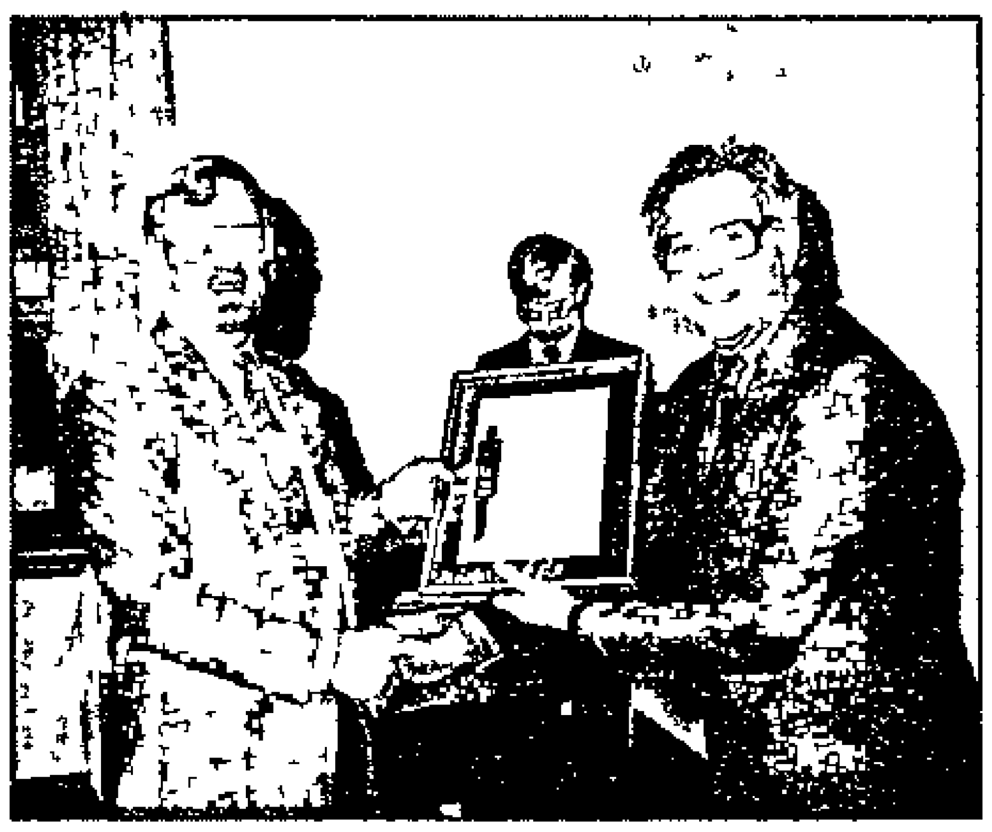
☐ Assets R100m-R500m Royal Corp, Smart Centre Holdings, T&N Holdings, Carlton Paper Corp, Shoprite Holdings;

☐ Assets below R100m Scharrighuisen Holdings, I B Joffe, Buffalo Corp, Log-Tek Holdings, Otis Elevator

The Best Investment Performance winner was selected by using a formula to calculate the combined return to investors from dividends and the increased share price over the past five years.

The top five companies in this category are, in order: Trencor, Utico Holdings, SunBop, Suncrush and CNA Gallo. The full table was published in the survey

It is intended to make these awards annually.



With editor Bruce, from left, Trencor financial director James McQueen, M&R chairman Dave Brink, and Scharrighuisen executive chairman Cas Scharrighuisen

Unit trusts declare distributions of R9,6m

LINDA ENSOR

CAPE TOWN — Four of Old Mutual's unit trust funds have declared distributions totalling R9,6m for the period to end-June

The Top Companies Fund will pay out 6,36c a unit for the six months to end-June, bringing its total declaration for the first eight months of its existence to 9,09c a unit

The Old Mutual Mining Fund will pay out 5,15c a unit for the six months to end-June, bringing its total for the year to 11,09c a unit, the Old Mutual Gold Fund has declared a distribution of 2,53c a unit, giving a total of 5,6c for the year to end-June The Income Fund has declared a distribution of 3,55c a unit for the three months to end-June, bringing the year's total to 14,98c a unit

(232)

□ MICK ELLINGHAM ~~reports~~ that Fedgro Unit Trust has declared an income distribution for the six months to end-June of 2,91c a unit after achieving growth of 20,1% for the year BDay 3/7/92

During the second quarter of 1992 FNB, Amgold and Middle Wits were added to its portfolio and a number of existing shareholdings were topped up Assets under management grew to almost R35m

Southern Unit Trusts sees assets grow R22m

BDay 3/7/92 (232)

MICK ELLINGHAM

SOUTHERN Unit Trusts reported a R22m growth in assets under management to R151m for the quarter ended June 1992

Unit prices in the Southern Equity Fund increased to 183,51c from 175,86c a unit and to 130,82c from 125,01c in the Southern Mining Fund

All shares held by Southern Equity Fund in East Dagga, Tongaat and Sasol were sold while Genbel stock was reduced

Anglovaal, Bevcon, SA Breweries, Dimension Data, Afrox and Consol were introduced into the fund

The holdings in a number of companies, including Rembrandt, Tegkor, Keely, Anglos, JCI, Richemont, Southern and Safren, were increased

Liquidity increased marginally to 15,6%

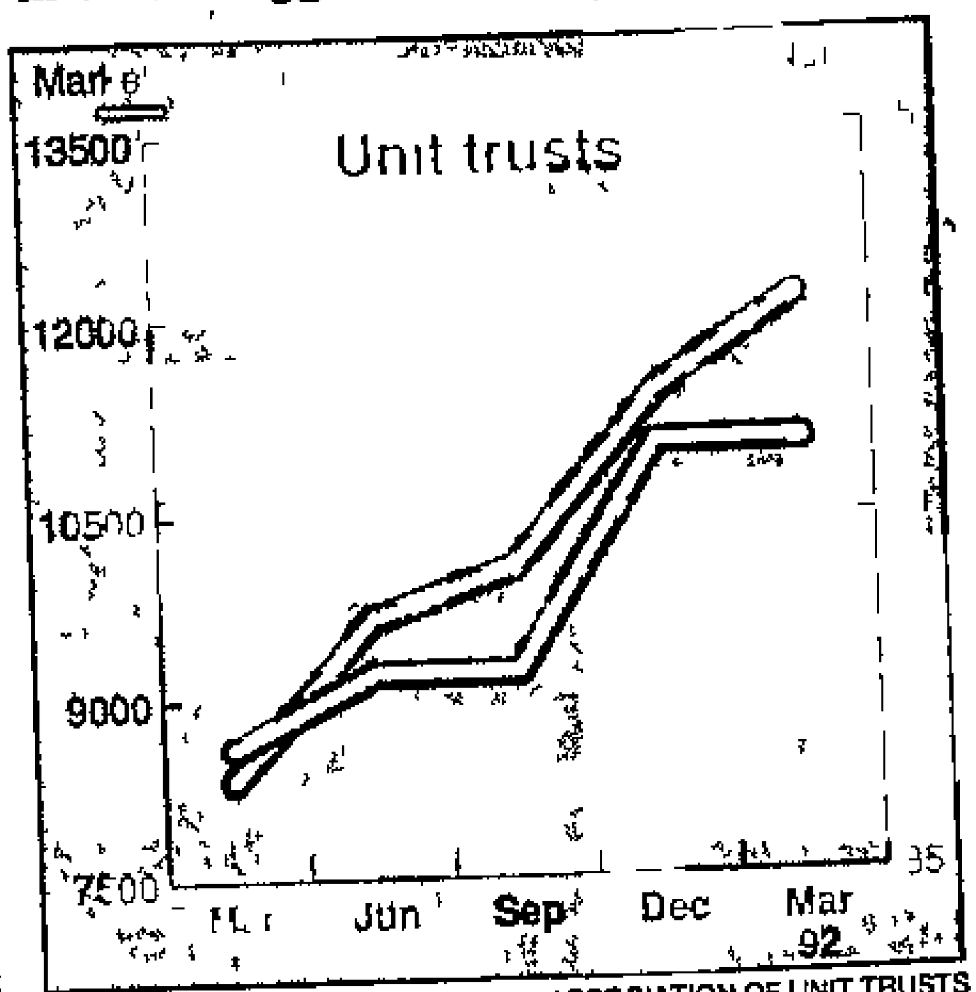
The Mining Fund returned 4,25%, having yielded a 13% annual compound growth since inception

Elandsrand, Lebowa Platinum, Keeley and Lonrho stocks were sold by the Southern Mining Fund and exposure to Implats and Genbel was reduced.

De Beers, Randfontein and Vaal Reefs shares were increased and liquidity rose to 13,8%

Southern Life GM (investments) Carel de Ridder said trading conditions and economic growth remained under pressure globally.

While the current recession had not been particularly deep, it had lasted "for an exceptionally long time", he said



Graphic RUBY-GAY MARTIN Source ASSOCIATION OF UNIT TRUSTS

ANOTHER SHAKE-UP

(232)

FM 3/7/92

The leader board was shaken up again last week as a result of difficult trading conditions in which the All Share index futures frequently moved against the JSE overall index Moving into the sixth week of the Safia Futures Risk Management Competition, it is clear there could be more surprises

WHO WILL WIN?

		%
1	Lance Coogan, Lorenzani & Coogan	9,50
2	SMB3	8,14
3	Chris Greyling, Securities Inv Bank	6,65
4	Finansbank Treasury	6,56
5	SMB1	5,29
6	Barend Griesel, Prima Bank	4,12
7	National Futures and Options	3,49
8	Trevor Tanchel, Discount House	1,80
9	SMB2	0,87
10	G Morkel-Brink, Genbel Investments	0,82

The mild JSE recovery on Thursday sparked a dramatic rise in futures This was attributed to short covering with futures by some big corporate treasuries, allowing Lance Coogan to move into first spot Then, on Friday, the futures retreated unexpectedly against the JSE index This took its toll on the bulls and most contestants finished the day well off their impressive midweek highs

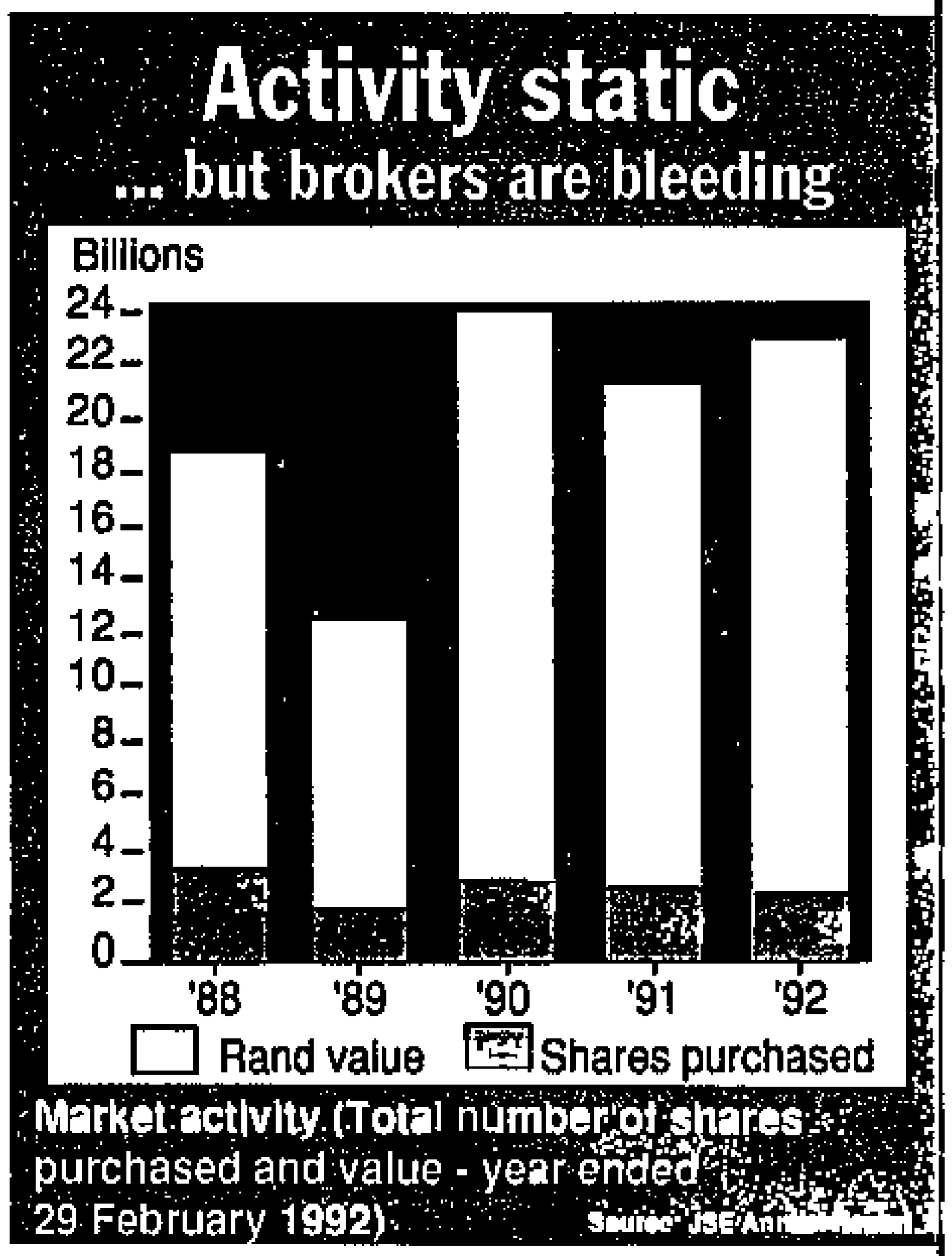
Given the wild day-to-day swings in the fortunes of the top 10, even the back markers could make significant progress in the race for the R75 000 prize money sponsored by Prima Bank, RMB, Investec, Standard Merchant Bank and Reuters

SMB remains a highly consistent performer in terms of the *FM* Top Trading Desk Trophy, with three contestants still in the top 10 It is leading, with Finansbank second and Genbel third

JSE BROKERS

Shrinking industry

There goes another broker. Late last week the JSE announced that Ben Janse van Rensburg & Co, represented by sole proprietor Ben van Rensburg, was in default of the JSE's minimum requirements in respect of



Market activity (Total number of shares purchased and value - year ended 29 February 1992)

its capital base. The firm was promptly refused trading facilities.

This makes it the fourth broking firm to be disbarred from trading on the JSE in the past six months, and it follows on the fine tradition set by Hilary Crosby, J Bosman and, just two weeks ago, Andrew Forbes.

The question must be: why is this happening, and why in such a lemming-like way? The answers are diffuse. Aside from a natural desire for the aggressive accumulation of wealth — and, to be fair, the JSE's members are not alone in their quest for material affluence — the chickens of appalling liquidity are coming home to roost. Turnovers on the market are no longer sufficient to support the number of brokers offering services to the investing community (see *Leaders* June 5).

Since 1990, the rand value of shares bought and sold on the JSE has declined from a peak of R24bn to a low of R21bn in 1991. The 1992 figure of R22,7bn was not much better. These are numbers which matter a great deal to brokers. Their own costs continue to escalate. They employ highly paid people and consider it necessary to rent well-equipped premises. All of these cost money and, in the current inflation-driven environment, their costs, in aggregate, can only go up. To survive, turnover must increase commensurately. It has not (see graph) and this is certainly one reason for brokers failing.

Another factor may be that broking firms are required to support not only themselves, but their institution, the JSE. Last year the JSE cost its members R62,6m. Many brokers now say the JSE costs too much.

Executive president Roy Andersen says the JSE's costs increased by a paltry 2% in 1992 and he is budgeting for another mere 2% increase, before the losses incurred by the Traded Options Market, this year. "Where else," asks Andersen, "does anyone find cost increases in operations limited to such a low number, given SA's inflationary economy? In addition, JSE charges to broking firms have fallen from 19% of brokers' total costs in 1982 to 12% in 1992."

That is not the point, say aggrieved brokers. Computer costs are far too high and the JSE's membership has been required to finance the fiascos of the past, they allege. Andersen retorts that the JSE's mainframe computer gave an extraordinarily high available time of 99,7% in the last year and its operating costs are low and "highly competitive." This kind of criticism, he says, is merely "JSE bashing."

But brokers claim it is one thing to say that costs are now being contained when they were allowed to spiral out of control in a fit of uncontained profligacy in previous years.

Some brokers are demanding that the new JSE committee should turn its attention to zero-based budgeting, a system which requires that each item of budgeted expenditure should be examined, and justified, from its base.

Andersen says, shaking his head, that the JSE is doing all in its power to hold costs. Charges to listed companies in the new year will be increased by only 8% and to broking members by a low 10%. He says the budgets have been drawn on the most conservative of estimates: 2 000 equity and 500 gilts deals a day, down from 1992's 2 200 equity and 500 gilts deals.

JSE's Andersen ... *smiling despite a gloomy background*

He says equity deals in the first quarter of the new year averaged 1 957 deals a day and gilts 604. From the budget viewpoint, he adds, this is not a bad record.

Nevertheless, brokers are now more vulnerable to rising costs and static turnover than they have been for some years. It looks increasingly as though broking is a shrinking industry. Unless someone smart comes up with a way to lift the country's self-imposed liquidity ceiling, caused as much by rigorous exchange controls as it is by the marketable securities tax — which government promised a year ago to remove and has not.

There are rumours in the marketplace that another three broking firms will soon fall foul of the JSE's capital asset base requirements. Andersen refuses to be drawn on this; he will say only that increased surveillance has been instituted by the JSE's inspectorate division.

David Gleason

Servgro likely to trade at a premium on its listing

BDAY 13/7/92. (232)

MARCIA KLEIN

ANALYSTS expect Sankorp leisure and services group Servgro to trade at a premium to its 500c a share offer when it lists on the JSE on August 7.

Servgro, which published its prospectus today, holds 40% of listed entertainment group Interleisure, which is the major contributor to its earnings, and 47% of risk management services group Price Forbes, the second largest contributor.

It holds 48% of TV rental company Teljoy, 85% of Avis, 46% of Fedics food services, 43% of Interpark and a 22% investment in Nasionale Pers

The private placement of 28-million shares at 500c a share is being underwritten by Sankorp. The offer opens today and closes on July 29, after which it plans to list in the beverages, hotels and leisure sector of the JSE.

The listing will raise R140m, of which R100m will be used to repay the holding company loan which arose from acquiring interests in the operating companies

It forecasts an 11,4% turnover rise to R903,2m and a 16,1% higher attributable profit of R49,1m in the year to end-March 1993. At 500c a share, it is on a forecast PE of 11 and an historic dividend yield of 3,3%, which is better than the beverages, hotels and leisure sector

Analysts expect the offer to be fully subscribed

Servgro has been valued at 655c a share, and analysts expect it to trade at between 600c and 660c

One analyst said the valuation was conducted prior to the recent steep decline in share prices, and this would affect the value of its interests in Interleisure and Teljoy

Senekal, Mouton & Kitshoff analyst Chris Gilmour said all of the group's interests had well known brand names and had performed well in their own right The group also provided an entry into some high-quality unlisted companies

One negative factor was that its focus on leisure and services meant it was linked to the level of private consumption expenditure which had a poor short-term outlook

The R40m cash raised in the listing and the potential for holding company Fedservices to reduce its holding from 75% would leave Servgro with the potential to generate substantial amounts of cash, Gilmour said

Martin & Co analyst Jerome O'Regan said cash flow characteristics of the major earnings contributors Interleisure, Price Forbes and Teljoy were excellent, and gearing was low

He expected a substantial recovery in unlisted companies from a low base, largely due to Avis Avis's profit record was volatile, and it was largely responsible for the group's earnings dip in financial 1991

He expected the shares to trade above 600c on the basis of a valuation of the underlying businesses and allowing for a holding company discount

BUSINESS

No bacon or booze for Pure unit trust

WMail 3/7-9/7/92 (232)

The ethical investment movement took a step forward this week with the launch of a fund that rules out pigs, punting, puffing and polluting.

REG RUMNEY *reports*

A NEW "socially responsible" unit trust or ethical fund launched by the unit trust division of Southern Life this week won't be able to invest in Southern shares

This is because one of the self-imposed rules of the Southern Pure Specialist Fund precludes it from investing in interest-bearing instruments or companies whose main business is interest, and this rules out banks and life assurance companies

The fund will also not invest in companies involved in pork production Nor will it invest in companies dealing in liquor, cigarettes or gambling That rules out the major hotel groups, particularly Southern Sun.

Despite the ban on interest and alcohol, Southern's GM: investments Shams Pather, a Muslim himself, was at pains during the launch to deny the unit trust is intended as a Muslim unit trust for investing in halaal companies.

Pather stressed that while the fund might attract Muslim or Jewish investors, in South Africa it was impossible to design a fund that exactly met the requisites of the Islamic or any other faith. Ethical funds cannot avoid compromise, he said, so labelling the fund Islamic or Jewish would be inaccurate and would invite the wrath of religious communities

For example, unit trust rules mean the fund has to invest a major portion of its funds in companies listed on the Johannesburg Stock Exchange. These operate in the banking environment — they deposit money in, and borrow money from, banks.

The fund will put money in gold, mining, industrials and property shares, and Pather said around 60 companies which met the fund's criteria had been launched Their names will be revealed at the end of this quarter

Southern aims to get the highest return as possible for its Pure fund

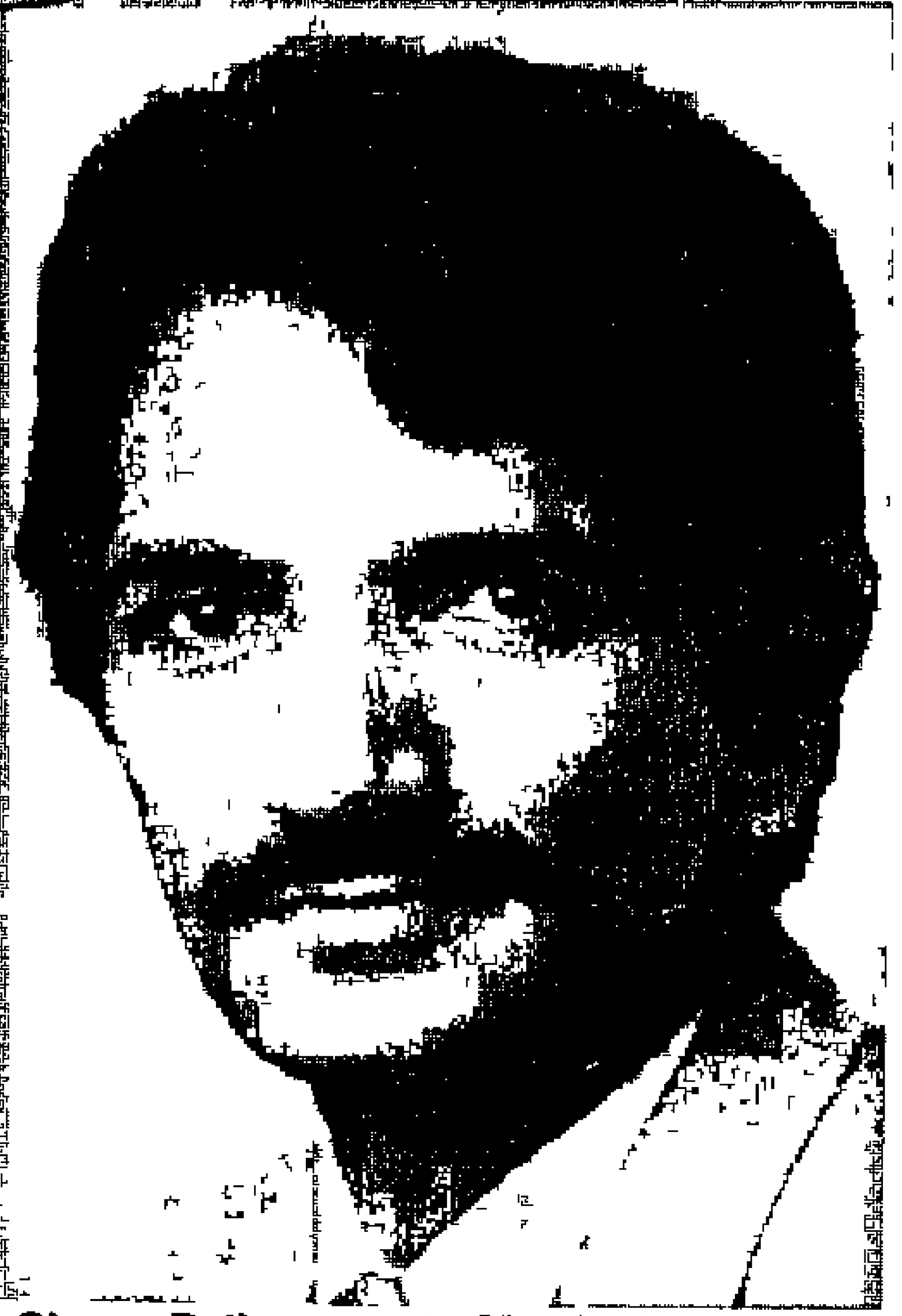
"The investor should not be penalised for his value system," said Pather. He pointed out overseas experience showed the peformance of ethical funds depended on their management. Returns ranged from poor to excellent.

He believed the performance of the shares selected should be similar to those in the other unit trusts Southern manages, where the aim is at least to beat inflation — actual performance has been appreciably better.

Compromise was unavoidable. One difficulty he identified was the problem of cross-holdings, particularly in the mining sector. The Rembrandt group contains mining companies, for example, but they are linked to the parent which is heavily involved in tobacco.

All unit trusts hold a portion of their money in liquid, or cash form, typically 10 percent to 15 percent over the life of the fund, Pather said In normal unit trusts this money is invested in the banking system

The Pure fund will put cash in institutions which practise interest-free banking, such as the Islamic Bank Such banks pay a dividend rather than interest Though dividends in general are not taxable, Pather cautioned that these dividends will be taxable for investors in the Pure fund


Shams Pather ... not a Muslim fund

Pather said such investments over the longer term tended to be higher than normal banking institutions However, to minimise the possibility of lower returns from these institutions the Pure fund will limit cash invested to seven percent.

In general, Pather said, the investment aims of the Pure fund will be no different from that of the other funds Southern manages. This is to reduce the volatility of returns It will hold on to "core" companies, dominant in markets, with sustainable earnings growth. It will also invest in cyclical companies, such as mining companies It will buy core companies when they have reasonable value, and trade cyclical assets in line with market cycles

Pather said the fund would avoid investing in companies whose social responsibility programmes were designed to make up for their pollution of the environment.

As well as environmental irresponsibility, he said, bad labour relations would preclude companies as investments

How will the Southern identify the right companies?

Pather acknowledged the difficulty of monitoring companies, but said Southern would will use media reports, its own analysts, and he hoped investors would advise Southern as well A relationship had been established with organised labour as well, he added

The Pure fund differs from the only other ethical fund in South Africa, the union-initiated Community Growth Fund, in being broader The CGF is aimed at social responsibility from the union point of view.

In the US a range of ethical funds have — and can afford to have because of a much bigger choice of investments — even broader criteria for not investing in companies

These include involvement in nuclear and weapons industries, political manipulation through donations to parties, animal testing — and, in the past anyway, investment in South Africa and other countries with repressive regimes

Fund managers doing well

STAR 4/7/92

Unit trusts are money spinners for their management companies as well as unit holders. The Registrar's figures show that top earner Old Mutual's gross income from the trusts for 1990 was R43,9 million. By DEREK TOMMEY

232

UNIT trusts are well-known for their propensity to make money for holders.

What does not seem to be so widely appreciated is the amount they draw in for their management companies.

Figures issued by the Registrar of Unit Trust Companies show that in 1990 the management companies, controlling R7,55 billion in unit holders' assets, earned R119 million in revenue and had a net profit before tax of R34,4 million.

The Old Mutual Unit Trust Management Company, which started in the late 1960s, was the top runner in terms of revenue and profits. In 1990 it had a gross income of R43,9 million from managing five unit trusts — the Investor's Fund, the Mining Fund, the Income Fund, the Gold Fund and the Industrial Fund.

Purchase and sale of units in the five trusts brought in R6,05 million, the service charge another R10,7 million and "other income" (usually from the creation of new units) R17,1 million.

Expenses took some R32,6 million, leaving R11,3 million in pre-tax profit. Taxed profit was R5,8 million, giving a return of 116 percent on the R4,95 million invested in the management company.

The total value of the assets of the five funds administered by the Old Mutual was R2,5 billion.

Next was Guardbank, which started operating in the early 1970s. Its investment in its management company at R8,26 million was higher than the Old Mutual's, mainly as a result of a significant ploughing back of profits

Guardbank's 1990 revenue from managing its three unit trusts was R21,0 million However, net profit before tax at R10,8 million was only slightly less than that of Old Mutual After-tax profit, at R5,66 million, was virtually the same as Old Mutual's.

Guardbank's three unit trusts together had assets of R1,035 billion at December 31 1990.

Because of a change in financial year, no figures were available for Investors' Mutual Funds, which managed the Sage Fund and Sage Resources Fund.

The next two big earners were Sanlam with a gross income of R19,35 million and Standard with a gross income of R15,2 million

Sanlam's profit before tax in 1990 was R3,7 million and Standard's was R3,4 million. Sanlam had R5,6 million invested in its unit trust management company and Standard R2,18 million.

Revenue of the other unit trust management companies in 1990 and, in brackets, their pretaxed profits were Syfrets. R6,89 million (R3,08 million); UAL. R6,46 million (R1,78 million). Southern R2,78 million (loss of R1,6 million); Momentum R1,27 million (R150 000), NBS R828 000 (R48 800); Investec R647 000 (R20 300); and Senbank. R358 000 (R237 000).

Futures are a way to hedge or speculate

STAR 4/7/92 (232)

FUTURES trading in commodities such as gold, wheat and maize has been in operation in South Africa for some years but is far more restricted in scope than in the developed countries Only authorised foreign currency dealers may trade in currency futures As this series of articles is about stock exchange investment, I will mainly discuss the relatively new activity of trading in futures contracts in the JSE indices

What is a futures contract on a JSE index?
An equity index futures contract represents an agreement to buy or sell the market value of stocks included in a specific market index at a stipulated future date. Each contract represents a hypothetical portfolio of equities, and what is bought or sold is the entitlement to share in the price movement of the JSE index futures contract No asset, apart from cash, changes hands. At present, there are futures contracts trading on the JSE all share index, the JSE industrial index and the JSE gold index

What is the function of a financial future?
Just as commodity futures exchanges grew out of a need for protection against price fluctuations, financial futures markets have developed in the same manner The effect of fluctuations in interest rates, currency exchange rates and share indices can be vastly reduced by the use of financial futures

What are futures' main uses?
Broadly speaking, futures transactions are entered into for speculation, hedging, investment or arbitrage purposes Speculation means taking risks to make a capital gain Hedging reduces risk as the investor takes an opposite position in the futures market to that which he holds in the cash or spot market

How do you buy or sell a futures contract on one of the main JSE indices?
A futures contract is purchased or sold through a futures broker One contract represents 10 times the index Futures contracts are usually traded in lots of 10, less than that is an odd lot Brokerage is at a lower rate than in the case of shares An initial margin of R2 000 a contract is lodged with the Futures Clearing House It has to remain constant at R2 000 a contract so that if the price of the futures index goes down on a particular day, and the investor has bought the futures, he has to top up his margin to the original R2 000 the next day Similarly, if the price rises he is credited with that amount on the following day This daily adjustment is made by a process called marking-to-market. If the contract is allowed to run to the expiry date stipulated in the futures contract, the settlement is based on the level of the actual JSE index

Why are futures attractive for speculators?
Futures can be both bought or sold as an initial transaction This means that both the bullish and the bearish investor are catered for

Also, for a relatively small initial outlay the speculator obtains the price movement of a large rand amount of equities For example, with the JSE industrial index at 4 500, one futures contract represents 10 times this — R45 000.

How can the investor, as distinct from the speculator, benefit from dealing in futures contracts?
In two ways, firstly, through hedging to protect his market exposure (for example a share portfolio); and secondly, the utilisation of futures to invest future cash flows for anticipatory purchases If someone wants to invest in industrial shares, he can instead invest in an industrial index futures contract. If the industrial share market and therefore the industrial index goes up, the futures purchaser will profit even though he does not own any of the major industrial shares. He still, via futures, shares in their price movement. At the moment there is an advantage, in that the industrial index futures price more often than not trades at a discount to the price that it should be trading at This phenomenon, unusual abroad, occurs here because speculators have a greater effect on our future market than investors This situation provides an opportunity for investors seeking a broadly based industrial share portfolio to purchase such, via futures, at a discount to the actual prices quoted on the JSE.

Space has permitted only a very brief look at financial futures trading Investors who are interested need to know considerably more than this and should bear in mind the risk involved in speculation in futures

□ *Next week's article will look at the complex relationship between the share market and the economy*

Investing on the JSE

THIS is the eighth of 10 articles dealing with the relationship between the stockbroker and his client. The author is PHILIP EYLES, director, Davis Borkum Hare.

MAGNUS HEYSTEK is on leave. His "Money Matters", as well as the readers' letters column will resume next week.

Understanding economic cycles

STAR 4/7/92

FOOTSTEPS TO FORTUNE

232

RICHARD *Cluver*

As I illustrated last week, some funds are clearly better than others. There is also a right and a wrong time to buy them and in order to identify the right investment times it helps to have a simple understanding of South Africa's economic cycle

There are always times when money is in short supply, and times when it is freely available. Money shortages lead to rising interest rates And, because share dividend yields bear a relationship to prevailing interest rates, share market prices must fall at such times in order to bring their dividend yields into line.

Fluctuating

Since investment into a unit trust fund is really the purchase of a share in a big portfolio of shares listed on the Johannesburg Stock Exchange, it is obvious that the value of each unit trust fund will fluctuate with the fluctuating value of the shares that it is composed of.

Timing your ideal point of entry thus involves identifying the point when money again begins to enter the money market and the interest rate pattern of the country peaks out, for as interest rates fall, share and mutual fund unit prices will rise as they did this week when the Reserve Bank lowered its lending rate

But let us consider the cycle that, in part, determines money supply and interest rates

South Africa's economy has traditionally been controlled by the agricultural crop and consequently the weather, by the international prices of the minerals we produce and, of course, by the price of gold. The latter for many years represented nearly half of our export earnings.

Picture then a time of good rains and bumper crops, hopefully at a time when the rest of the world has had harvest failures. Assume that the rand is weak in its relationship with other overseas currencies and that we are consequently able to competitively export our food surplus at a profit, that our national balance of payments situation accordingly moves strongly into credit and that farmers, as a result of these export sales, have a lot of money to spend

It is not, of course, just farmers who benefit from a weakened rand Our mineral producers and our exporters of processed goods benefit also from being in a position to undercut their competitors in foreign markets

While the farmers are out spending their money on new cars and tractors and so forth, the industries that supply these goods are obviously working at full capacity and paying out a lot of overtime money to their workers

Industrialists seek to cash in on the booming market by expanding their factories They borrow money to build and to import machinery and, because our balance of payments position looks good, overseas lenders deduce that the rand is strongly underpinned and are happy to lend us money.

However, as this cycle develops further, we begin to run out of skilled labour. Firms compete for staff and push up wages in the process. This process puts more money in the pocket of the man in the street who can, in turn, afford to spend it on luxury goods.

Soon the point must be reached when, despite all its efforts, local industry cannot supply all the desired goods. Retailers then start switching to imported goods But, with all this importing of luxury goods and machinery, our balance of payments moves into deficit The rand starts looking weak and overseas investors become wary of lending money to South Africans

As money dries up, companies which have committed themselves to capital development programmes are forced to start outbidding one another Interest rates rise and share prices tumble in sympathy

As this cycle is, with minor variations always repeating itself, it is clear that one should be able to buy every few years when shares are cheap and sell when they are expensive. Analysis of the past decade proves that the investor who was able to buy at the bottom and switch out of his general funds into an income fund when the former was topping out, would have achieved an 808 percent better growth rate than the man who simply went in for rand cost averaging

By contrast, if one simply buys and holds on forever, one will only gain by the amount that the nation and more specifically the unit trust one is invested in, grows wealthier

Cycle

The latter does, of course, assume that both do prosper for, quite obviously, if you sat tight in a diminishing economy you would grow steadily poorer

One should note that recently foreign trade and investment sanctions tended to disrupt the cycle somewhat in the late 1990s, but the cycle itself remained intact The only real change was that the boom phases became shorter and the recession phases longer

□ Footsteps to Fortune is a serialisation of Richard Cluver's latest book "How To Make a Million" which, together with his other titles, "Making Money With The Mutuals", "Investment Without Tears" and "Advertising For Free" is available from The Promotions Department, The Daily News, PO Box 47549, Greyville 4023. They are priced at R40 each inclusive of postage and VAT. Demonstration disks of his ShareFinder sharemarket analysis computer programmes cost R35.

Southern launches a fund with a conscience

By Quentin Wilson

2324

A UNIT trust fund geared towards investors whose "ethical values prohibit investment in certain industries" was launched this week by insurance giant Southern Life

This follows the positive response by investors to a "socially responsible" investment fund launched by trade unions last month.

After two years of research in which its viability was determined, the Southern Unit Trusts Management Company launched the Southern Pure Specialist Fund this Wednesday

Although the latest fund is open to all, it's commitment to socially-responsible investments clears the way for Muslims, who are governed by religious injunctions regarding business dealings.

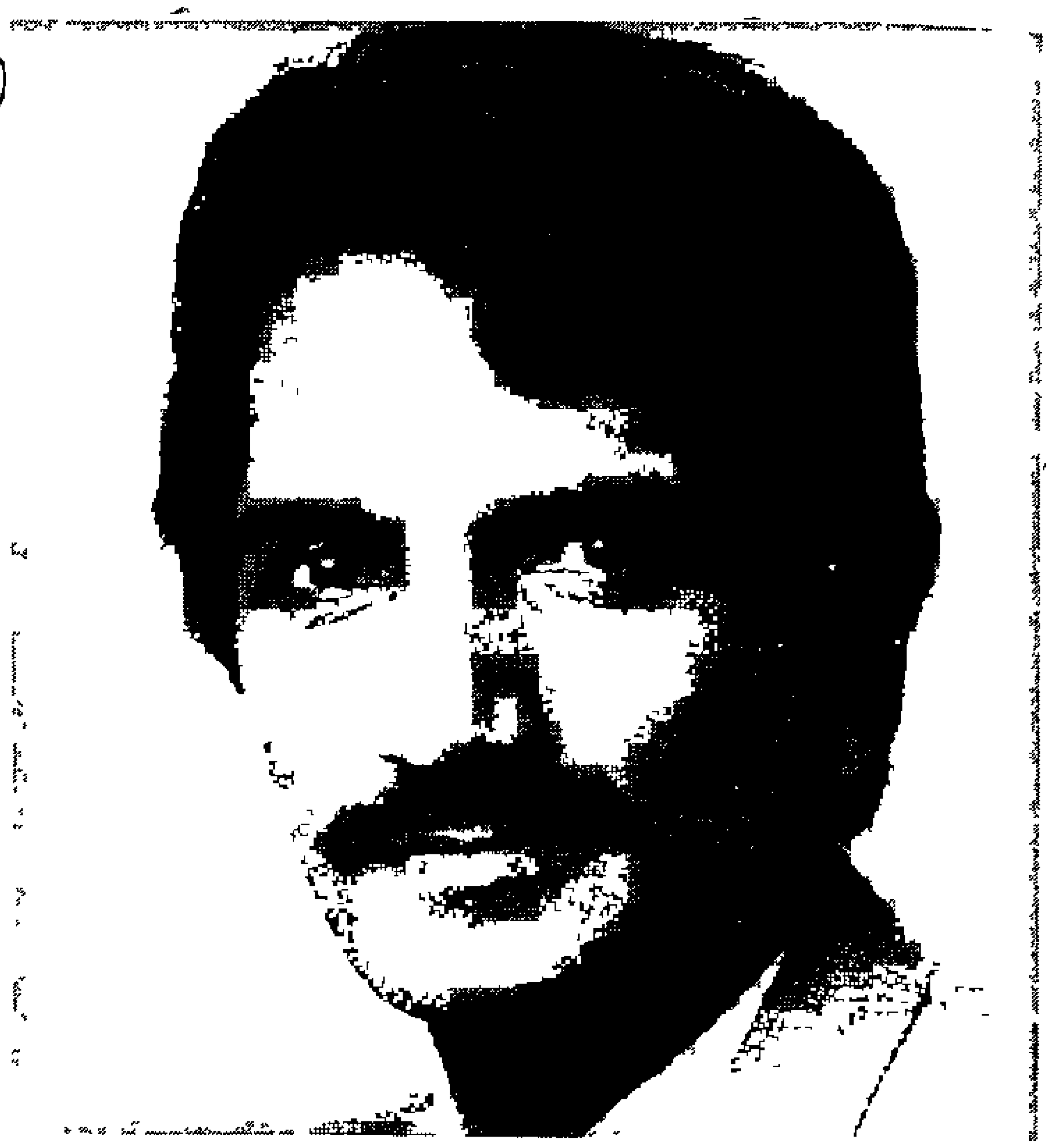
"We would like to make it clear that this is not just a Muslim fund. It is open to all investors whose moral code and ethics prohibit investment in certain industries," Southern's general manager (investments) Mr Shamsodien Pather said.

"The fund will exclude investments in interest-bearing institutions (such as banks), life assurance, liquor, intoxicants, hotels, gambling and commodities harmful to the environment."

The fund will comply with the rules of the Unit Trust Control Act, meaning investments will only be made in companies listed on the Johannesburg Stock Exchange.

Pather acknowledged that "compromises" would have to be made regarding investments as "we are not living in an ideal world — we live in South Africa where it is difficult to find companies that will meet our requirements"

According to Pather, however, fund managers "will try to go a fair way" in ensuring that money is invested in companies which make positive contributions to society.



Shamsodien Pather, General manager, investments — The Southern Life Association

South 4/7-8/7/92

These would include, for example, "the contribution a company makes to education or housing. The impact their activities have on the environment will also be considered, and environment-conscious groups will be consulted," Pather said.

Pather said although fund managers faced limited choices, which excluded many excellent companies, he was confident the fund would not underperform relative to other funds.

"Already one third of our investment portfolio for the fund points to returns of between 20 and 50 percent. Say, for example, you buy a share for R10 and sell it after 10 years. If it was invested in a company which managed a return of 25 percent annually, you would make a profit of R25 — and that is without re-investing the returns along the way

"We would like to see the fund achieve a performance similar to that of other funds Many of the shares to be included in the portfolio are shares in which Southern Unit Trusts already invest," Pather said.

If the success of its two funds is anything to go by, their latest fund promises similar results.

Over the past financial year, the Southern Equity Fund proved itself as one of the country's top funds with a return of 34,38 percent. Assets under management rose from R58 million to R129 million, while the 40 percent increase in the number of clients is indicative of the strong public support.

Focus knocked

S1 Times (BUSS3) 5/7/92 By CIARAN RYAN (232)

AFTER two rights issues and three successive years of losses, Focus Holdings, Humdinger and Mattress World were provisionally liquidated in the Rand Supreme Court on Friday.

Focus joined the JSE in the 1987 listings boom and grew from a 10-store chain to more than 100 Interests include Mattress World, Smiley Blue, Cashworths, Bachelors, Forty Winks and Aca Joe

Creditors include Nedbank, Investec, Unibank and Mercantile Bank A creditor told Business Times that the application was not intended to put Focus into liquidation, but to "perfect a general notarial bond over movables" or take cession of stock and other movables

A liquidator will be appointed next week to run the company. Acting chairman Peter Alexander says Focus hopes to trade its way out of difficulties

"The major creditors have indicated they want us to continue trading and if our sales in May continue, I think we can do it"

Mr Alexander says the group will be trimmed by destocking, rationalisation and selling shops.

The group had sales of R63-million in 1991 Losses of R7,2-million in 1991 and R748 000 in 1990 were blamed on poor economic conditions Mr Alexander says the cumulative loss continued to grow this year

The going's rough in the JSE trenches

S/Times (Buss) 5/7/92 (232)

THE JSE's 50-odd brokers need trade worth R100-million a day to break even on costs. For every day the figure fails to reach that, someone is incurring a loss

But in these tough times, trade of R80-million is regarded as a good day

Stockbroking is in recession and casualties are inevitable Most JSE trade is in a core of blue chips

The JSE is said to lack liquidity The term applies to the volume of shares available and means there is too little scrip to meet demand

The hot-house effect is well documented — the best shares climb on dwindling trade while the rest stagnate It can be said that there are too many stockbrokers

In the past six months, three brokers have been found in default and another to be acting against his clients' interests All were small firms providing little or no research to institutions

Often, struggling brokers fall prey to a takeover — the rate of change of broking firms' names bears witness to this For example, in my six years' involvement with JSE activities, the Frankel's firm has been Frankel Kruger; Frankel Kruger Vinderme, Frankel Kruger Vinderme Incorporating Menell Jack Hyman, Rosenburg; and is now Frankel Max Pollak Vinderine There was a Simpson Frankel before all that

JSE PRESIDENT ROY ANDERSEN Weeding out the baddies

A stockbroking analyst says "If a firm pays top rates for its analysts — they command expensive packages — and wins brokerage in proportion to the cost, then it thrives

"But if it pays only 60% of top rates, the research will not be good enough to attract enough business Trouble lies ahead"

Analysts study the investment merits of leading companies and make recommendations to clients, mainly institutions, about buying or selling shares

The more an analyst calls the market correctly, the more business will come the way of his broking firm But it takes a long time to build a reputation of credibility and no time at all to lose it when wrong

A dealer says the key is to find a niche market It may be done through specialised research into one or two areas, financial rand trading, cornering the preference-share market, or providing an information service

One mining analyst, who moved from a large firm to a smaller one to help it establish a research division, received several job offers

One he turned down was at Andrew Forbes, which later defaulted and is in liquidation

How easy is it to rip off one's stockbroking employer? Ghost accounts are a favourite Brokers' employees are required to pay for shares dealt in on personal account within 24 hours Obviously, this does not suit the jobbers, who aim to take a turn within the seven days' grace on payment extended to clients

The usual ploy is to open an account in the name of a willing relative

Some firms have uncovered fictitious accounts on their books, particularly after the October 1987 equity-market crash

In practice, dealers buy shares and wait to see what happens to the price before booking them to accounts If it turns positive, the shares are booked to themselves, nominally or otherwise

If not, the employer's book is the destination It is not supposed to happen, but it does

The JSE's new president Roy Andersen knows only too well that until the exchange is purged of the bad element, its future is in jeopardy

For these reasons the JSE has created the post of surveillance director He will help it to achieve a more secure market So far, the president is receiving the thumbs up from institutions which comprise the JSE's client base

BUSINESS

EDITED BY FRED ROFFEY

New investment channels consider moral objections

(232

S Times (Cape metro) 5/7/92

TWO new investment channels initiated by the Muslim community but available to all South Africans were launched in Cape Town this week when top directors of the Albaraka Bank flew in from the Durban headquarters for the opening of the local branch, and Southern Life introduced its Southern Pure Specialist Fund

Details of the new Southern unit trust fund were given at a media conference where it was explained that the fund was aimed at investors whose moral code and ethical values prohibited investment in certain industries

"It will exclude investments in interest-bearing instruments, life assurance, intoxicants, tobacco, hotels, pork-related products, gambling and commodities deemed harmful to the environment," said the general manager (investments) of Southern, Shamsodien (Shams) Pather

He pointed out that the fund would comply with the prescriptions of the Unit Trust Control Act, which stipulated investment in listed securities on the Johannesburg Stock Exchange

"As a specialist fund, the portfolio will consist of share investments in gold, mining, industrials and property as well as cash

"Liquid assets will be held with institutions which practise interest-free banking such as the Islamic Bank in Johannesburg and the Albaraka Bank.

"Cash in the fund will be deposited with these interest-free banks although the listed companies in the portfolio utilise the normal banking system

"Intensive research was undertaken before construction of the portfolio to establish the parameters under which the fund would be managed"

Mr Pather said while the universe of assets from which the fund manager could select was limited and excluded many blue chip stocks, he was confident the Pure Specialist Fund would not underperform relative to the unit trust industry

"Many of the shares which will be included in the portfolio are shares in which Southern Unit Trusts already invests in its other portfolios

"Southern Unit Trusts launched its first funds in October 1988 and has become a major player in the market.

"Over the past financial year ended March, the Southern Equity Fund proved itself as one of the country's top funds with a return of 34,48 percent Assets under management rose sharply from R58-million to R129-million"

5/7/92

The opening of the Cape Town branch of the Albaraka Bank on the corner of Spin and Plein Streets was attended by top executives from the Durban headquarters, including Mr Y M Paruk, first deputy chairman, Adv A B Mohamed, second deputy chairman, Mr E E Vawda, chief executive officer, and one of the auditors, Mr M S Paruk.

In his welcoming address, the bank's religious adviser, Sheikh A B Najaar, said the bank was part of the Albaraka group of companies with 21 banks and financial institutions throughout the world and assets of more than R11-billion

In an interview, a Cape Town director of the bank, Nazier Osman, who is a prominent businessman and community leader, said the bank would be established on sound economic principles "without having to indulge in interest"

The Durban headquarters had made big strides over the past 18 months and its main activity was finance for trade, housing, motor vehicles and partnerships

"We intend to spread into other fields as well," said Mr Osman

"The support we have received in Cape Town has been overwhelming and one of our first account holders was the Muslim Judicial Council"

The bank does not pay interest but declares dividends It helps large and small entrepreneurs and encourages them to start new ventures

Creditors can claim R7-m in dividends

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C Press 5/7/92

CP Reporter

THE liquidators of the AA Mutual short-term insurance business will make a third general distribution to creditors in September.

The third dividend of 25 cents in the rand will bring the total distributed to 80 cents in the rand, with a final dividend to be paid next year.

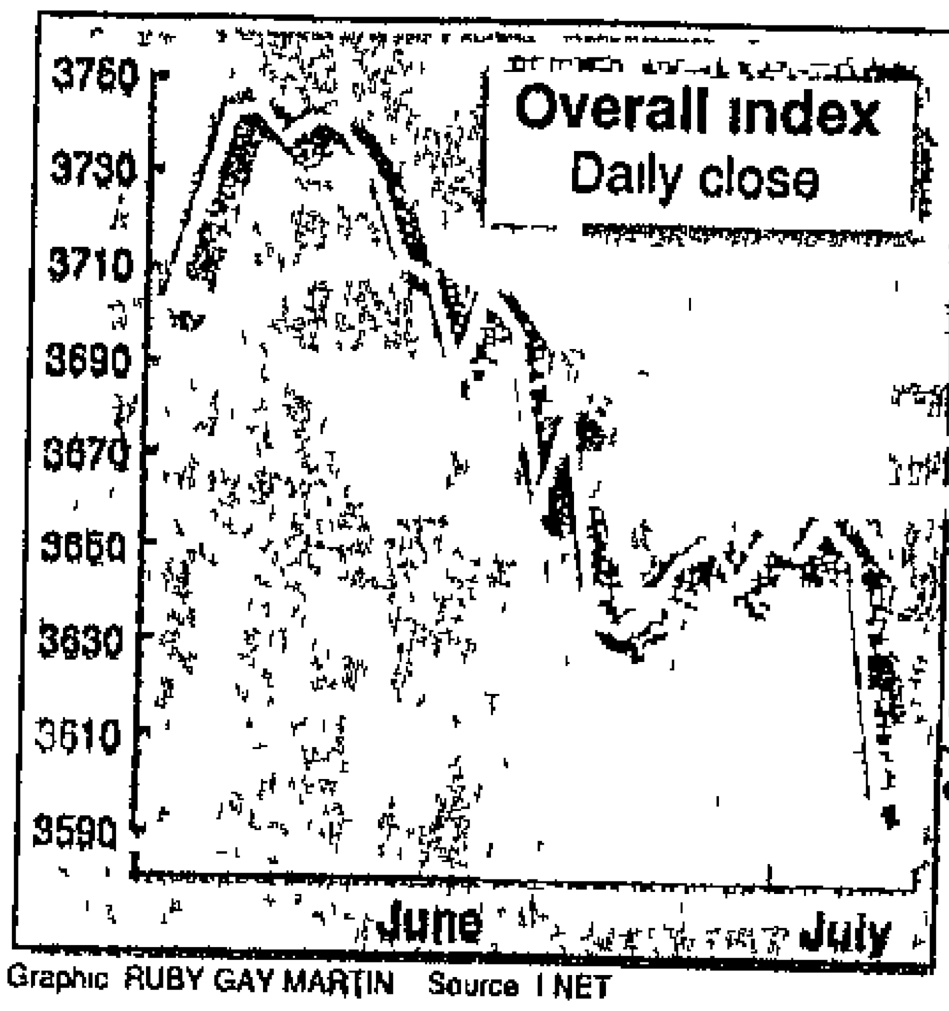
Cheques returned

A large number of dividend cheques sent out to date with a value of R7-million have been returned because certain creditors have not notified the liquidators of a change of address.

Money that remains uncollected is by law passed to the Guardian's Fund and is forfeited to the State after the final dividend is distributed.

■ Change of address details, plus a policy or claim number, should be directed to: The Liquidators, AA Mutual Short-Term Insurance Business, PO Box 9595, Jhb 2000.

Crisis pulls share prices sharply lower



Graphic RUBY GAY MARTIN Source I NET

B/Day 21/7/92

MERVYN HARRIS

FADING sentiment in the wake of the political crisis pulled share prices sharply lower on a depressed and nervous Diagonal Street yesterday (232)

"The market is in limbo and things are looking terrible," a dealer said as share price losses outnumbered gains by 98 to 18

The 64-point decline in the JSE industrial index to 4 435 took its fall to 5,5% from its month-ago peak, while the overall index shed 51 points to 3 599.

Currency dealers reported an increase in finrand volumes After falling from R3,86 to the dollar to an intra-day low of R3,96, it rebounded to R3,83 on news that the Goldstone commission exonerated government from the violence sweeping SA

Servgro bullish ahead of JSE listing

(232)

MARCIA KLEIN

LEISURE and services group Servgro, which is expected to list on the JSE on August 7, has forecast an 11,5% turnover growth to R903,2m in the year to end-March 1993 B/Day 8/7/92

The group, which has interests in Interleisure, Teljoy, Avis, Fedics, Interpark, Price Forbes and Nasionale Pers, said in its prospectus that operating profit would increase by 18% to R118,1m and attributable profit by 16,1% to R49,1m

Earnings a share would rise by 10,4% to 45,6c and the dividend would increase to 18,9c a share from 16,7c

The balance sheet at end-March shows cash of R156,9m, and gearing of 24%

At its listing price of 500c a share, the group was on an historic PE of 12,1 times and a forecast PE of 11, with an historic dividend yield of 3,3%.

Servgro, which has an expected market capitalisation of R700m, is raising R140m to list in the beverage, hotels and leisure sector of the JSE Leisure contributed 66% of Servgro's attributable profit, while services interests contributed 34%

The share offer, which opens on July 13 and closes on July 29, was expected to be well received by institutions, said executive chairman Peet van der Walt

UAL files solid return

6 10ay 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

(232)

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

B10ay 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

B10ay 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

B10ay 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.

Squeaky-clean investments

Sowetan 8/7/92

232

■ **Do you ever doubt the ethics of the investment you have made? Well a newly set up fund might be the answer for you and your money**

A new fund aimed at investors who do not want to invest in companies whose products are morally and ethically unacceptable to certain investors has been launched by Southern Unit Trusts

Investment manager Mr Shamsodien Pather said "As a specialist fund the portofolio will consist of share investments in gold, mining, industrials, property and cash Liquid assets will be held in the institutions which practice interest-free banking.

Exclude investments

"It will exclude investments in interest-bearing instruments, life assurance, intoxicants, hotels, gambling and commodities deemed harmful to the environment"

Mr Pather said serious misconceptions had been created in some Press reports which gave the impression that the fund was a Muslim or an Islamic fund investing in Halaal companies. "In the South African environment it is virtually impossible to design a fund which will satisfy its prerequisites absolutely," he said

Small investor

Unit trusts enable the man in the street to invest in companies listed in the Johannesburg through the purchase of units of shares

He purchases these units via a fund managed by, in this case, Southern Life. Other financial institutions and life assurance companies also have these funds

The advantage is that the small investor can invest in major companies from R50 a month

Session of selling leaves JSE bruised

Bday 8/7/92 232

MERVYN HARRIS

POLITICAL uncertainty left the JSE bruised yesterday after another session of selling which knocked the overall and industrial indices by almost 3% this week

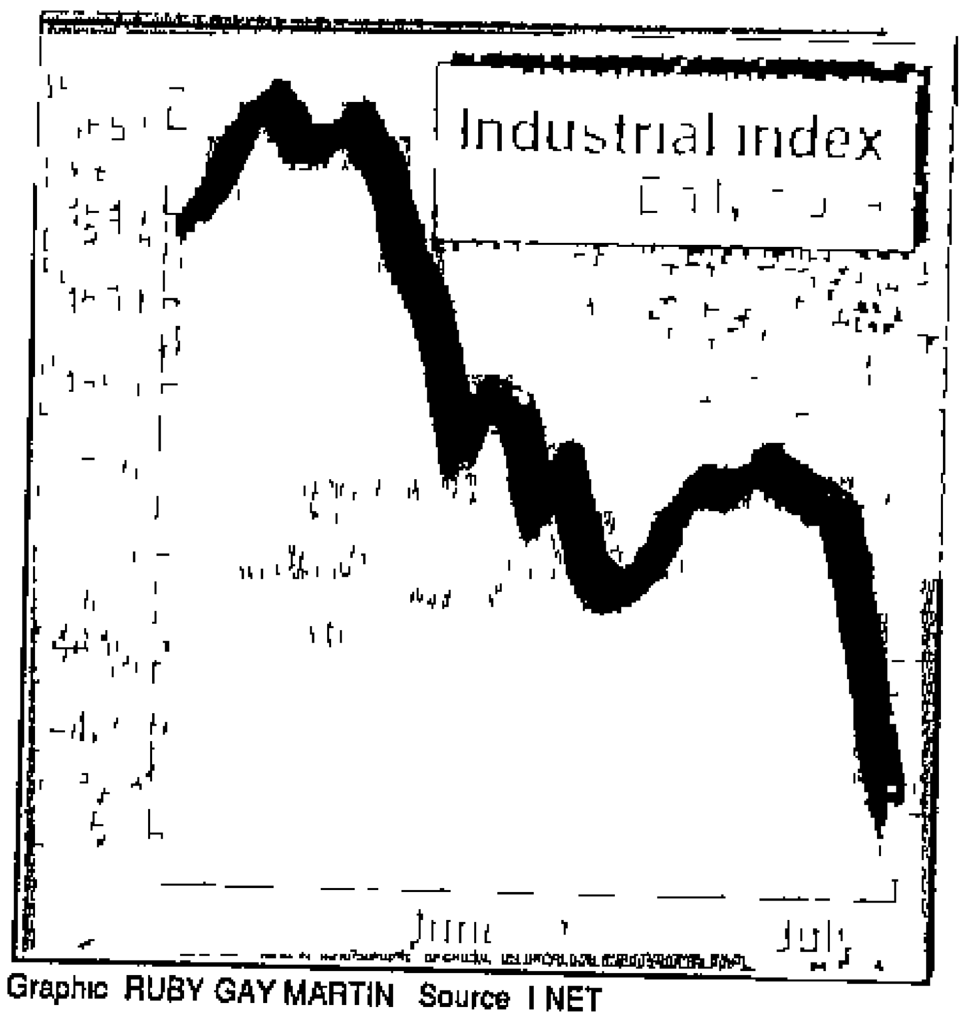
The pessimism on the market was reflected in share price losses outnumbering gains by 136 to 16 as the JSE overall index tumbled 54 points to 3 545 — representing a decline of 5,4% from its month-ago peak

For the second successive day the industrial index shed more than 60 points to end 1,5% down at 4 367, but off its low on institutional nibbling of shares at their lower levels towards the close of trading

Edey, Rogers & Co's Mark Edey said the market had been on high ground for some time and people had been looking for a correction. "Institutions will come into the market for quality shares when they start showing values."

Meades de Klerk's David Meades said share prices had been marked, rather than sold, down. "The market has, over the years, shown that it has a short memory as far as negative political events are concerned. By the week's end, we should see moderate demand for quality shares."

On the back of foreign jitters the financial rand fell 2,2% to R3,92 to the dollar.



Graphic RUBY GAY MARTIN Source I NET

A sell-off of silver put pressure on gold and platinum. After briefly falling below key support at $345, gold rallied slightly to close 55c lower in London at $345,95, while gold in New York ended at $346,25. Platinum eased more than $2 to a London afternoon fix of $382,75 In New York it drifted down slightly on the back of silver, losing $1,75 to close at $384,00.

Coal mine cannot pay salaries

B/Day 10/7/92

SUSAN RUSSELL

232

WITBANK coal mine New Arbor Colliery, which has debts of R5,7m and is unable to pay staff salaries due today, was provisionally liquidated in the Rand Supreme Court yesterday

Rappfos Holdings, which conducts its business under the name of New Arbor Colliery near Kendal in the Witbank district, is a wholly owned subsidiary of Foston Ltd which brought the urgent application for the winding up of the mine.

Foston chairman Glenn John Stuart Laing, said in an affidavit that Rappfos was insolvent with assets amounting to R1 891 000 as opposed to liabilities of R5 732 240

Laing, who is also a director of Rappfos Holdings, said the company owed Foston R3 412 252 on an unsecured loan account which was now due and payable

A creditor, Andru Mining, which was owed R460 000 had already obtained judgment against Rappfos Holdings, he said.

Laing added that the winding up of Rappfos Holdings was urgent because the company was unable to pay salaries and wages to employees today.

This meant that employees would refuse to return to the colliery, leaving the company's assets unprotected and vulnerable to theft and vandalism.

The company had also been unable to pay the monthly royalty due to the owner of the mineral rights who was now entitled to cancel Rappfos Holding's rights to mine at the colliery.

Syfrets fund focuses on mining shares

B/DAY 10/7/92

(232)

LINDA ENSOR

CAPE TOWN — Syfrets Growth Fund focused its buying activity on mining shares in the last quarter and generally adopted a cautious approach to the equity market, fund manager Tony Gibson said yesterday on release of Syfrets' quarterly unit trust results

He said a too heavy weighting in equities was risky in the present local and international climate While growth of the world's major economies would see commodity prices and hence mining shares rise, this would not be sufficient to offset the impact of an international correction in share prices.

However, Gibson advised worried investors against knee-jerk reactions which might result in them selling out of unit trusts at this stage because of short-term economic and political considerations The stock market had needed a correction and investment strategies had been revised.

The downside was limited because of large institutional cash flows.

In the last quarter exposure to mining shares increased to 29,2% from 25,8% but, apart from buying in the potentially high value counters, liquidity was allowed to build up. The focus was on consolidation and there was little significant selling

Cash, short-term deposits and gilts accounted for 15,8% of the portfolio, the market value of which was R627m. Holdings in De Beers, Rusplats, Anglo American, Gencor, Absa, Richemont and Rembrandt were strengthened and new holdings acquired in Malbak and Lefic.

Syfrets Growth Fund's income distribution for the quarter was 2,66c per unit and the purchase-to-repurchase return over the past 12 months was 23,57% The fund is the top performer of all general equity unit trusts over five years with an annual return of 21,7%

The R362m Syfrets Trustee Fund concentrated buying on De Beers, Gencor, Malbak and Sasol with the proportion of industrials little changed at 56,8% (58,5% the previous quarter). Cash constituted only 2,3% of the portfolio, with the balance of the non-equity holding invested in shorter dated negotiable certificates of deposit and gilts

The Trustee Fund distributed 1c per unit in the last quarter

The Syfrets Income Fund, which switched to longer-term instruments and high yielding bonds over the quarter to enhance capital performance and improve yields, distributed 3,94c per unit bringing the total for the year to 16,22c.

The recently launched Syfrets Gilt Fund declared an income distribution of 32,67c per unit.

FINANCIAL MARKETS

FM 10|7|92

Blue Monday

(232)

Non-residents' net sales of gilts and semi-gilts amounted to R187,5m on Monday, after net purchases last week of R39m

Eskom entered the capital markets on Wednesday last week with its new bond issue, the E170, which raised about R500m The instrument has a coupon of 13,5% and matures in three equal tranches in 2019, 2020 and 2021.

Market reaction was initially good with volume traded in the instrument on Friday outstripping the E168 by 152 transactions to 127 The position changed on Monday, when transactions in E168s totalled 713 to the E170's 98 — the E168 trading at 15,64% to the E170's 15,82%.

Eskom chief dealer in capital markets Philip Meyer says the market's growing interest in the E170 reflects a fundamental need for long stock "As the E168 approaches maturity, it will effectively become a medium-term bond."

Meyer says Eskom will provide a switching facility for investors

Jürgen Kögl of brokers J Solms & Co says the instrument has come at a good time, given the high volumes which capital markets have experienced in recent months. "With equities relatively expensive, the secondary gilts market has become an attractive option for investors," he says

Eskom also launched a zero-coupon bond last week, the E171, which matures in 2002 It has had a mixed response due to the novelty of the instrument and the uncertainty that lingers over the tax treatment of zero-coupon stock (*Economy* June 26). But dealers say the instrument was better priced and marketed than the RSA zero-coupon stock of a few weeks ago

The money market shortage shot up to R5,13bn last Friday, from R1,89bn the Friday before. On Monday, the Reserve Bank reduced the shortage with an offer to enter into three-day Corporation for Public Deposits repurchase agreements The CPD received applications for R1,55bn and paid out R500m at an average rate of 15,24%

The big shortage arose from a mismatch in cash flows in the Exchequer Account of the Bank's books for July 2 to 15 Provisional tax payments at the end of June and the issue of stock last week, combined with a lower-than-expected level of government spending in early July, will only be countered by the maturing of government stock on July 15

Andre Kock, GM treasury at the Bank, says liquidity will be affected by a number of factors in the coming weeks "One is that only about half of the maturing stock on July 15 will be reflected in the marketplace Another is that the one percentage point increase in the cash reserve requirement, which comes into effect on July 21, will again put pressure on liquidity

"But, on August 15, another maturation of government stock of about R2bn will increase money market liquidity, while on August 30 interest payments of R3bn will only be partially offset by tax payments of R1bn the following day " ■

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SHARE GAINS

Safe-haven complexities

There are pitfalls for investors who use the "five-year safe-haven rule" for share disposals Disposals of shares held for more than five years cannot be taxed in terms of the recently amended section 9B of the Income Tax Act

But the section requires that the taxpayer must elect safe-haven status when he submits his first return reflecting disposals of quoted shares in a post-amendment tax year

Ernst & Young tax partner Ian MacKenzie says taxpayers who might previously have had to elect or abstain from election under the "10-year rule" will be obliged to make a fresh election under the five-year rule (which became effective on March 19)

However, says MacKenzie, if a taxpayer sells a listed share held for more than five years and does not elect safe haven, he will never again be entitled to elect safe haven for that or any other quoted share If he does elect safe haven, the decision will affect not only that share but also all other shares he holds or will in the future hold for more than five years

MacKenzie

If the taxpayer does not dispose of any "five-year plus" share in the current tax year, he will have to make the choice only in the year he first sells a share

Kessel Feinstein tax partner Ernest Mazansky explains the requirement to elect has been inserted to prevent taxpayers who are already regarded as dealers (or who might become so regarded) from manipulating their safe-haven status.

But for the requirement, they could switch status from year to year to claim losses on share dealings in some years while protecting profits in others

He feels Revenue had its eye mainly on mining houses in formulating this section — as they have frequently been taxed on their share transactions (and so have concurrently been entitled to claim losses)

A corporate tax adviser says it could well be argued the wording of the section imposes an election only on a particular quoted share, and not on a portfolio as a whole. Revenue, he says, takes the contrary view — that an election operates over a taxpayer's entire portfolio. He argues the section should be amended to spell out Revenue's intention that an election should take effect over an entire portfolio, to do away with the uncertaintly

Ernst & Young says the 10-year rule was really only of value to a share dealer who wished to hold some counters for long periods as capital.

The reduction in the period to five years makes the section relevant to many more taxpayers — those who run the risk of being taxed on their transactions because of their "levels of activity and portfolio management style." They should seriously consider electing safe-haven status.

Lastly, Mazansky and Ernst & Young agree that no presumption of any kind about the capital or revenue status of share gains can arise — over shares realised within a five-year period — through either a positive or negative election on safe haven The normal rules for determining whether such a gain is taxable will continue to apply In other words, a taxpayer will not prejudice his existing status as an investor through making a safe-haven election. ■

CHARTER CONSOLIDATED

FM 10|7|92 (232)

Cheap way into JM

With three of its four operating cylinders firing higher profits, Charter Consolidated's dividend increase at the end of a tough year smacks of confidence The 0,5p hike to a total 21,5p, however, echoes the 0,4p improvement at Johnson Matthey, Charter's 38,5%-owned associate, which also bristled with optimism though its profit stood still

With interest rates down — every one point move in UK rates produces a £2m swing in earnings — and the construction industry in tatters, Charter did well to hold

FM 10|7|92 (232)

the decline in pre-tax profit to 4,85%, at £73,8m, in the year to end-March Margins in Charter's biggest operating division, building products and services (via Cape), were bludgeoned last year with profit falling by 26% to £12,5m, on sales up by 11% at £203m Net interest received, the third-biggest source of earnings, was cut by a quarter to £14,6m.

But strength at Pandrol (rail track equipment), cost-cutting at Anderson (coal mining plant) and Cast (quarrying and coal mining) combined to limit the decline. Pandrol, which picked up a Queen's Award for Export Achievement, bustled in markets from China, Hong Kong and Japan to the US, with sales up 13%, at £94,4m, and operating profit 9% better, at £11,8m

Anderson, blighted by the slump at its biggest customer, British Coal, saw the benefits of cost-cutting and halving of its work force to 1 100 in two years. Profit, which fell from £8m to £1,5m in the previous year, pulled back to £2,8m — though its margin remained woefully thin at 2,5%.

In addition, Cast benefited from disposals of contract mining operations in the US, while Hargreave, the quarrying business, managed to increase profit Overall, its surplus nudged up 11% to £3m

With net cash of £122m (£133m), Charter is sitting pretty after spending £55m on acquisitions and investment

Charter, however, still leaves unanswered the question of its holding in Johnson Matthey, whose equity-accounted £25,5m was 43% of group operating surplus The stake is worth £307m and, with JM's dividend yield of only 2,9%, the opportunity cost is considerable.

To some London commentators, the position makes Charter an extension of its 36%-owner Minorco's wider strategy, despite management's independence in building the group's focused four pillars. The connection, however, is doing the share price no harm Charter was at its year's high of 548p (up 17% from the low) and on a dividend yield of 5,4% and p.e of 12,5 after the figures

That makes it a relatively cheap indirect way into JM — which, after a 39% gain, to 440p, is yielding just 2,9% and commands a multiple of 18 on the promise of future demand for platinum-based car exhaust catalysts *John Cavill*

Abacor almost ready for privatisation move

B1044 10/7/92

GERALD REILLY

PRETORIA — Preparations for Abacor's privatisation were almost complete, chairman Fanie van Rensburg said yesterday

He said the corporation's value would be determined within a month. Indications were shares would be available at R1 each, with the extent of the issue depending on the corporation's gross value

Shares would be available on a priority basis — 45% to producers, 30% to the trade, 20% to the private sector and 5% to Abacor personnel.

Abacor manages and operates 11 of SA's largest abattoirs, providing meat for more than 15-million people

Van Rensburg said the corporation had been managed and operated commercially for some time. Privatisation would, therefore, not necessitate special adjustments.

Abacor was not blinded by the short term agricultural economical and political circumstances of the country

"We canot sit around waiting for things to happen," van Rensburg said.

He said there was a growing need for high quality meat in SA and the industry's future looked bright. Abacor was a leader in Africa, especially southern Africa, and had the facilities and ability to provide for SA's needs.

The privatisation move came from Abacor itself

Abacor MD Frans van der Vyver said the organisation was eager to compete in the open market. Its standards were high and complied with consumer demands.

Shares not sold would be made available to the public. (232)

Van der Vyver said most of the groundwork for privatisation had been completed An application for a JSE quotation would be made after the final valuation

A Rand Merchant Bank spokesman said the final valuation before issue would be completed just before registration

Meanwhile, red meat producers are divided over the merits of privatising Abacor. The Red Meat Producers Organisation (RPO) has welcomed it, but the Organisation of Livestock Producers (OLP) claimed it was an attempt by Abacor to retain its tight grip on the industry.

RPO chairman Gerhard Bronn said the move would lead to greater competition in the industry, which would ensure a better deal for producers and consumers.

He advised producers to take up their shares in Abacor, as this would give them a more effective say in the industry's administration and decision-making

OLP executive member Sandy Speedy said the entire privatisation operation was "back to front". The industry should have been deregulated before it was privatised

OLP believed each of the 11 abattoirs controlled by Abacor should be allowed to function independently.

Speedy said allocation of 30% of shares in Abacor to the trade would mean the big three meat distributors — ICS, Vleissentraal and Kanhym — would continue to dominate the industry.

FM 10/7/92 (232)

W&A FM 10/7/92

More scaffolding (232)

W&A's R118m offshore scaffolding acquisition reflects the group's strategy in its "maturing phase" — making global acquisitions, financed primarily through equity, in businesses it understands Scaffolding is one of W&A's core activities If investments are to be made at all, then it probably comes as a relief to some shareholders that the group is increasing its exposure in this arena, sticking to its knitting

The local and international scaffolding, shoring and formwork operations accounted for a third of the group's 1991 attributable earnings and this will increase as a result of the acquisition

Chairman Jeff Liebesman declines to name the company, but sources believe it is the Kwikform scaffolding business in Australia, which is in direct competition with W&A's Australian operation

However, though the R88,75m equity issue was supported at 400c by respected institutions, including Liberty, Sanlam and Genbel, the market price is now 50c lower This can be attributed partly to the weak stock market, but there is more to it, as the decline is significantly greater than the comparable drop in the JSE Industrial index

Market talk is that a seller of around 400 000 shares is forcing the price down in an already weak market Also, W&A's rating has been weakened by the group's level of debt Despite the roughly R590m proceeds received from asset sales in 1991 and a R104m reduction in working capital, year-end net borrowings decreased by only R130m, to R796m, after including a R211m investment in JD Sales preference shares as cash

There is still room for improvement in gearing and interest cover, but the acquisition should strengthen the group's finances, as W&A's equity base at the centre has increased by R88,5m with the placement of compulsorily convertible debentures and ordinary shares As the company acquired is free of debt, gearing of the consolidated entity will be lower

The balance of the purchase price will be financed from future cash flow Though the 12% debentures will incur annual interest of R10,5m, Liebesman believes interest costs will be comfortably covered even though the acquired operation recorded a trading profit of around R9,5m in its last financial year

Trading profit at both W&A's current offshore scaffolding operation and the new business stand to increase steeply, as the price war between the two will cease He reckons the war sliced roughly R27m off W&A's offshore operation's trading profit, while the new business's profit was cut by around R40m

If this is the case, then the acquisition looks cheap, particularly as he reckons a further R17m in costs should be saved through rationalisation Liebesman notes, though, the benefits gained from higher prices and rationalisation will only be felt in the medium term

Taking the acquired operation's results for last year, W&A's 1991 EPS, on a fully diluted basis, would have declined roughly 7% if the acquisition had been effective over the period, though this must be considered academic if the price war is to cease in future The market has probably overreacted to concerns about high debt, particularly as the group could benefit significantly from any interest rate drop *William Gilfillan*

FM 10/7/92 (232) FOX

BROKERS' PORTFOLIOS

Mid-year rankings

Selections at the beginning of the year for the 1992 brokers' portfolio competition included a wide choice of shares based on divergent thinking Not surprisingly, results at the half-way stage of the six firms that entered the competition, as well as the *FM*, show a similar divergence of performance, ranging from capital appreciation of individual portfolios by well over 20% to as low as 3,7%

Mid-year results show aggregate gains in the prices of the 10 shares selected for the original portfolios based on the closing prices at June 30 At this stage brokers may make changes to portfolios, something which all participants, with the exception of Davis Borkum Hare, have done (see table)

Leading the field is the *FM's* portfolio, which appreciated by 24,3% overall Top performing share so far has been Publico, whose price gained 75%, though we thought it time to take profit and have dropped it from the portfolio, together with underperforming Kinross Mines (down 34%), AECI (down 5%), and Fidelity Bank (up 18%)

Insurance shares in the *FM's* portfolio have held up above average, particularly Protea Assurance (46%), and both Datakor (57%) and Kanhym (41%) have proved to be strong performers

Davis Borkum Hare, placed second, is leaving its portfolio of largely bluechip shares unaltered Best choice in its portfolio so far has been high-flying Telemetrix, which gained 126%

Martin has made five changes to its portfolio, introducing a wide new selection spanning financial services, food, electronics and platinum It has dropped Santam, Sentrachem, Dorbyl, Ellerine and Teljoy

Martin's changes are interesting Of those taken off, only Sentrachem's and Ellerine's shares have not performed better than the portfolio's aggregate gain of 19,3%

Newcomers to the remaining portfolios show a strong move towards financial services shares Both Senekal Mouton Kitshoff and Martin have introduced Momentum Life to their portfolios, presumably influenced by its recent merger with Rand Merchant Bank

First International Trust has been included twice, by Anderson Wilson and Senekal Mouton Kitshoff, while the former also brings in NBS Holdings, Martin introduces Sechold, Simpson McKie includes Liberty Life, Ed Hern Rudolph Nedcor and the *FM* African Life

Engen however is the most popular midway choice, selected by Ed Hern Rudolph, Simpson McKie and Senekal Mouton Kitshoff

Of all the entrants, only two portfolios have so far failed to outperform the JSE Industrial index (9,3%) over the same period, and only one is lower than the All Share index (5,7%)

Anderson Wilson, which started the year with the heaviest exposure to mining shares, has shifted its portfolio from mining slightly, though it retains an emphasis on shares with a rand-hedge exposure

1992 MID-YEAR RANKINGS

Portfolio	Appreciation (%)
FM	24,3
Davis Borkum Hare	21,4
Martin	19,3
Simpson McKie	16,6
Anderson Wilson	11 2
Ed Hern Rudolph	6,3
Senekal Mouton Kitshoff	3,7

The most altered portfolio is that of Ed Hern Rudolph, which drops Mid Wits, Deelkraal, Afrox, Ellerine, NBS, Kanhym, Sage and Cullinan

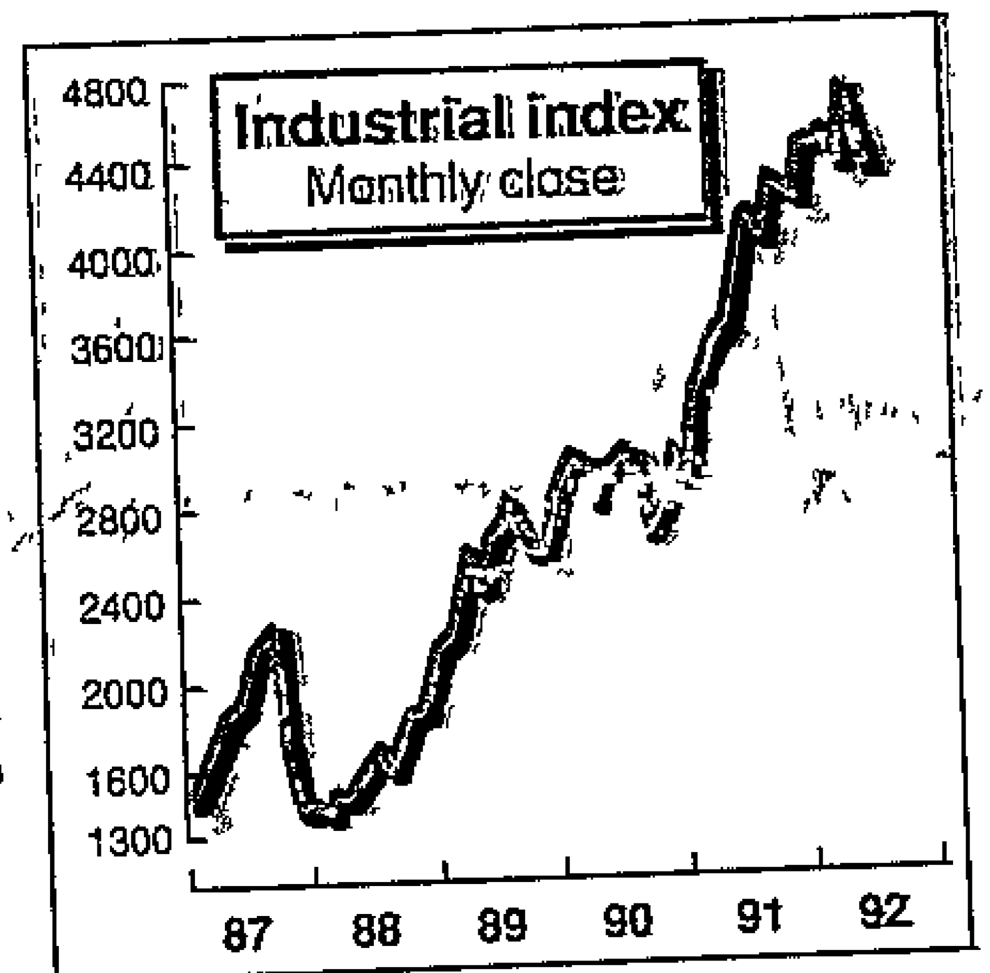
With little between the top performing portfolios at the mid-way stage, and some substantial changes to portfolios further down, the remaining six months could well introduce a new order before the end of the competition There are few obvious trends in the selections, apart from the favouring of financial services shares But there is an emphasis on industrial stocks like Engen, and shares with a rand-hedge exposure like FIT and Minorco Most participants continue to avoid gold shares and other mining producers, platinum being an exception

☐ *Readers should note that all these shares are chosen as part of an equity portfolio game They should not be seen as recommendations or tips* ■

Share price devastation as scrip flies

BIDAY 10/7/92

MERVYN HARRIS



Graphic: RUBY-GAY MARTIN Source: I-NET

SHARE prices were sold down heavily for the fourth successive day on the JSE yesterday to send the overall index tumbling 1,8% or 65 points to 3 449, representing a decline of 4,1% so far this week.

The devastation as overseas, local institutional investors and private clients off-loaded scrip was reflected in share price losses outnumbering gains by 167 to 16.

"It is looking pretty grim. Economic fundamentals are coming home to roost on top of worries about the political situation to deepen despondency," a dealer said.

The JSE industrial index fall of 1,6% or 70 points took its decline to 5,3% this week.

The finrand ended marginally firmer at R4,01 to the dollar. 232

BUSINESS BAROMETER

W/Mail 10/7-16/7/92

Financial rand dives

THE key indicator of foreign investor confidence in South Africa, the financial rand discount, plunged further yesterday in response to the continued collision course between government and the African National Congress. Midweek the finrand discount — the gap between the financial and commercial rand — rose to 32,5 percent as the finrand hit a two-year low at R1 = US0,2469c

Shares come under pressure

W/Mail 10/7-16/7/92

LOCAL investors's fears about South Africa's future were reflected in falling share prices on the Johannesburg Stock Exchange The JSE overall index closed midweek at 3 514,0 down 3,7 percent on the week. Industrial shares midweek at 4 304 were more than four percent down in a week

Business Indicators point downwards...

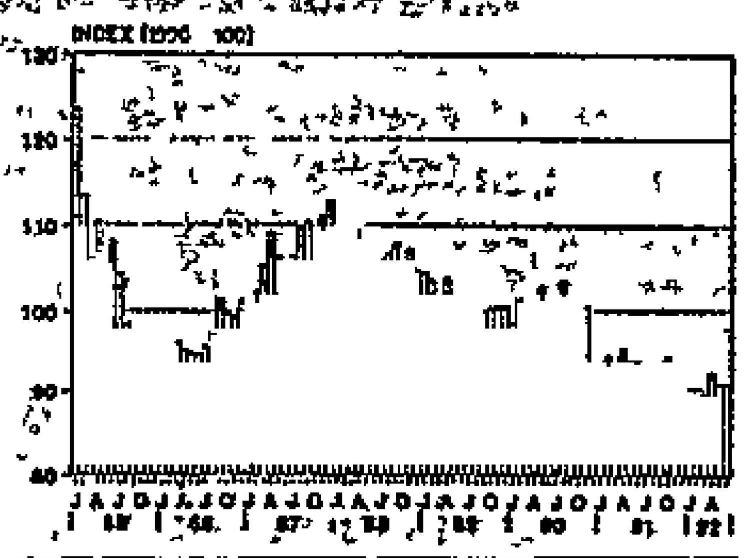
THE South African Chamber of Business (Sacob) Manufacturing Survey for June showed how badly business confidence has been affected by mass action threats, violence and the political impasse W/Mail 10/7-16/7/92

The Survey of Confidence Levels in its Manufacturing Survey shows an industrialist expect conditions to worsen in the short and medium term.

W/Mail 10/7-16/7/92

Sacob's Business Confidence Index, a composite of leading indicators also dropped, but only slightly, showing that aside from the political factor, recent economic improvements have laid a good foundation for an upturn — and that the BCI is lagging the gloomy political events that have hit business confidence.

BUSINESS CONFIDENCE INDEX



... and car sales outlook still bleak

W/Mail 10/7-16/7/92

AN important economic indicator on their own, passenger car sales increased 12,7 percent in June as against May. Despite higher June sales the overall market is still down by 13,2 percent for the year to date compared to 1991. June's sales are 14 percent down on the same month last year. On the basis of the first six month sales, Toyota SA has forecast sales for the year around 187 000 but says the market could dip as low as 180 000 units this year.

Unit trusts once again beat inflation

STAR 11/7/92

LEIGH HASSAL

232

SOUTH Africans are still pouring their money into the unit trust industry despite the current economic and political uncertainties. Unit trusts have proved to be a reliable hedge against capital inflation erosion for the personal investor.

Over the past five years the average total return of the general equity funds is an inflation-busting 16,7 percent

Statistics released by the Association of Unit Trusts (AUT) yesterday show the 12-month average return (to June) on general equity funds has once again beaten the latest inflation rate of 14,8 percent and the JSE all-share index increase of 14,1 percent

In the last year 280 000 more South Africans entrusted their money to their trust fund managers with a record net cash inflow of R600 million in the quarter to end-June Rand sales of units topped the 1 billion mark (54 percent up on the same quarter last year) while repurchases of R534 million increased 88 percent over the same period

AUT chairman Clive Turner notes there has been a marked swing to the high-income trusts (those trust funds invested in the money and capital markets) He attributes this trend to the current uncertainty in the equity market felt by many investors

The fund managers are also feeling more cautious about the uncertainties facing South Africa, as reflected by the increasing liquidity of their funds

Cautious approach

This caution shown by the fund managers should not alarm the personal investor Turner reminds investors that unit trusts are medium and long-term investments and the uncertainties which currently surround South Africa and the economy dictate a more cautious approach in the months ahead

The JSE industrials index bears a close relationship to the Dow Jones Many analysts believe the Dow Jones is overrated and is heading for a downwards correction in the very near future

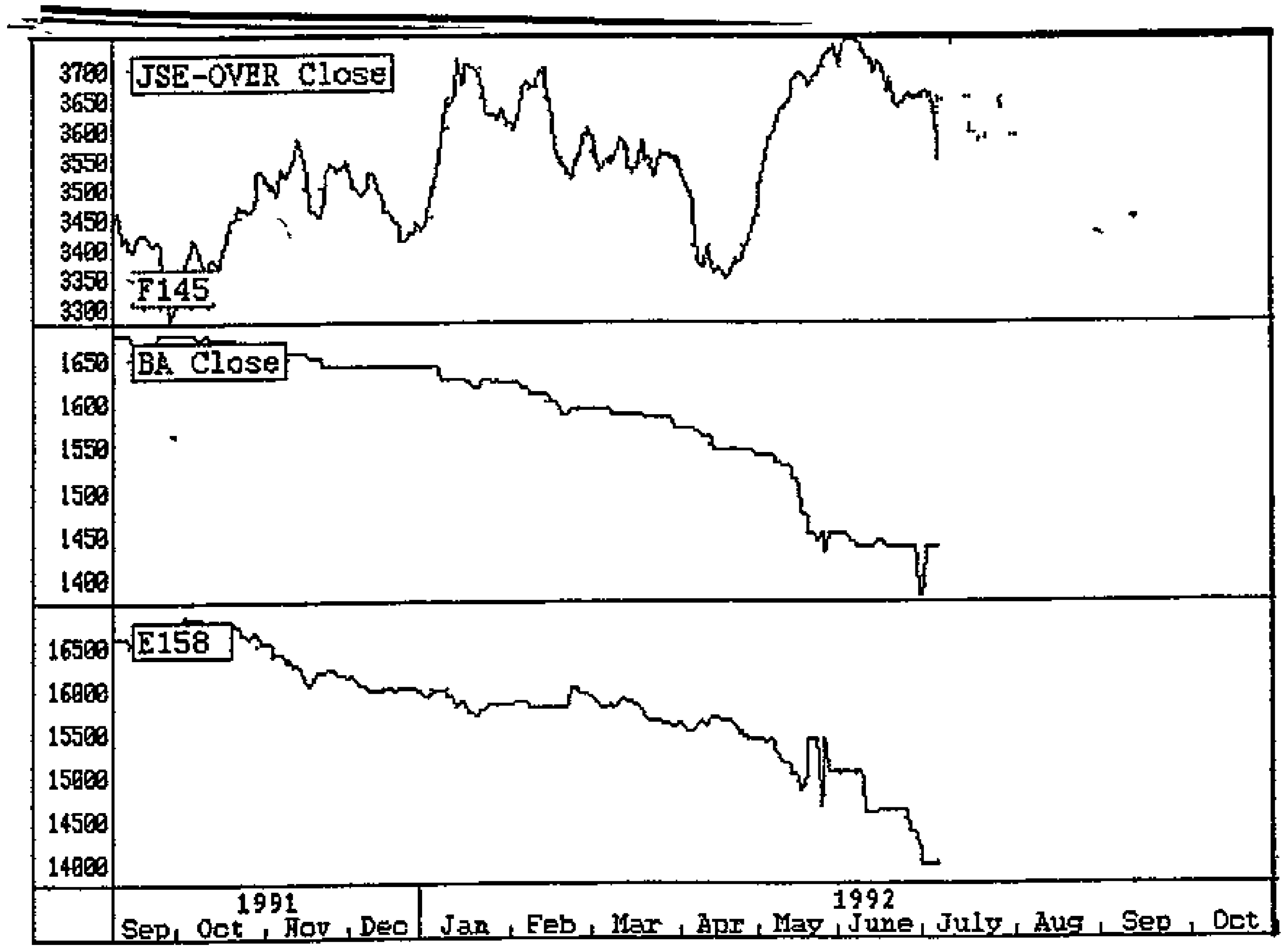
Andy Paterson, analyst at E W Balderson, says "The value of the unit trust funds will fall more slowly than the market because of their lower risk profile due to their spread of investments"

He advises unit-holders not to sell their units and to remain in close contact with their fund manager

"The more sophisticated investor could switch into the high-income unit trusts, which are expected to outperform the general equity trusts in the next three to six months," he adds.

In a bearish market, the holding of put-traded options provides a hedge against the declining value of a portfolio However, the derivatives market is a complex one and should be entered with care as it requires a sophisticated investor

In the near future the unit trust funds themselves will be allowed to trade in the derivatives market and so provide a hedge for their unit-holders



Your Money

Interest rates are pointer on investment path

STAR 11/7/92 232

FOOTSTEPS TO FORTUNE

RICHARD Cluver

PROVIDED you match the type of unit trust you choose to the particular phase of South Africa's general economic cycle, you can significantly improve capital growth.

Depending upon when you buy them, different types of unit trusts do better than others. So, as I explained last week, in order to judge which stage the economic cycle has reached, you should keep a close eye on interest rates which, in this and all other countries, are the prime indicators of a nation's economic health.

One might note, for example, that at the time of writing, long and short-dated Treasury stock issues have, for a long time, been declining steadily. Not surprisingly then, the general direction of the share market has, with some recent hesitation, also been upward for the past 18 months.

If, however, the downward trend of interest rates should for some reason begin accelerating, one would very soon see share prices and the value of unit trusts accelerating upwards in sympathy.

Upwards

Once, as they must eventually do, interest rates finally level off on the bottom and begin a sustained upward movement, one will be able to conclude that the present share market bull phase is over and that share prices will generally start falling.

It is important to recognise, however, that this strict relationship between interest rates and share prices and thus, in turn, with the prices of unit trust funds, can be distorted by the pressures of high inflation rates. In recent years, we have witnessed the phenomenon of quite strongly rising share market prices at times when interest rates have simultaneously been rising and, furthermore, at times when economists were predicting the onset of recession and, consequently, declining company profits.

The reason for these seemingly contradictory movements has been the fear of inflation and the plunging value of the rand against other currencies.

It has led not only to rising share prices, but to rises in most other commodities which people have bought as an investment hedge against the falling value of their money.

Indeed, this leads on to a corollary that if in times of high inflation the prices of shares, unit trusts and commodities are static, if they are not actually rising, then one must conclude that they are actually in the grip of a bear phase, even if the graphs do not disclose one.

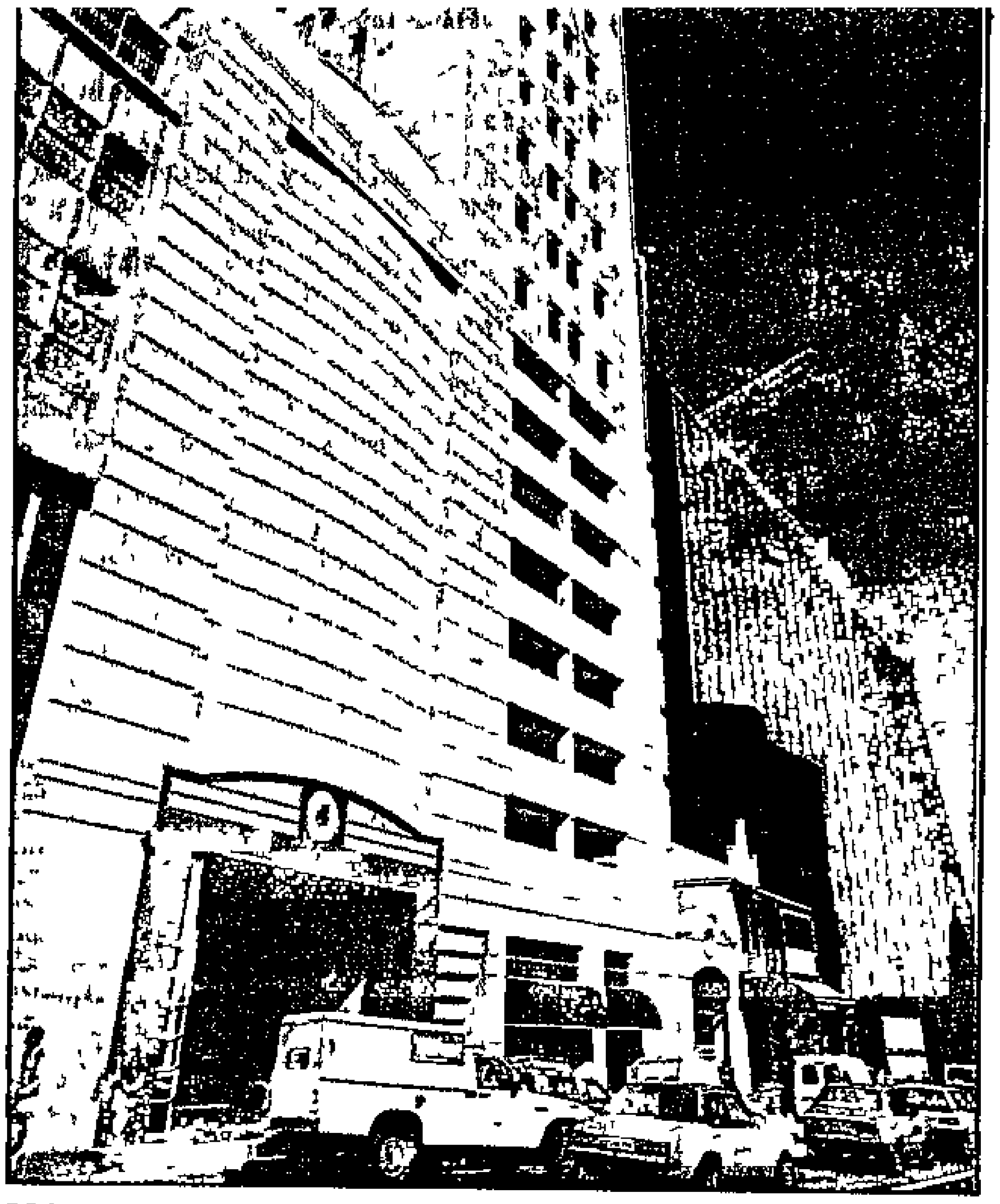
Furthermore, as the events of the past week have so amply demonstrated, the direction of interest rates is not the only influence that determines the direction of the share market. Though interest rates are subject to manipulation by the monetary authorities and thus tend, to a significant degree, to set the overall tone of the market and its general direction, both interest rates and share prices are also reactive to local events.

Sharp fall

It is accordingly interesting to consider the accompanying graph which plots the JSE Actuaries Overall Index in the top chart, the BA rate in the second and the Eskom 158 gilt in the third. The sharp fall of the BA rate between June 30 and July 1 should have impacted upon the very weak JSE and sent it strongly upwards. All it was able to do, however, was initially stem the fall of the JSE.

When on July 2 local political pessimism overcame the benefits of downward moving interest rates, the BA rate shot back up from the 1 380 level to 1 435 and the scene was set for the rout of the JSE, which began imperceptibly the following day on July 3 with the JSE Overall Index slipping from 3659 to 3651 and then on Monday, July 6 in earnest as it tumbled to 3599.

Interestingly, the Eskom 158 rate did not rise in sympathy with the BA rate. The longer it remains down, the more likely it is that the JSE will recover and that the BA rate will react down once more.



PROPERTY'S A MUST You can have a rewarding stake in prime real estate by investing in property unit trusts

Sound investment and spread of risk

STAR 11/7/92 (232)

INVESTMENT in property is an essential component in any serious investment portfolio The objective is the same as investment in equities, namely, an overall return comprising income, growth thereof and capital appreciation

Property units trusts (PUTs), which are in effect large property syndications, provide an ideal mechanism for property investment and for achieving diversification of risk, says Les Weil, chairman of the J H Isaacs group and of the Association of Property Unit Trust Management Companies The 16 PUTs listed on the Johannesburg Stock Exchange represent a market capitalisation of about R5 billion and their portfolios cover all categories of real estate — offices, industrial, retail and residential. All 12 management companies that manage the PUTs are members of the association, which is the comprehensive representative of the industry

Both PUTs and equity trusts are regulated by the Unit Trust Control Act of 1981 The main difference compared with equity trusts is that PUTs are closed-end, which means the management company does not repurchase units for investors.

Satisfied

The units are traded on the JSE in the same way as shares of any listed company Property trusts have hitherto expanded through rights issues, thereby offering unit holders an ongoing opportunity to take part in portfolio growth. In order to achieve the same comparative investment advantages as other categories of investors, the association believes that in addition to expansion through rights issues,

IDEAL: J H Isaacs chairman Les Weil says property unit trusts diversify risk.

PROPERTY unit trusts — large property syndications — provide an ideal mechanism for property investment.

properties should also be acquired for scrip, and discussions with the unit trusts advisory committee of the Financial Services Board are current.

As in the case of equity trusts, the Registrar of Financial Institutions or the Financial Services Board will not register a management company unless satisfied with its financial standing and ability

Major investors in property trust management companies comprise leading banks and financial institutions with longstanding investment track records The property portfolios are managed by experienced and professional property management organisations The management company is responsible for investment decisions and administration of funds under its control The trustee, normally a large financial institution, approves each investment.

In addition, the trustee is the custodian of each trust's assets — that is, the holder of funds awaiting capital investment — and of title deeds, and is responsible for the insurance of unit certificates and ensuring that each trust's assets are properly insured

Weil states that in contrast with investing in a single property, PUTs provide an avenue for spread of investment risk. This is achieved through holding a multitude of properties in different geographical locations and tenanted by a large number of sound tenants

There is also an advantage that the units are readily marketable through the JSE and an investor will experience no problem in realising all or a portion of his units. A programme purchasing units in elected PUTs will ensure an investment spread covering numerous quality properties. PUTs are not themselves taxable, as a result of a special clause in the Income Tax Act, and since PUTs distribute their entire rental and other income at least twice annually, investors receive their income in the same way as though they were directly invested in the properties

Encumber

Investors will pay tax at their usual marginal rates on such income but will receive the benefit of the interest income deduction of R2 000

It is important to note the PUTs are not permitted to mortgage or encumber properties in a unit trust portfolio in any way, thereby substantially reducing investment risk. There is, however, nothing to stop an individual investor using his units to secure borrowing at his own bank — they are a most acceptable collateral

Try to see the big picture when investing

STAR 11/7/92.

232

Investing on the JSE

THIS is the ninth of 10 articles dealing with the relationship between the stockbroker and his client. The author is Dr MANNY POHL, head of research, at Davis Borkum Hare.

NOT infrequently share prices rise when economic indicators are down, or fall when economic indicators are looking healthy

This out-of-step behaviour of the share market causes confusion among investors and clearly makes the prediction of share price movements a very difficult and frustrating exercise

Is there a connection between the stock market and the economy? If there is, how does it work?

Yes, there is a connection, which can best be seen in relation to major economic cycles, rather than in the short-term market fluctuations

Starting with the big picture, over a period of, say, 10 years, a growing economy, in a society with a fairly high degree of free-market activity, will be accompanied by growth in prices of quality industrial equities

In such a society, entrepreneurs and managers will have the environment they need to start and develop profitable businesses which will produce job opportunities, and rising remuneration will create a growing number of consumers and investors

Money circulates, some is saved and becomes available for investment and so there is liquidity in the financial markets and demand for shares Stock markets thrive on liquidity and it is the constant pressure of institutional cash flows that has pushed our JSE industrial index to its present high level

What we have on the JSE today is a two-tier market Almost all the liquidity is in the hands of institutions and is concentrated in the 20 to 30 top shares. Outside of these there is a very low turnover, and share prices are inactive, as are individual investors The result is low volume of trade

Money, of course, can be counted, but what makes it move? People make it move when they decide to buy goods or services, or stocks and shares They also make decisions to keep it — in bank deposits or under the mattress

But what makes people make these decisions?

Here we find ourselves in the area of human behaviour and emotion and we find that confidence, fear, expectations and perceptions have a great deal to do with stock market movements

When people are afraid, they either hold money still or they move it away from where the danger seems to be You then get a falling stock market

Conversely, if people are confident about the future, they make money move, they use it, consume more, buy more refrigerators and more shares You then have a rising stock market

Towards the end of a recession, when people have been tightening belts, consuming less and holding money still, cash tends to build up As soon as there are expectations that better times lie not too far ahead, that cash starts to move, out of the bank accounts and into consumer goods and shares Six months to a year later, this spending will be reflected in improved company profits.

The converse occurs towards the end of a boom

Because it is a matter of confidence and expectations, the stock market, reflecting the behaviour of investors, tends to anticipate the economy

Unit trusts bear the brunt as JSE starts crumbling

economy as no one has the confidence to invest in grassroots ventures This liquidity will also support the market."

But not all investors are convinced by the unit trust managers' oft-repeated statement that "unit trust investments are long-term investments".

On Thursday my telephone was swamped by callers who wanted to know what they should do The answer isn't an easy one. STAR 11/7/92

I, along with a number of analysts, have been warning for some time now that the market is heading for a correction, possibly a major one Events this week appear to have vindicated this view

In the face of a major correction of share values it stands to reason that defensive measures are called for Certain options are available to unit trust investors 232

The first one is to switch investments from general equity funds into a fixed-income fund, if this is at all possible Not all families of unit trusts have an income fund, but all the large ones do

Switch, sell – or sweat?

STAR 11/7/92

IT WAS panic stations among unit trust investors this week as the JSE took a tumble. They have a few options open to them, but the most important advice is not to get out of the market entirely.

MAGNUS HEYSTEK (232)

THE DILEMMA facing thousands of unit-trust investors as the Johannesburg Stock Exchange started crumbling this week was. Switch, sell out or sweat it out?

Up against sharply increased political tension and a continuation of dismal economic news, the market turned on its heel in what could be the long-awaited correction as private investors and institutions alike offloaded stock. Some dealers describe it as "a mild form of panic"

From its opening levels on Monday the JSE overall index declined by 4,6 percent from 3651 to 3483, the industrial index was down 4 percent to 4283 and the gold index, in spite of a stronger bullion price, shed 27 points to close at 1072

Investors' fears were heightened when Clive Fox, managing director of Consolidated Fund Managers (CFM), bluntly told investors in equity-based funds to get out of the market or switch to a fixed-income fund.

No relation to fundamentals

His statement received widespread media coverage According to some unit trust companies this provoked a mild run, particularly on Thursday after his appearance the previous night on Radio 702's Financially Speaking

According to Fox, who for some time has been advocating a cautious approach, the market at current levels "bears no relation to underlying fundamental values"

The unit trust industry reacted almost immediately to Fox's "get out or switch" warning. Syfrets, which has the best record over five years, issued an unusual press release advising investors against a panic sellout of their units.

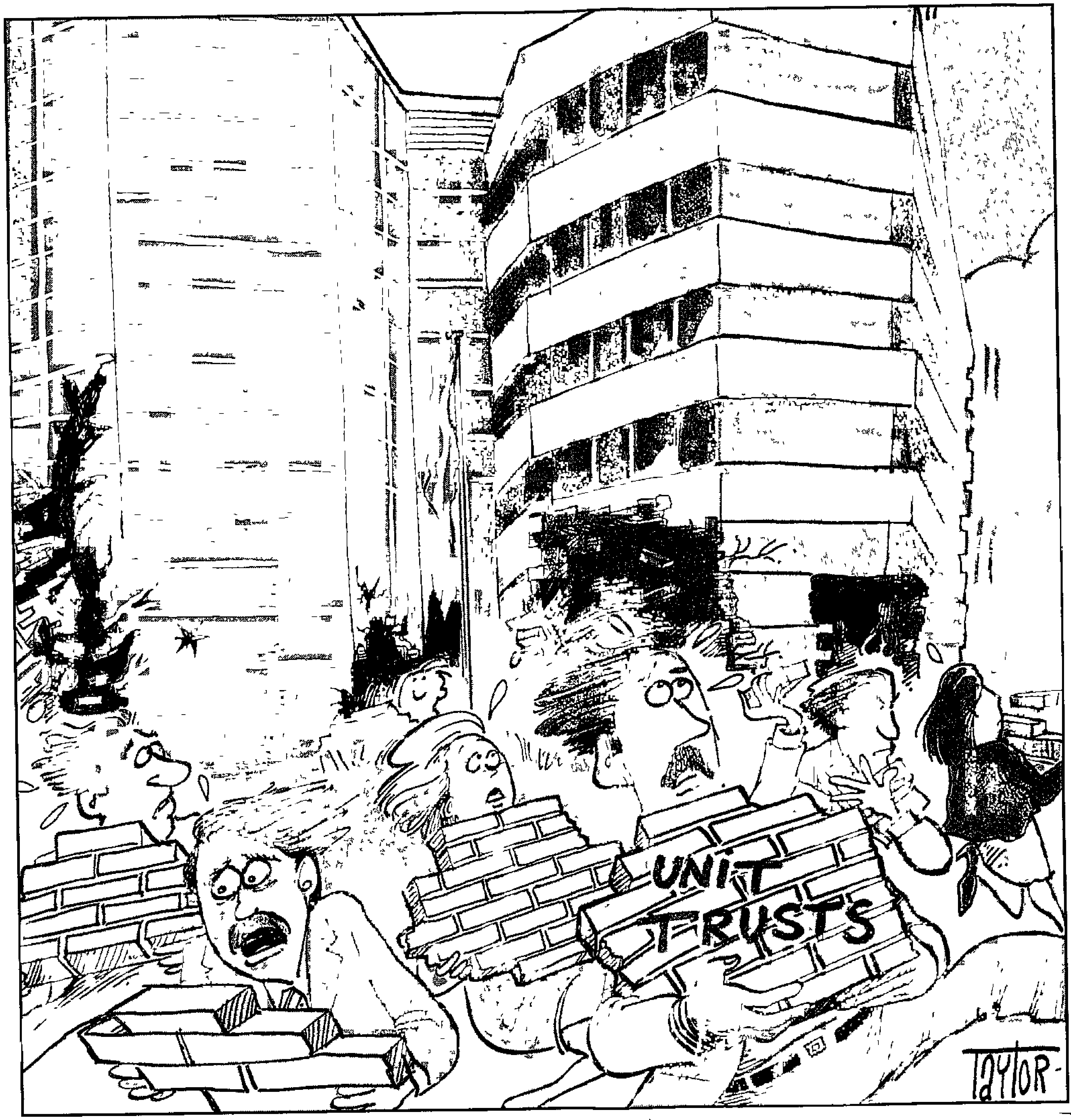
Syfrets fund manager Tony Gibson said unit trusts should be seen as a long-term investment and investors should not be spooked into hasty decisions "The smaller investors will get it wrong, and switching in and out of funds will cost them a lot of money."

Several other fund managers were highly critical of Fox's advice, calling it "irresponsible" He countered by saying that as an objective outsider he had no vested interest in advising people to stay in the market, which he saw as highly overvalued.

Fox predicted that the overall index could decline by as much as 25 percent over the next few months, a warning echoed by some analysts Andre du Plessis, portfolio fund manager at stockbroking firm Ed Hern, Rudolph Inc, said the market could correct by another 10 to 15 percent before support levels were likely to be encountered.

Other brokers disagreed. Dawid Meades, of Meades and De Klerk, said the shortage of scrip and huge institutional cash-flows would lend support to the market.

"The political uncertainty in the country also adds to the liquidity in the



STAR 11/7/92

The advantage here is that it protects capital values in the face of possible major corrections But it should be considered a temporary measure until the stock market offers better prospects

Over the long term, fixed-income funds have not provided investors with the same kind of growth offered by equity-based investments

At some later stage the investment can be switched back into a general equity, or even specialist funds, at a cost of between 1 and 2 percent This is considerably cheaper than selling all one's units and then buying them back again

Another option is to make use of a "put option" on either the overall or industrial index By selling only 10 percent of one's investment in unit trusts and buying a put option (which increases in value in line with the decline of the particular index) it serves as a kind of insurance policy

If the correction does take place (and I believe it has started) the put option will compensate for the decline in the remaining 90 percent of the investment. (232)

If a correction does not take place, you don't exercise the option — all you lose is the cost of the option The increase in the rest of one's portfolio will make up the loss

But I don't advocate getting out of the market entirely By making use of derivative instruments, one can protect investments in a falling market

● Derivative instruments will be discussed at Monday's meeting of The Star Investors' Club The meeting is sponsored by Investec Bank, whose experts Bryan Coin and Simon Shapiro will explain how these instruments can be applied

The meeting is from 6 pm to 8 pm in the Sandton Holiday Inn The cost is R11 for club members and R22 for non-members To book, call Rosemary at Cordev Marketin on (011) 483-3214/5

Survivors go to the wall

S|Times [BUSS] 12|7|92

By ZILLA EFRAT

COMPANIES which may have survived shorter recessions than the present slump are no longer able to hold on.

Liquidations average 220 a month this year and March's figure of 290 was the highest in almost six years.

Civil judgments in February and March were the highest on record — a factor which is expected to raise liquidation figures further.

The recession has persisted for 39 months and is set to become the longest since the Second World War. The last recession started in 1984 and lasted 21 months.

Credit Guarantee Insurance Corporation (CGIC) senior economist Luke Doig says companies that may have learnt asset management in the previous slump are now finding it hard to keep their heads above water.

Companies are being hammered by the length of the recession, high interest rates and rising customer defaults.

Some businesses that weathered the last recession and which were monitored by CGIC have not survived.

Mr Doig says the worry is that companies that form the core of South Africa's productive sector, as opposed to service-type and less well-managed firms, are now failing.

Highs

232

Liquidations averaged 157 a month in 1991 and 133 in 1990, both years of recession.

They are fast approaching the unprecedented highs of the previous recession — 223 a month in 1984 and 255 in 1985.

A contributing factor to the business difficulties is that the expected mini-Christmas boom never materialised.

Business failures in the first four months of this year of 880 are 60% up on the same time last year. March liquidations are the highest since June 1986's 301.

Mr Doig says liquidation levels are likely to continue until at least early 1993. This is because all previous high interest-rate periods were followed by a lag of six to 12 months before liquidation numbers soared.

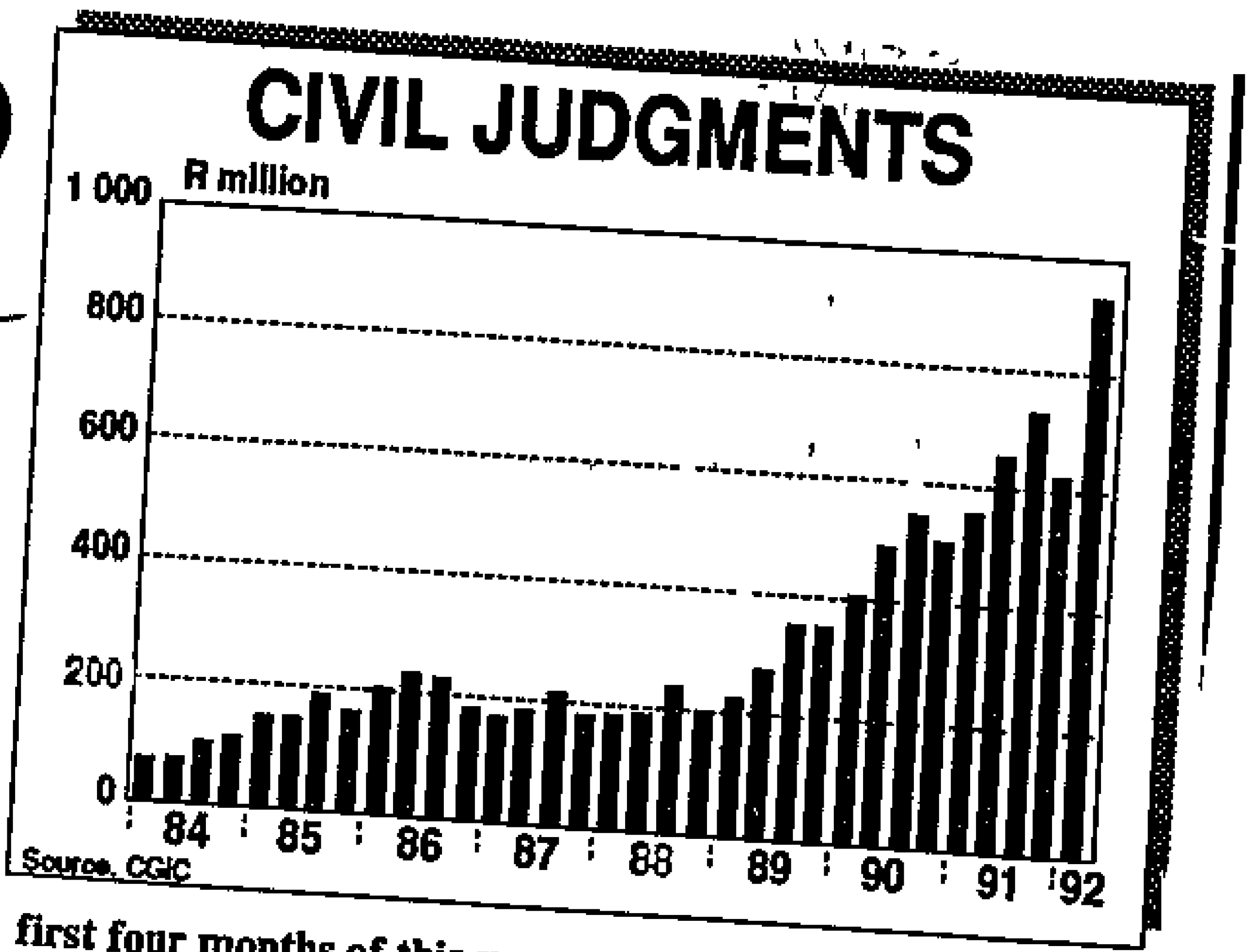
High interest rates lead to rapid rises in the value of default and consent judgments. SA is now suffering from an unprecedented number of civil judgments.

In the first four months of 1992 the value reached R1,18-billion. February's R360-million and March's R351-million were the highest ever recorded.

If the figures are annualised, judgments could top R3,5-billionn, an increase of almost 40% on last year, says Mr Doig.

Insolvencies have been rising steadily since the recession began. From 2 558 in 1989, they jumped to 3 104 in 1990 and 3 970 in 1991.

Mr Doig says the rising number of judgments and insolvencies is expected to boost liquidation rates as companies struggle to maintain cash flow.



The dog sits in Nairobi

(232)

S Times (BUSS) 12/7/92

DIAGONAL STREET by JULIE WALKER

ALL those JSE-quoted companies enjoying prominence in Nairobi last week should heed the sad tale of a Johannesburg businessman's aborted venture in Kenya.

The man, who prefers not to disclose his name because he still has to return to Kenya to sort out the mess, went to set up a factory in Nairobi two months ago after being wooed by officials.

Members of Kenya's export-processing authority (EPA) visited SA this year They were promoting a series of export-processing zones (EPZs), the first of which is Sameer Industrial Park in Nairobi.

The businessman was told he would enjoy the benefits of belonging to the preferential trade association of 18 Central African countries as well as an import tariff reduction from the normal 35% to 20% and a tax-free holiday for 10 years.

He was also told that investment and trade would be in US dollars and all EPZ customers would be granted import licences.

"We tied up with a British company and opened a factory in Sameer Industrial Park. My South African company was to provide the equipment and the management. Selling the plant for dollars earned valuable hard currency for SA."

But when he got there, he found two fundamental problems. Government departments had no understanding of, nor had they been instructed about the operation of an EPZ or the promises made by the delegation that visited Johannesburg.

Second, most officials thought that the EPZ was for multinationals to add value to imported goods for re-export to European markets.

"Anyone who believes that goods can be taken into Nairobi, 500km from the coast, wharfage, railage, clearance and tariffs paid, bonds provided, value added and goods shipped out to the world at a competitive price needs his head read," says the SA entrepreneur

He and five other foreign firms went there to make goods for sale in the 18 nations.

But to operate, a Kenyan partner was needed — and found — to provide expertise. The next hitch was foreign currency When the Kenyan partner applied for dollars (not for money, only for the hard currency) to buy its share of the business, it was told it had repay the same number of dollars over four years. The plant had to be pledged as security even though the Kenyan investor held only 51% of the company.

The factory was opened and began work.

"The customers in Kenya alone were queuing up to buy, but they had to pay in dollars. When they applied for foreign currency, they were turned down and we could not make any sales. It was stalemate."

Peripheral problems include half-day electricity outside the EPZ because the hydroelectric power stations on the Tana River are silting up and there is a drought, unreliable telephones and appalling roads.

So with no tariff protection, no benefits of Kenyan trading and no customers with the money to pay, the venture died and the man is back in Johannesburg.

His dog is in Nairobi kennels, his furniture in storage in Johannesburg and he and his family live in a furnished flat where the employees are on strike.

"After all the publicity about doing business in Kenya last week I want to warn others who believe they can do business there. There will be a shortage of foreign currency until there are free elections because all aid has been cut off. Until then, forget it"

Trusts top R12bn

S(Times(BUSS) 12/7/92

By JULIE WALKER and TERRY BETTY (232)

MORE than a million South Africans invest in unit trusts, 280 000 having opened accounts in the past year

At the end of June the market value of the 46 unit trust funds topped R12,8-billion, a rise of 6% on the March quarter

Association of Unit Trusts chairman Clive Turner reports a net inflow of nearly R600-million.

Gross sales were R1,1-billion and repurchases R534-million. These figures include an estimated 10% of switching by investors from one class of trust to another

About two-thirds of gross sales goes to general equity trusts.

Mr Turner says that with the share market looking uncertain, there has been a swing to high-income trusts

Swing

The returns from income funds have tended to be stable, but equity trusts swing from gain to decline, depending on the JSE

About a third of gross sales comes from monthly savings and from income reinvested

"This has made our industry far less volatile than it used to be," says Mr Turner

The average return on unit trusts in the past 12 months was 18,4% Top of the general equity pile was Southern Life with 23,8% Momentum's was worst at 12,6%

Among specialist equity funds, UAL Mining doubled growth in the mining financial index, with an all-in return of 11,3% Both Old Mutual and Standard's gold funds were down on the year But Old Mutual's industrial fund was the top of that class with a return of 22,8%

Guardbank's income fund returned 21,5%, six points ahead of the inflation rate, and UAL's gilt fund returned 21,4%, slightly below the rise in the all-bond index

All figures are based on one-year repurchase-to-repurchase prices sourced from the University of Pretoria's June quarterly unit trust survey.

Mr Turner appeals for calm among unit-trust investors in the political turmoil that lies ahead.

TRADE union-backed Community Growth Fund (CGF) raised half of its R100-million target for the year in the first month of operations

The Syfrets-managed unit trust attracted most money from pension and provident funds, says Syfrets senior manager Ian Hamilton

An NUM source says its provident funds have committed 10% to 25% of monthly subscriptions to CGF

Individuals have committed R1-million to the fund

CGF, the first venture between financial houses and unions, is accessible to low-income earners because it requires a minimum lump-sum payment of R500 or R30 a month, as opposed to the R1 000 or R50 other funds insist on

Mr Hamilton says shares have not been bought because the market is overvalued

"Political pressures have softened share prices and we expect to start making acquisitions in the next few weeks"

Fifteen shares have been selected CGF is looking to increase the portfolio to at least 30 shares

Mr Hamilton says the CGF board, half union representatives and half Syfrets, chooses the investments.

"Syfrets takes three months to analyse companies and choose a list of shares that satisfy financial criteria, such as healthy returns"

The unions sift through the list to see whether companies satisfy social criteria, such as job creation, black advancement and equal opportunities for blacks and women.

Community Growth Fund wins R50m commitments

BJDAY 13/7/92 (232).

ANDREW KRUMM

THE Community Growth Fund — a socially responsible unit trust launched by seven trade unions in May — has already received firm commitments totalling R50m for the next 12 months, says Syfrets senior manager Ian Hamilton

"This means the fund is halfway towards its goal of raising R100m within the first year of operation," he said at the weekend Another R14m in contributions was in the pipeline

"We encourage monthly contributions and not lump sums, in order to maintain an ongoing flow of money into the fund It is remarkable that not one investor approached has refused to contribute And I will continue to make about three presentations to potential investors every week until the end of the year."

He refused to give details of investors, saying only that mainly provident funds — including two in the mining sector — had contributed so far, while Times Media had contributed R1m from its pension fund.

Notwithstanding the inflow of money, funds would not be invested in the JSE just yet, he said.

While Syfrets was technically ready to place the first rand into socially responsible stocks, market conditions were not right.

"Given the uncertainty in the political and economic arenas, we are likely to continue with the prudent wait-and-see approach," he said

Fund money would be invested in JSE-listed companies which adhered to 12 union-defined criteria such as union recognition, acceptable employment practices and black advancement.

"The Syfrets board determines the financial eligibility of companies, while the Labour Research Service — a non-profit economic advisory body to trade unions — tries to match these to socially responsible investment criteria"

The unions, however, had the final say and made recommendations accordingly At present there were between 30 and 40 companies under investigation for the final selection list

Hamilton would not disclose which companies had been chosen "But, management attitude to unions is emerging as a key selection factor."

Performance statistics on socially responsible funds in the UK, the US and Canada showed that they outperformed other units trusts over a number of years, he said

National Union of Food, Wine, Spirits and Allied Workers spokesman William Makhunga said the fund had been introduced to most retirement funds associated with his union and the response had been positive

Commuters offered a chance to hop on board

BIDAY 13/7/92

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PETER GALLI

NEWCASTLE's black community was being offered equity in the town's new bus and taxi rank development, which was soon to be extensively upgraded and improved, Taxi City Centres director Norman Boxshall-Smith said in an interview.

The bus and taxi rank in use at present had already been acquired from the municipality and a company had been formed to offer all users equity in the development, a move which could help prevent boycotts of the facility.

A million linked units at R10 each will be offered They comprise par value shares of one cent at R4 each, each linked to 19% unsecured redeemable debentures at a par value of R6 each.

"The shares offered are only linked with the debentures for subscription purposes, after which they can be traded separately at the discretion of the shareholders," director Matt Olivier said.

While the debentures would be redeemed at the discretion of the directors, this would only occur after five years. The debentures guaranteed a 19% return and would probably be redeemed once the shares were producing a similar return, he said.

However, the directors were looking for a private placement of at least 200 000 shares or 20% of the scheme If this did not happen, they would probably refund the money to subscribers and retain a 100% interest.

The offer was not underwritten as the directors had sufficient funds of their own for the development.

Negotiations had been under way for more than four years with Kwazulu Transport, the SA Black Taxi Association (Sabta), the SA Long Distance Taxi Association (Saldta), the local Hawkers' Association and the more formal end of the retail business sector

The final design for the development had been approved by all of these and was now out to tender. Construction should start in the next two months.

Some 800 taxis now use the rank, for which they pay the municipality about R20 a month. "We have advised the various associations that members can pay them this contribution, but in return for this users would have to see to basic security and the cleanliness of the area," Boxshall-Smith said

The 7,2ha site, three blocks from Newcastle's CBD, would offer 4 500m² of retail space, including a butchery, bakery, general dealer and other shops.

An open plaza has been incorporated in the development to cater for hawkers, while slightly more formal trading kiosks will be provided along the eastern boundary of the complex.

Net average rentals of about R25,80/m² are being asked, with an additional R3/m² for operating costs All of the leases have 12% escalation clauses, while about 40% of the shops have turnover clauses

"About 72% of the retail space is already let, while BP has put in R1,3m for its petrol station The station will only cost between R400 000 and R500 000, but BP has donated the rest towards upgrading," Boxshall-Smith said

A return on the R10 investment of 15,1% was predicted for 1994, rising to 16,1% in 1995 and hitting 19,8% in 1998. These figures were based on revenues expected from leases after expenses at 90% occupation and had been confirmed by auditors Ernst & Young, Olivier said.

Buyers bid for Debonair Group

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BIDA 13/7/92

LINDA ENSOR

CAPE TOWN — Various offers to purchase the provisionally liquidated quilted products manufacturer Debonair Group had already been received, MD Hein Calitz said at the weekend.

Trading in the company's shares was suspended last Thursday because of the application for its provisional winding up

Calitz said that last year a merger deal with a Frame-associated company, the Cape-based Highams, had fallen at an advanced stage through as the banks involved felt the balance sheet of the combined company would be overgeared

He said Debonair had assets of R10m and liabilities of R13m — R6,5m of which was owed to First National Bank (R4,5m), Allied Bank (R1,2m) and Societe Generale (R800 000) The R3m deficit related to a loan account to parent company, Abbey Holdings, which had been prepared to write off the debt provided the banks supported Debonair

Calitz claimed the consortium of banks had delayed for seven months in drawing up an agreement to support the business and keep it financed The banks' refusal to allow the company to open letters of credit during this time had cut off its source of cheap overseas fabric.

This, together with tough economic conditions and uncertainty over import permits when the tariff structure was under review, had led to Debonair's demise

In January this year Debonair had refocused itself on its core quilting business after successfully selling off all its Johannesburg manufacturing operations.

Bank debt had been cut by R1,5m, rationalisation costs were covered and the company was making a turnover of R2m per month By June Debonair had broken even, Calitz said But last week it could not pay the wages of its employees and was provisionally wound up.

FSI reassures investors on debt, pref servicing

BIDAY 13/7/92

Business Day Reporter

FSI's Jeff Liebesman has used his latest chairman's statement to reassure shareholders that the top pyramid company of the W & A group can service its preference shares and debt from cash flow developed lower in the group.

Top company FSI also reports that arrangements have been made to defer redemption of its own redeemable prefs beyond the April 1992 start date.

Liebesman explains that, since the group's 1990 restructuring, FSI's holding of convertible debentures, ordinary shares and pref shares has been balanced to ensure a straight flow of funds from W & A and Waicor to FSI.

He adds that FSI's own cash flow is not dependent on ordinary dividends declared by W & A, lower down the group.

In other words, cash flow from W & A covers FSI's own debt servicing and dividend payments.

At the end of 1991 FSI's own long-term debt totalled R211,4m against R401,2m at end-1990

The reduction was made possible by the sale of the hosiery division, agreed in 1991 but only completed in 1992 (232)

The remaining long-term borrowings were unsecured In addition, FSI had outstanding redeemable prefs totalling R171,2m at end-1991 and permanent capital — ordinary and preferred ordinary shares — of R179,4m.

FSI's own interest and dividend income slipped fractionally to R44,5m in 1991 from 1990's R45,8m and its pre-tax profit was marginally lower at R44,3m against R45,5m.

Dividends on the redeemable prefs absorbed R23,7m (1990: R24,5m) leaving R20,6m (R21,0m) attributable to ordinary shareholders

Ordinary and preferred ordinary dividends totalled R20,5m against the previous year's R20,4m

FSI's ordinary dividend is unchanged at 35c.

Saficon switches sectors on JSE

Shares of Saficon Investments and its controlling company, Saker's Finance and Investment Corporation, will from today be listed under the industrial holdings sector instead of the motor sector on the JSE

The change has been brought about by Saficon Investments' recent increase of its holding in Boumat, a building supplies group, to 51 percent

"The spread of assets and earnings of Saficon and its controlling company, Saker's Finance and Investment Corporation, has changed

"As a result, it is no longer appropriate for the two companies to be listed in the motor sector and the JSE has agreed to transfer the listing of the shares of both companies to the industrial holdings sector," says Saficon — Sapa

31/7/92 STAR 5/7

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Unit trust liquidity increases

BDAY 13/7/92

MICK ELLINGHAM 232

UNIT trust fund managers — cautious about the uncertainties that lie ahead for SA — are increasing liquidity in their funds

Statistics released by the Association of Unit Trusts last week showed liquidity had increased to 16% for the quarter ended June 1992 in both the general equity and specialist equity trusts This compares with a liquidity level of 15% three months ago.

The statistics also showed that 280 000 new accounts had been opened with the SA unit trust industry in the year ended June 1992.

The industry had 1,08-million accounts spread across 46 unit trusts, with most accounts invested in general equity trusts.

The market value of assets managed by the industry rose 6% to almost R13bn in the threeee months to end-June.

Gross sales rose during the quarter to more than R1bn while repurchases rose marginally to just more than R500m

"The net inflow into high income funds during the June quarter was at a record level and almost three times the previous level," said association chairman Clive Turner.

The average total return of the general equity trusts for the past year, at 18,4%, is ahead of both the 14,8% inflation rate and the 14,1% increase in the JSE All Share Index

The specialist equity trusts — designed for investors seeking a higher risk profile and a focus in one specific area of the share market — have produced more varied returns for the year, ranging from -20,8% (Old Mutual Gold Fund) to 25% (Senbank Industrial Trust).

Turner advises a cautious approach to the equity market in the months ahead "However, unit trusts have proved their worth over the longer term and few investments can rival unit trusts for their flexibility, convenience and performance"

Value of judgments 'could exceed R3bn'

232

KARIN FRANKEN

THE combined value of judgments for debt could well exceed R3,3bn by year end, the Information Trust Corporation (ITC) warned yesterday.

This would be accompanied by an increase in unemployment, poor consumer confidence and dull trading.

"The current state of our economy together with predictions of a worsening situation will ensure a record year in terms of bad debt judgments," ITC CE Tony Leng said in a statement.

Central Statistical Service (CSS) figures released last week showed the value of judgments granted for debt in the first four months of 1992 rose by almost 50% to R1,185bn from R793m.

Leng said: "While there were some positive signs during the first few months of 1992 and a possible slow recovery in the last quarter, current political developments in SA will allow little improvement in the short to medium term."

BDAY 14/7/92

In April, 224 close corporations and limited companies were liquidated, in which 12 daily liquidations were reported during April's 19 working days. March's liquidation figure of 290 was the highest in almost six years.

Furthermore, consumer confidence was at its lowest.

"More than 1 000 individuals have been sequestrated this year and have lost everything," Leng said.

COMPANIES

Iscor shares slump to record low

232 EDWARD WEST

ISCOR shares hit a record low at 125c yesterday, but analysts remained doggedly bullish with the view that the steel maker represented a cheap buy for investors prepared to take a longer-term view

The share toppled from a high of 270c on July 15 1991 to a low of 140c on April 27 1992 after which it recovered slightly in May before falling steadily during June to the current low. BIDAY 14/7/92

Analysts described the share as the perfect barometer of short-term economic sentiment, with institutional buyers holding and buying in the hope of better days while individuals, who watched their shares fall well below the 200c listing price, were prone to sell.

Simpson McKie analyst Hennie Vermeulen believed a main reason for the low share price was Iscor's low earnings potential in the year to June 1992 based on lower than anticipated domestic steel sales.

Although Iscor's earnings at about 18c a share would be significantly lower than last year's 33c, he believed profits would recover strongly in line with a forecast improvement in the domestic economy in the first quarter of 1993

Iscor exports at significantly lower than domestic prices — mainly to recover fixed costs — so earnings would depend on an improvement in the local steel markets.

An Iscor spokesman said the share price reflected a drastic cut in local steel demand and a 15% to 17% oversupply of steel on international markets

Frankel, Max Pollack Vinderine analyst Kevin Kartun said even though business confidence levels were low, the share was a cheap buy for those taking a longer-term positive view of the economy

Factors which would contribute to Iscor's prospects included the curtailing of capital expenditure, the completion of a modernisation progamme and Iscor's technology which made it a low cost producer.

FINANCES

As inflation-beaters, unit trusts are tops

232

STAR 14/7/92

A unit trust has many features in common with a stokvel. Marketing manager of IGI Unit Trust, Russell du Bois, explains.

Compared to a stokvel, the unit trust has more going for it from an investor's point of view.

The stokvel is used largely by the black community as a means of raising funds for a variety of purposes.

The unit trust similarly caters for the small man, being geared to accommodate modest monthly contributions pooled and invested in a spread of blue-chip shares on the stock exchange.

Most stokvels abide by a constitution containing the rules by which they are managed, enabling investors to assess the pros and cons of a particular stokvel before committing themselves.

Unit trusts are also generally very carefully managed by specialist fund managers and blocks of shares are regularly reallocated in accordance with trends in the stock market to get the best return for investors.

Both the stokvel and the unit trust are geared to release investors' funds to them at short notice.

The unit trust is greatly superior in this respect as it will pay out within 48 hours of a request being lodged, whereas stokvel members have to wait longer — in some cases more than a week — for all the signitaries to get together to sign bank withdrawal forms.

Some stokvels are dedicated burial societies holding and accumulating members' savings to ensure that burial expenses are covered when needed.

Both the stokvel and the unit trust, because of the relative accessibility of funds compared with long-term savings plans such as endowment policies, are a useful resource for large purchases, and can serve as emergency funds in the event of injury, illness or loss of a job

Both can also cater for the provision of loans to investors, but unit trusts enjoy greater acceptance by banks to stand as collateral against loans.

For further information contact Russell du Bois at (011) 335-1527.

JSE investors nervous

STAR 14/7/92 (232)

By Stephen Cranston

Investors on the Johannesburg Stock Exchange are reacting nervously to the prospects of the ANC-led mass action campaign

Heavyweight investors among the financial institutions are waiting to see what direction mass action takes before committing more funds into shares

Turnover was small yesterday with many fund managers away on holiday rather than at their desks making selling orders

De Beers led the market declines, posting a R3, or 3,6 percent, fall to R80,25 before recovering to close at R80,75.

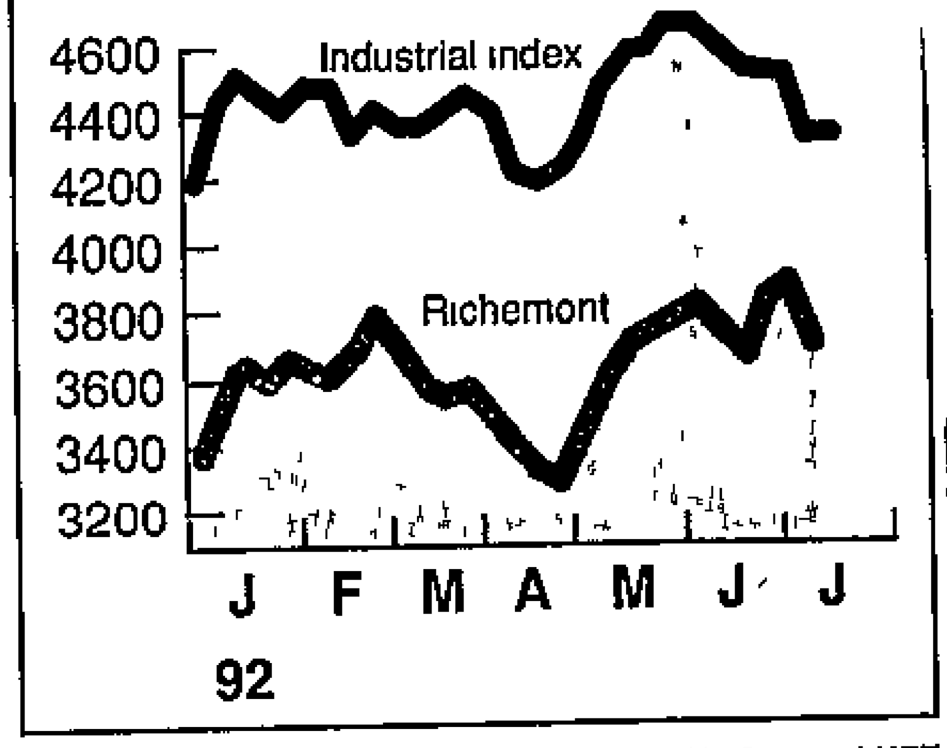
Most gold shares were marked down but oil shares seemed to be in favour.

Dealers expect the market to drop further this week with most experts agreeing the predicted downwards "correction" is now fact.

Rand hedge shares desert usual role

BDAY 14/7/92. (232)

DUMA GQUBULE



Graphic LEE EMERTON Source I NET

LEADING rand hedge shares on the JSE have not played their traditional role of attracting interest in times of volatile currencies.

There had been no undue interest in leading rand hedge shares in the wake of the recent political developments, the weakening of the finrand and the subsequent meltdown on the share market, JSE analysts said yesterday

Many of the shares, with a few exceptions like Minorco and Charter, had drifted down with the rest of the market The widening of the financial rand's discount to around 30% had not cushioned the shares from the sliding market, they said

Rand hedge shares, which derive all or a significant portion of their earnings offshore, have traditionally attracted interest in times of political and economic uncertainty But Mathison & Hollidge analyst Barry Sergeant said many of the shares had not performed according to their traditional role this time

Bellwether Richemont, which has no local assets, has tended weaker and closed yesterday at R36,50.

FIT has fallen to R10 from R12,75 at the end of April, but Minorco has gained nearly 10% to R49,75 over the past two months

Charter has soared R10 to R38,50 in three months

Sergeant said Minorco was gaining ground because of a fairly good earnings outlook and the ever-present possibility the company would make a good value acquisition Charter's outlook was also fairly good and market expectations of a statement on the group's stake in Johnson Mathey had also driven the share price

Another analyst, however, said the dominant price setters for Minorco and Charter shares were in London. The price increases were largely a reflection of the weaker financial rand, he said

However, Southern Life's Paul Beachyhead said now was not the best time to buy pure financial rand hedge stocks, which derive all their earnings offshore, as the financial to commercial rand discount was at the wider end of its traditional range.

"With hindsight the best time to have bought these shares was in November, when the discount was still at 8%. If the political situation were to return to normal and the financial rand discount narrowed, we could actually see financial rand stocks underperforming in relation to the rest of the market," he said.

A portfolio manager with a large institution said investors had now turned their interest to the bond market This was very strong on good local and overseas interest, he said

Uncertainty hits JSE engineering index

BDAY 15/7/92

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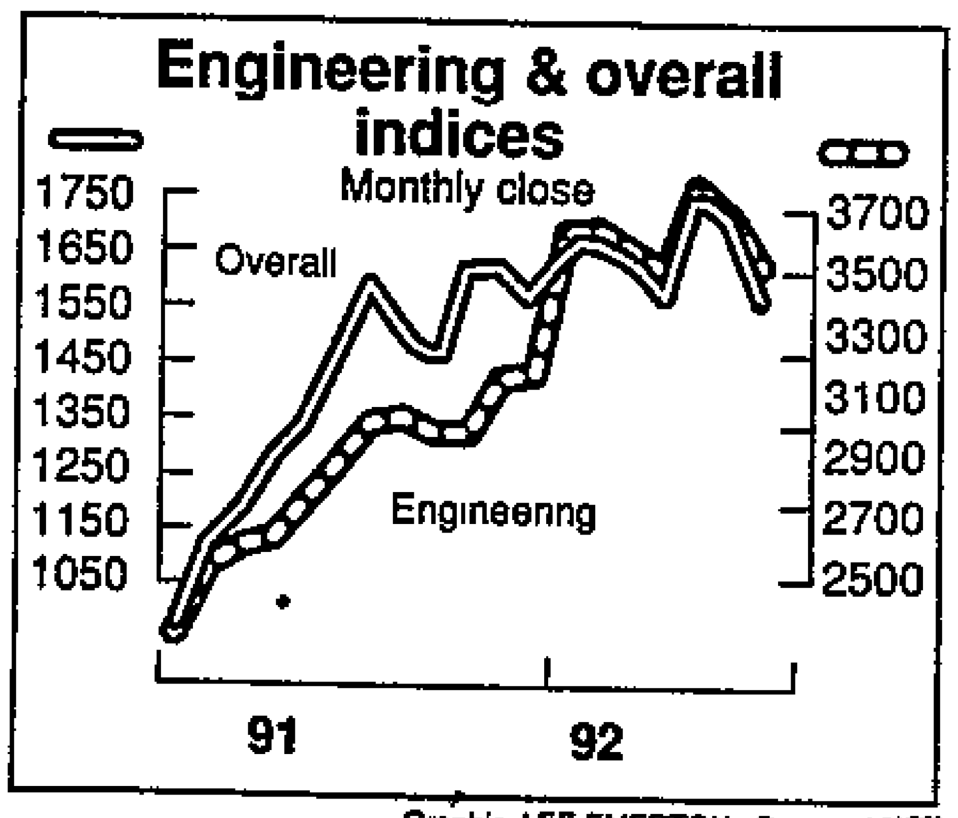
EDWARD WEST

GLOOMY sentiment on the JSE's engineering board was the result of a decade-long decline in local fixed investment coupled with political and economic uncertainty, stockmarket analysts said yesterday

The recent performance of the engineering index, which has declined from 1 767 points in May to yesterday's 1 626, reflects the disinterest in engineering stocks The leading shares are tightly held but trading volumes in the rest have been low

From July 1991 to June 1992 shares worth R245,6m were traded averaging out at R20,5m a month Although the average improved to R29,3m this month, it compared with a monthly average of R35,5m in the paper and packaging sector The average trade in the beverages, hotels and leisure sector was R69,6m

In terms of market capitalisation, the bright star in the sector was the gas group Afrox which, with its R2,82bn capitalisation, accounted for 52% of the sector Correspondingly Afrox's monthly trading average was R6,3m compared with, for instance, Haggie, which only averaged R970 000 a month



Graphic LEE EMERTON Source I-NET

Unlike the other groups on the board, Afrox's income was not soley derived from engineering but also from other industries such as health care Its 13% interim earnings increase to March 1992 was significantly lower than the 22% seven-year annual compound growth. But consistent growth in the past testified to its ability to weather recession better than most

With gross fixed investment in the construction, mining and capital intensive industries showing negligible growth over the past decade, prospects for engineering groups serving them were gloomy

Industrial groups were operating well below production capacity with most opting for replacement or refurbishment of existing plant rather than investment in new productive capacity, the analysts said

If, for instance, the economy improved slightly before the end of 1992, gross domestic fixed investment (GDFI), which traditionally lagged behind GDP by nine to 12 months, would only begin to translate into real earnings growth by 1994.

However, the analysts believed the start of the Columbus stainless steel and Alusaf aluminium smelter projects could stimulate demand as would the growing trend towards exports Groups on the board successfully opting for the latter route were Dorbyl, Haggie and Standard Engineering

Dorbyl, which had the second highest capitalisation in the sector at 15,8%, exported 15% or R200m of its turnover in the interim period to March 1992 However, because of reliance on fixed investment levels, lower earnings were forecast.

Steel wire, wire rope and copper-base products manufacturer Haggie, with a capitalisation of 10,8%, exported about 20% of its total sales of R1,18bn to over 60 countries in the year to December 1991

Disaster may be looming for many manufacturers

BDAY 15/7/92

(232)

EDWARD OSBORN

THREE years of recession — in particular the decline in personal disposable income accompanying retrenchments, the steep decline in capital formation in the form of building and construction and the ravages of the drought — have had a devastating impact on the manufacturing industry, to a degree not commonly appreciated.

Production levels have been severely curtailed, but the extent of the damage could have long-term structural implications

Overall, the manufacturing industry index has declined by 4,7% between the first quarter of 1989, on the eve of the economic downturn, and the first quarter of 1992

That was the average, but it conceals an extremely wide spread of experience throughout manufacturing Nearly 32% by weight or relative size of industry experienced severe declines of more than 10%, ranging up to 39% with an average decline of 20%. Industries that experienced relatively mild declines of 3%-10% amounted to about 26%.

Industries that were relatively static in the sense of holding their own between -3% and +3% amounted to 12% Only about 19% showed a mild growth of up to 10% over the three years, and a further 11% experienced stronger growth

Given the general malaise in manufacturing it is remarkable that as much as 30% of industry managed to show increased production levels But conversely, 70% were either moribund or in a state of decline.

At the broad industrial level, there were only three industries that showed any vitality, namely beverages (+9,3% growth), other chemicals, probably dominated by petroleum refining and synthesising (6,9%) and plastic products (14,1%).

However, on closer examination at the more homogenous sub-group level there were positive increases in production levels in animal feeds, coffee and tea, flour products, ice-cream, and other food products in the food industry; beer production and soft drinks in the beverage industry; women's and girls' clothing; pesticides and herbicides, and other chemicals, presumed to be mainly petroleum refining and synthesising in the chemical industry; railroad equipment, and ship and boat building in the transport industry; and plastic products, batteries and canvas goods

At the other end of the spectrum of experience in the recession, the declines in production among 27 industries accounting for a weight of 32% have ranged in severity from 10% to 39% Among them only three industries ended up at a level of production above that in 1985 They were synthetic resins, glass products and the motor vehicle industry. Many of them are about 60% of what they were in 1985

Industries that suffered severe decline in the past three years are clustered in textiles, motor vehicles, transport, electrical and non-electrical machinery, metal products, building materials and — worst of all — fertilisers.

Not even the growth of exports of manufacturing products in the three years of recession, encouraged by structural adjustment programmes and the like, have been sufficient to sustain overall production levels — for example, in such industries as industrial chemicals, basic iron and steel, metal products, machinery and motor vehicles

Only two manufacturing sectors can be said to be essentially export orientated — pulp and paper and basic non-ferrous metals Pulp and paper, nevertheless, declined by 3,8% whereas non-ferrous metals rose by 3,2%

The industries that have crashed rather badly in the past year include non-metallic mineral products, electrical machinery, oil cake products, steel pipes, knitting mills, motor vehicle manufacture, tyres and tubes and footwear

On the assumption that capacity utilisation is proportional to gross output of the industry, about 54% by weight of manufacturing industry was at a capacity utilisation level below that in 1985, indeed on average 84% of the 1985 level, but with a wide dispersion As a result there has been a big loss of jobs According to Central Statistical Service figures, total employment in manufacturing industry has dropped by 44 000 or 3% in the three years And there are further losses of employment in store as the recession persists through 1992

Reductions in employment need not necessarily be temporary, for contraction of the industry may have been accompanied by internal rationalisation Any structural change of this kind brought about by retrenchment could be permanent, in that recovery of the industry will not be accompanied by a proportionate recovery in employment.

It is one of the sad ironies of the SA situation that the consequences of economic developments in recent years have been exactly the opposite to what is needed All scenarios point to the need for manufacturing development in order to provide greater employment opportunity. And unfortunately the result of the prolonged recession has been to force a rationalisation on industry to effect economies at the expense of labour

The implications for inflation, too, are not altogether reassuring, although not clear-cut The lower levels of capacity utilisation could result in higher unit costs of production with fixed costs taken into account, which the industrialist could attempt to recover through higher prices So although he may be less favourably placed to accede to increased wage demands, which could be the primary source of transmitted inflationary pressures, his increased unit costs may nevertheless force him to increase the price of his products

Finally, with reduced capacity utilisation there is little incentive to expand through investment in further plant The only investment that will occur is via replacement or renewal But here again the industrialist can be in doubt whether he should take this course, when there is a threat of international competition arriving with the various proposals to reduce tariff protection He is likely to be much more vulnerable to international competition if he is operating below capacity

Rather than intensify competitiveness, decreased tariff protection could result in elimination of industry Any steps towards liberalisation must be very carefully introduced, and really should be delayed until a fair degree of recovery has been achieved It should be phased in to a rising plane of recovery.

A significant part of SA's manufacturing industry could be poised at the brink of disaster, in part due to natural causes, in part due to political uncertainties, and in part due to self-imposed monetary constraints and disciplines

Liquidations in the manufacturing sector have risen from 38 in the first quarter of 1989 to 112 in the corresponding quarter of 1992 Many enterprises that have survived so far could have eaten into reserves and could be at the point of collapse There is the prospect of an implosion in manufacturing because of the collapse of consumption In these circumstances the preoccupation with savings is misplaced

☐ **The author is Nedbank's chief economist**

Report on future of JSE is due soon

B DAY 15/7/92

SHARON WOOD

(232)

THE first report of the independent research project into the optimal future structure of the JSE would be completed in early October, JSE president Roy Andersen said yesterday

The JSE set up a subcommittee chaired by Prof Michael Katz in April to determine the direction future deregulation of the stock exchange would take

A central issue to be addressed by the subcommittee would be the strengths and weaknesses of the present floor trading system and whether this should be supplemented by screen trading Other issues would include whether commission should be negotiable and whether corporate membership of the exchange should be permitted.

Andersen said input had been sought on the appropriate future structure of equity trading and 430 questionnaires were sent to major investment and financial institutions and political parties last week.

Universal Exchange Corporation (Unexcor) MD Bev Jennings said an investigation into a computer system designed for screen trading was still in the early stages

Unexcor is designing a clearing and settling system for the bond market. This should be in place by the end of the year and will merge the informal and JSE bond markets, Andersen said.

After the fall is over

W/Mail 15/7-23/7/92 (232)

JSE watchers have good reasons for explaining the 'correction' in stock exchange prices. But where do we go from here? **REG RUMNEY** *reports*

A FALL in the prices of shares quoted on the Johannesburg Stock Exchange (JSE) was inevitable The market had begun to look overheated

One analyst notes that on a 13,7 price earnings (PE) multiple industrial shares were looking expensive (the PE is a ratio used to assess share prices and in simple terms, the lower the PE the cheaper the share)

The "real economy" — *ie* what is actually happening to businesses out there, as opposed to markets dealing in pieces of paper — suddenly looked a lot worse than it might have The impact of the drought and slower world economies to which we export forced a readjustment of thinking about the timing of the recovery, and this meant lower share prices Earnings forecasts of listed companies were pushed out further

Apart from a bright spot in resilient if lower export earnings, the economy has looked decidedly bleak, with the Reserve Bank finally calling a recession a recession and forecasting lower growth

This is quite apart from the violence, labour unrest and political deadlock, which are as much caused by recession as contribute to it

The rapid shift in the political mood after the breakdown of Codesa II and Boipatong provided the nudge that pushed the JSE indices over the edge

Big private investors who have stayed in or come back to the market since the last big shakeout in 1987 panicked and investors in unit trusts made the logical move out of funds which focus on shares into "income" funds focusing on interest, or just sold their units

Frankel Max Pollack economist Mike Brown notes institutions, the big buyers who underpin the market most of the time, are buying at attractive levels *ie* they are not supporting the previous highs

The JSE All Share index had by midweek dropped 7,4 percent against its recent high of 3 744 at the close of trading on June 4.

There are two facets to the loss of confidence

International investors sold, among others, gold shares These are insulated against big disinvestments by the financial rand The financial rand discount, which measures the extent of disinvestment, widened to 29 percent midweek against single figures at the end of last year.

The movement of industrial shares, which are mainly held by residents, better reflects the domestic mood These fell around 9 percent midweek against June 4

So what now? What — aside from hope that negotiations will get under way again — can be held out as hope for individual investors who didn't get out in time and are nervously holding on to their shares? Or advanced as evidence for those looking for the bottom before buying again?

Clearly the longer the political impasse and the accompanying mass action, labour unrest, and political violence the longer the pessimistic mood will last

Hence brokers will keep a wary eye on negotiations and moves to get business and labour to cozy up to one another

Because of the underlying weakness of the economy, the portfolio manager of a large financial institution reckons, political progress would do little more than stabilise the market "The market might climb one or two percent"

On the basis that bullishness is more forgiven if wrong than bearishness, one could point to various factors

One, according to Brown, is that interest rates will come down more than people suspect This should be good for the stockmarket — because interest rates have already softened, those who have switched to income funds will find even now that returns are not as good as they have been recently

Another, Brown adds, is that though economic growth looks dismal for the rest of the year, the economy might see some improvement off a low base in the fourth quarter and a slow recovery next year

Finally, the gold price (that straw South Africans always grab at) has looked shinier recently Midweek it had gone up to $350,90 at the London afternoon fix

SP Reid Mackeurtan director David Klotz says what he calls the three uglies that have characterised booms before busts are absent now

One is high or increasing interest rates Another is rising inflation The third "ugly" is too high valuation of shares Klotz believes most shares are now fully valued or undervalued

In all though, he is reasonably optimistic "After one-and-a-half years a 10 to 15 percent correction won't have broken the bull trend"

Given a solution to the political breakdown and no other external shocks, like a collapse in the gold price or a big tumble on Wall Street, he could be right

COMPANIES

Futures Exchange 'trading well'

SHARON WOOD

TRADE on the SA Futures Exchange (Safex) is roaring ahead, with open interest contracts reaching a record high of 34 397 yesterday, Safex CE Stuart Rees said yesterday.

Values had reached a record high of about R1,5bn and a record R135m on margin

"If open interest stays this high for a considerable length of time Safex will have to increase the guarantees in the form of a line of insurance with an insurance company . open interest has reached a critical point for the exchange," Rees says.

During April more than 6 000 contracts had been traded daily, compared with the average 3 200 contracts last year and well above the budgeted 2 000 a day

"The extra volatility is probably coming from the threat of strikes," Rees added.

He attributed the large growth in interest in the futures market to the maturation and acceptance of the futures market as another investment vehicle (232)

Rees expected trade on the exchange to experience exponential growth in the future BDAY 16/7/92.

Foreign interest was disappointing because it was only about 5% of turnover and 12% of open interest, he said "The political problems are having an impact on the futures market "

Foreign interest would have been a significantly larger part of Safex's business if the political situation had sorted itself out, he added.

Act relaxes controls on JSE bear sales

MERVYN HARRIS 232

BEAR sales on the JSE may now be made only at the last recorded cash sale price or at a higher price after a Stock Exchange Control Act amendment was gazetted yesterday.

The Act previously provided for a bear sale — selling shares on the assumption that they can be bought later at a lower price — to take place at a higher price

The amendment will bring bear sales on the JSE into line with the trend in major world markets where bear sales can be made at an even lower price than the last sale price.

JSE president Roy Andersen said last night "The change will now make it easier to hedge in the equity market positions taken in derivative markets such as futures and options.

"We welcome the flexibility the change in the Act will now provide as it will help trade on the Traded Options Market," he added.

BD 16/7/92

SHARE PRICES

A taste of reality

FM 17/7/92

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It was the steepness of the fall, more than anything, that shook the market On June 4, the JSE All Share index stood at 3 744 By July 13, it had fallen to 3 448 — a decline of nearly 8%, most of which had taken place over a few days The fall had private investors running for cover and for a brief period last week there was a surge in volumes traded on the JSE

Accompanying this was unusually heavy demand from investors seeking either to liquidate their holdings in unit trusts or to switch them Guardbank assistant GM George Mikula says his trusts were inundated "with an extraordinary number of inquiries from investors and many withdrawals It was tantamount to a collective panic It was the worst situation we've experienced since the Crash of October 1987 "

Mikula blames media hype for much of the reaction, which he describes as being "very negative" in recent weeks about the market Many investors, not illogically, gave instructions for their holdings in equity-linked funds to be switched to fixed income funds where they believe they will be better protected

Talk in the market recently has centred around the potential effects on the JSE of the recent fall in the Dow Jones index and the prolonged Japanese bear market However, Frankel Max Pollak Vinderine technical analyst Dee Campouroglou says the old correlation between the JSE's performance and the NYSE Dow has long been broken

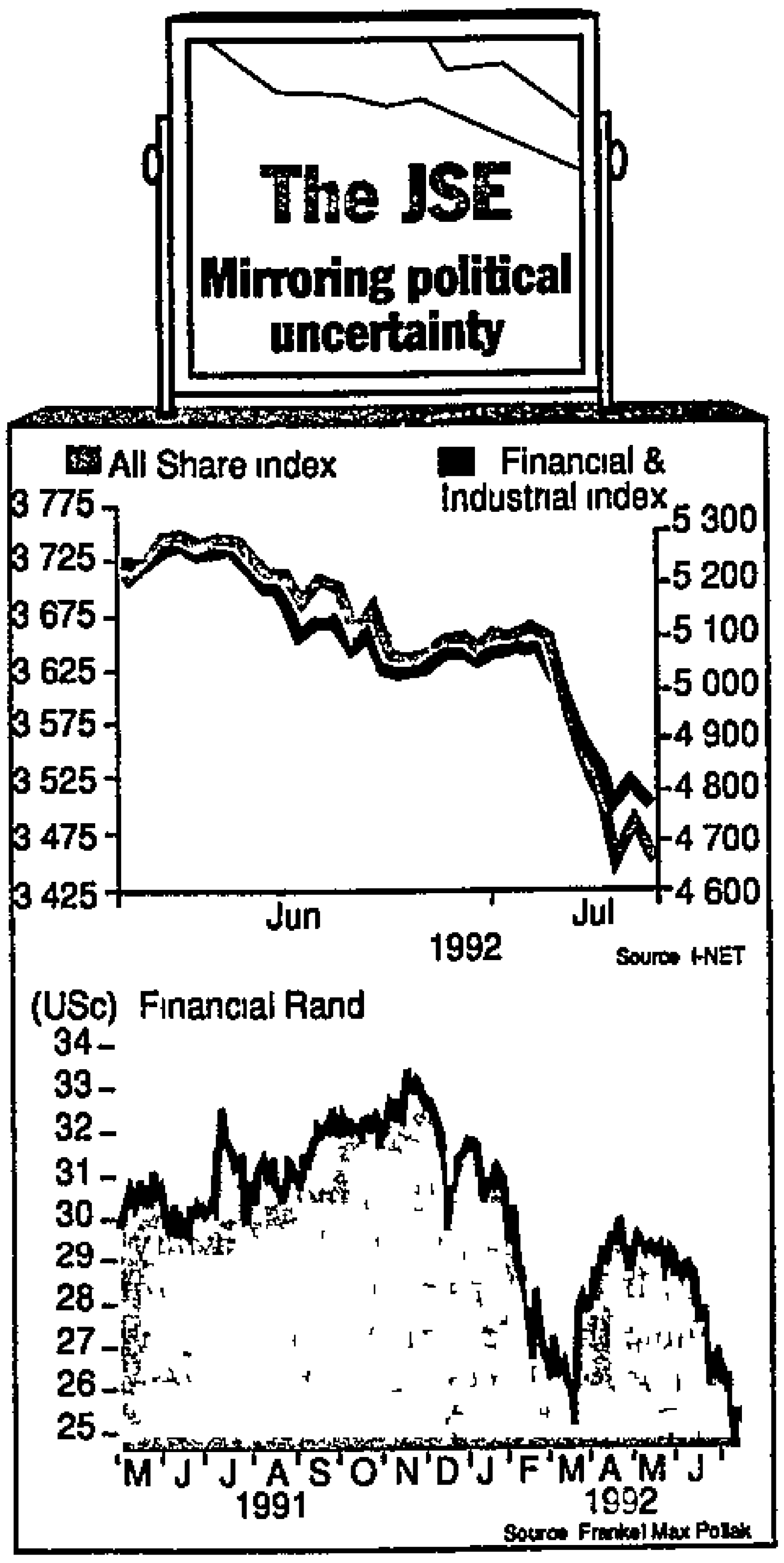
"International markets have been vulnerable in recent months," she says, "but in fact, the Dow has declined only by 2,3% in total This puts the correction on the JSE in perspective The additional 5%-6% fall on our exchange can be attributed almost entirely to SA's political and economic uncertainty " Stockbroker Irish & Co portfolio manager Mark Sonik says the market had been overpriced for some time against fundamental factors "The market was looking for better earnings from companies, for significantly lower interest rates and for a safe transition in the political arena," he says

Having been disappointed in all these areas, a correction was inevitable Sonik believes the full extent of the correction will be about 15% unless there is a return by all political parties to the negotiating table and this is accompanied by positive evidence of an improvement in economic activity

Other market analysts agree the market was overpriced They say perceptions now are that the failure of negotiations will result in a further delay in economic recovery which may now be delayed indefinitely In these circumstances, there was nowhere for the market to go other than down

Investor fears of the threats of mass action, a general strike and burgeoning unemployment all indicate still further disruptions in the life of the country Forecasts of earnings, which had been predicated to grow on the back of an economic recovery, are now "being wound back. There's no knowing where this will end," they say

Compounding the genuine fears of local investors, says one analyst who declined to be



named, was a significant element last week of foreign selling Foreign investors have been growing increasingly angry and frustrated with the volatility of the financial rand The promises of the Reserve Bank that it would intervene in the currency market to smooth out the wilder movements in the financial rand haven't borne fruit One consequence is that the foreign holders of SA stocks have been switching into North American and Canadian gold counters

Chartists confirm the market could fall by a further 7%-8%, bringing the total fall to about 15% before a recovery begins Campouroglou says the market will be vulnerable for the next three to four months and believes cash now offers a better short-term alternative However, she adds that a contrarian view would be to take advantage of the existing vulnerability, particularly in sectors such as platinum and mining financials, which she believes will become the motor of the JSE over the next year

Meanwhile, sharply increased activity in fixed interest stocks on the JSE has seen the E168 stock lose more than 60 percentage points in three trading days, a reflection of the scramble by investors to seek a safe refuge. Campouroglou says "this can't continue indefinitely I'm expecting a sharp reaction within the next few weeks "

The lesson to be drawn from the recent behaviour of the JSE is that SA's economic performance is indelibly linked to the progress — or lack of it — in the political field. As long as political irresolution dominates the country, for so long will economic growth and performance of equities be stultified

David Gleason

KLOOF/LIBANON/VENTERS

FM 17/7/92

Manning the pumps

An accommodating attitude by the Department of Finance on lifting the tax ringfence has allowed Gold Fields to come up with a scheme to save the Libanon and Venterspost mines that should keep most shareholders happy

Both mines survive to fight another day, while saviour Kloof earns a net after-tax benefit of between R200m and R250m — depending on how gold prices over the next two years affect its tax base — for taking the two cripples on board

There remain some cavils Some investors are unhappy that the acquisition must increase Kloof's average working cost per kg of gold produced, but Gold Fields executive director Alan Munro says the alternative of letting Libanon and Venterspost (Venters) close would be far worse for Kloof

The key issue is pumping All three mines are interconnected and, should Venters and Libanon close, the total burden would fall on Kloof, which lies downdip Munro estimates Kloof's capital cost to install equipment to deal with the greater volumes of water at R100m and the increase in annual working costs at R70m It's cheaper to deal with the problem at the shallower depths updip The house is seeking to ensure the Libanon and Venters operations continue to generate enough revenue to cover their pumping costs

Kloof will manage Libanon/Venters as a separate division and capital expenditure will be on a tight rein The No 4 shaft project at Venters has been shelved and forecast

cont-d

MONEY BROKING

232 FM 17/7/92

Light on the grey market

FM 17/7/92

For a number of years, regulators of financial institutions have been committed to a process labelled "levelling the playing fields" But, despite their best efforts, they are unable to achieve a field which all players will concede is level. Each piece of legislation is greeted with cries of "foul play" from one or other of the participants

Once again, proposed legislation is stoking controversy It relates to money broking — the raising and placing of funds by people who act as agents not principals What bankers describe as "radical proposals" were put to them at a recent meeting of the Standing Committee on Banking Bankers are now waiting for a position paper clarifying the situation

The issue was raised in the 1991 annual report of the Reserve Bank's Bank Supervision Department, tabled recently in parliament It says the "possible granting of exemption to money brokers provided they are registered as portfolio managers or trust companies and adhere to certain requirements regarding mandates and general disclosure is under investigation "

Before the DTI Act, brokers operated freely in the grey market — in which banks equally freely participated through money broking subsidiaries This raised prudential issues as grey market activities were not subject to regulatory authority

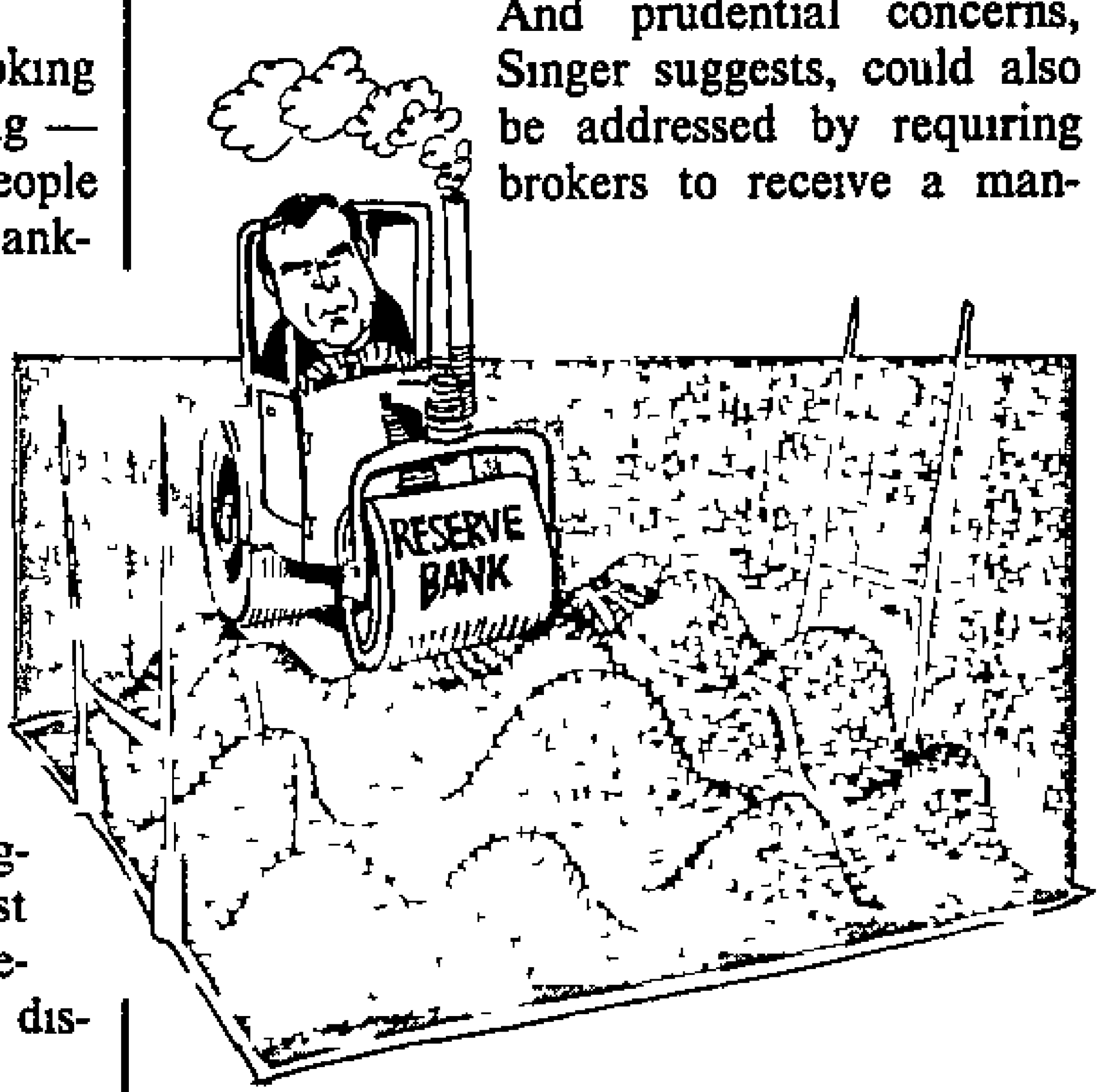
Under the DTI Act, passed in 1990 and effective since February 1991, the money broking activities of deposit-taking institutions was seriously constricted Money broking could be done only through the subsidiary of a holding company and banks themselves were prevented from acting as agents and were allowed to raise and lend funds only as principals And the pooling of funds by anyone other than a deposit-taker was prohibited. Brokers were required to place funds on the day of receipt in individual accounts with a DTI

This, theoretically, put a stop to money broking. But the Registrar allowed brokerages a period of grace While they are required to place the money with a DTI on the same day, they have not been forced to open separate accounts but only to provide the DTI with a list of names of individual investors The period of grace was to have ended with the publication of the position paper

Now it seems there may be a total rethink Representations have been made, among others, by the SA Institute of Chartered Accountants (Saica) Says technical director Monica Singer "Our concern is the public interest Currently the activities of money brokers do not fall under any specific regulatory framework and this loophole could have significant consequences for the public if irregularities should occur We have, therefore, proposed that money broking be regulated within an existing framework — the Stock Exchange Control Act "

Saica has accepted that the funds should be placed with a DTI within a day of receipt

And prudential concerns, Singer suggests, could also be addressed by requiring brokers to receive a man-



date from clients, dealing comprehensively with the risks involved and the brief assigned to the broker

The Bank Supervision Department's report says "The existence of brokers can be justified from an economic point of view " If the legislation is amended to allow non-broking DTIs to pool funds, banks would presumably be free to extend their own agency business through holding-company subsidiaries But this would raise a host of regulatory issues

On the other hand, if they are specifically excluded from doing this, the amendment would contradict the spirit of the DTI Act which was designed to monitor functions rather than institutions It would place the banks at a disadvantage acting as principals, they are obliged to hold liquid assets against their liabilities as a prudential measure In which case, they argue, it is unfair to allow money brokers, who are not subject to liquidity requirements, to continue in business

However, some of the heat has gone out of that debate because changes to reserving requirements could substantially reduce marginal cost of funds It is proposed that the interest-free component of the cash requirement be dropped from 4% to 1% and the liquid asset requirement from 20% to 12% Depending on interest rates, say bankers, the impact of reserving requirements on funding costs is presently about 60 basis points But if the proposed changes are implemented, the impact is estimated at around only six basis points

A decision on money broking will be made by a committee set up to investigate "level playing fields in the financial markets," says Finance Minister special adviser Japie Ja-

Continue →

FUTURES FINALE

FM 17/7/92 232

The pace hotted up as dealers in the Safia Futures Risk Management Competition galloped to the finishing post as the competition ended on Wednesday.

The rapid fall in JSE prices last week upset the leader board again. Genbel Investments' Daron Walker and G Morkel-Brink sprang back into the top five from well down the log as leaders lost ground

With three trading days left, Genbel was frontrunner for the *FM* Top Trading Desk Trophy, while SMB champed at the bit after its strong lead in past weeks. Finansbank Treasury stood third in line for the R15 000 company prize.

Finansbank's Friedel Meisenholl did his best to hold on to the number one spot for the R30 000 dealer prize.

This year's contestants have shown there is money to be made from futures in a bear market. They have performed almost as well as last year's players, after adjusting the underlying portfolio

The winners of the trophies and R75 000 in cash awards from sponsors RMB, Prima, SMB, Reuters, Investec and the *FM* will be announced at a gala dinner-dance tonight

THE FINAL LAP

		% Return
1	Finansbank Treasury	11.21
2	Daron Walker, Genbel Inv	10.06
3	SMB3	8.85
4	G Morkel-Brink, Genbel Inv	8.32
5	Trevor Tanchel, Discount House	6.75
6	Bear-Essentials	6.01
7	SMB1	5.29
8	Andrew Hurwitz, Lowenthal & Co	4.69
9	John Cutten, Hayes Cutten	2.10
10	Mark Frantzen, First Financial Futures	1.48

ECONOMY & FINANCE 232

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cobs, the committee head "We have already drafted some legislation to put before the Cabinet this year But we have still to consult with the private sector We expect to release the report by August"

DTI Deputy Registrar Christo Wiese says "Though a position paper has been finalised, it will not be released before finality has been reached on a regulatory framework contemplated by the Jacobs Committee Money broking fits neatly into the proposed framework, but the document can obviously not be released until the framework is in place.

"Until then, the status quo should be maintained in the market" ■

Options market swaps Barlows with Gencor

BIDAY 17/7/92 (232) 180 110

SHARON WOOD

THE Traded Options Market (TOM) will replace options on Barlows with Gencor today in a move which could help pull the JSE's formal options market out of the doldrums

This is just one positive development in a market which seemed doomed to failure

Interest in TOM has increased significantly during the last week, derivative dealers say This is clear by the 90 contracts traded last week compared with 10 the previous week.

In addition, there has been a surge in overseas institutions' interest

At present they are prevented from trading in TOM, but the Reserve Bank is addressing the issue

Simpson McKie derivatives head Elaine Stot says foreigners could become a major force on TOM.

She attributes foreign interest last week to the fact that the institutions can protect themselves from adverse movements in equities

The outlook for TOM is quite optimistic, she says, because the stockbrokers are making a united effort to raise interest in the market.

However, it is difficult for stockbrokers to make markets because they do not have sufficient capital and TOM needs institutional players to do this, she says.

Frankel Max Pollack Vinderine joint MD David Shapiro says: "TOM was dying and has now been taken off the heart and lung machine and is starting to breathe for itself."

"In the next few months we hope to get a few hundred contracts," he adds

Gencor's replacement of Barlows will make a big difference because the share has a lot of exposure and is tradeable

TOM has struggled to gain liquidity since its opening and has been criticised for its high fees, which are believed to be deterring major institutions from trading in the formal options market.

COMPANIES

Hopes for a good second half

(232) EDWARD WEST

COMMERCIAL property and international financing group Marshalls expects to achieve similar results in its second half as the 18% earnings increase to 17,4c (14,7c) a share in the six months to June 1992

An interim dividend of 12c (10c) a share was declared, covered 1,5 times

Income from sales and commission showed a robust 26% improvement to R7,53m (R5,97m) while rental income increased 18% to R5,61m (R4,76m). This brought turnover 22,5% higher at R13,14m (R10,73m) BIDAY 17/7/92.

Operating profits were 18,2% higher to R3,78m (R3,20m).

Directors considered the group's 95% occupancy rate satisfactory in view of the recession and the difficult trading conditions being experienced by its tenants.

The confirming and indent financing divisions continued to make satisfactory contributions to earnings although many industries were keeping inventories low

If interest rates were lowered to boost the economy, the division was well-structured to benefit from increased imports, the directors reported

The earnings of pyramid company Marshalls Controlling Investments, which derived its income from a 69% holding in Marshalls, improved 22% to 8,4c (6,9c) a share An interim dividend of 5,75 (4,75c) a share was declared.

FM 17/7/92 (232)

BOND MARKET FM 17/7/92

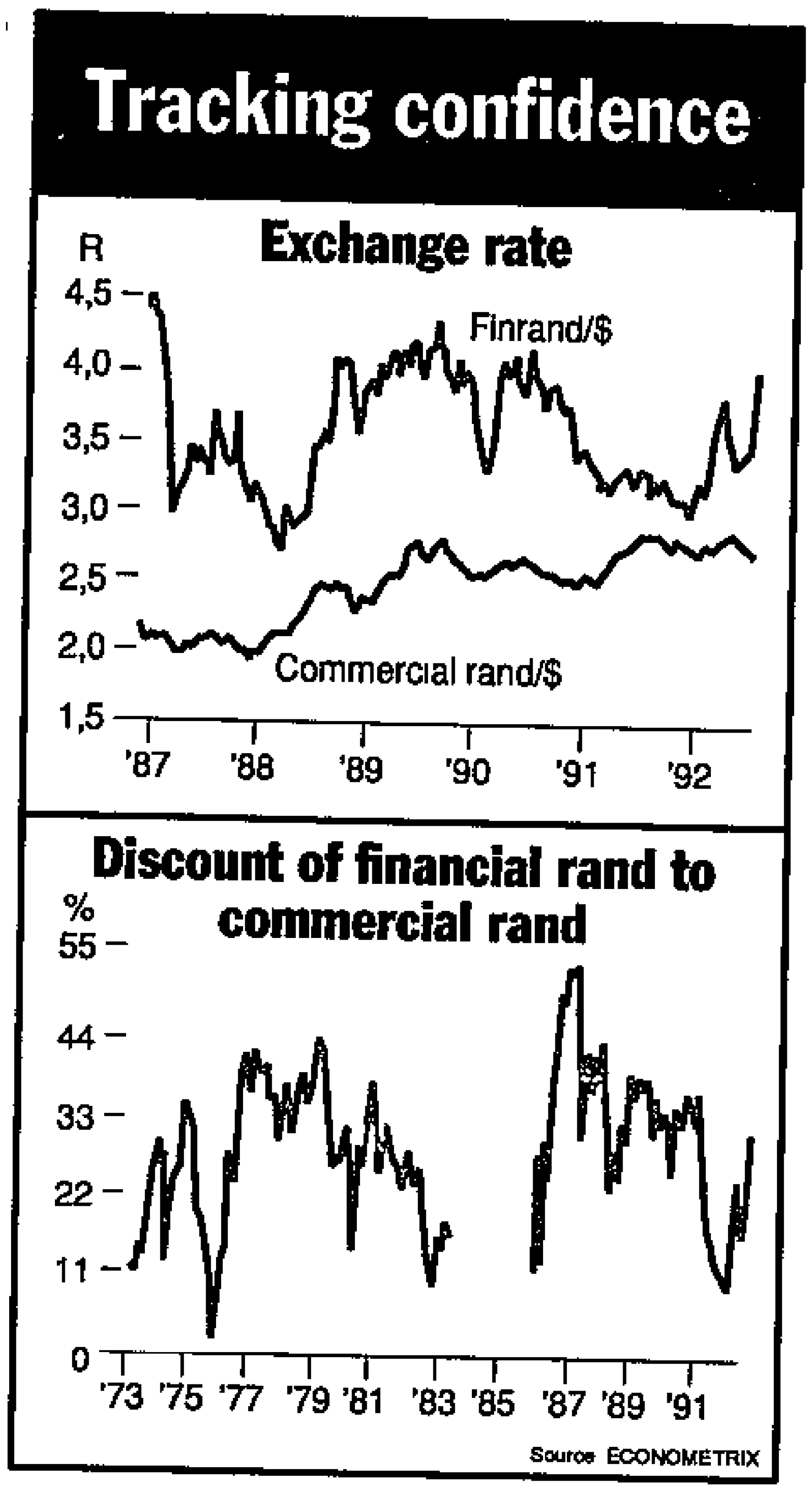
Feeding frenzy (232)

The bond market was exceptionally active on Monday Eskom 168s worth R1,6bn were traded that day — exceeding the total traded in the previous four days Similarly, volumes of RSA 150 bonds traded rose 145% above the previous Friday's trading — to R1bn On both, rates dropped to the lowest levels in more than two years E168s closed at 15,04% and R150s at 15,17%

Some dealers suggested buying pressure came from offshore as the widening discount between the financial and commercial rands attracted investors But JSE figures showed this was not the case Net purchases of gilts by nonresidents, of R39m in the week ending July 3, were followed by net sales of R206m in the week ending July 10

Jurgen Kögl, of J Solms & Co, says the fall of 60 basis points in long rates, between Thursday lunchtime and Monday afternoon, was due to a combination of factors Domestic investors, he says, became more optimistic about the resolution of the present political conflict, at a time when paper was in short supply on the secondary market The downward trend in rates was reinforced by trade activities of option book managers who had to adjust to the fast fall in rates

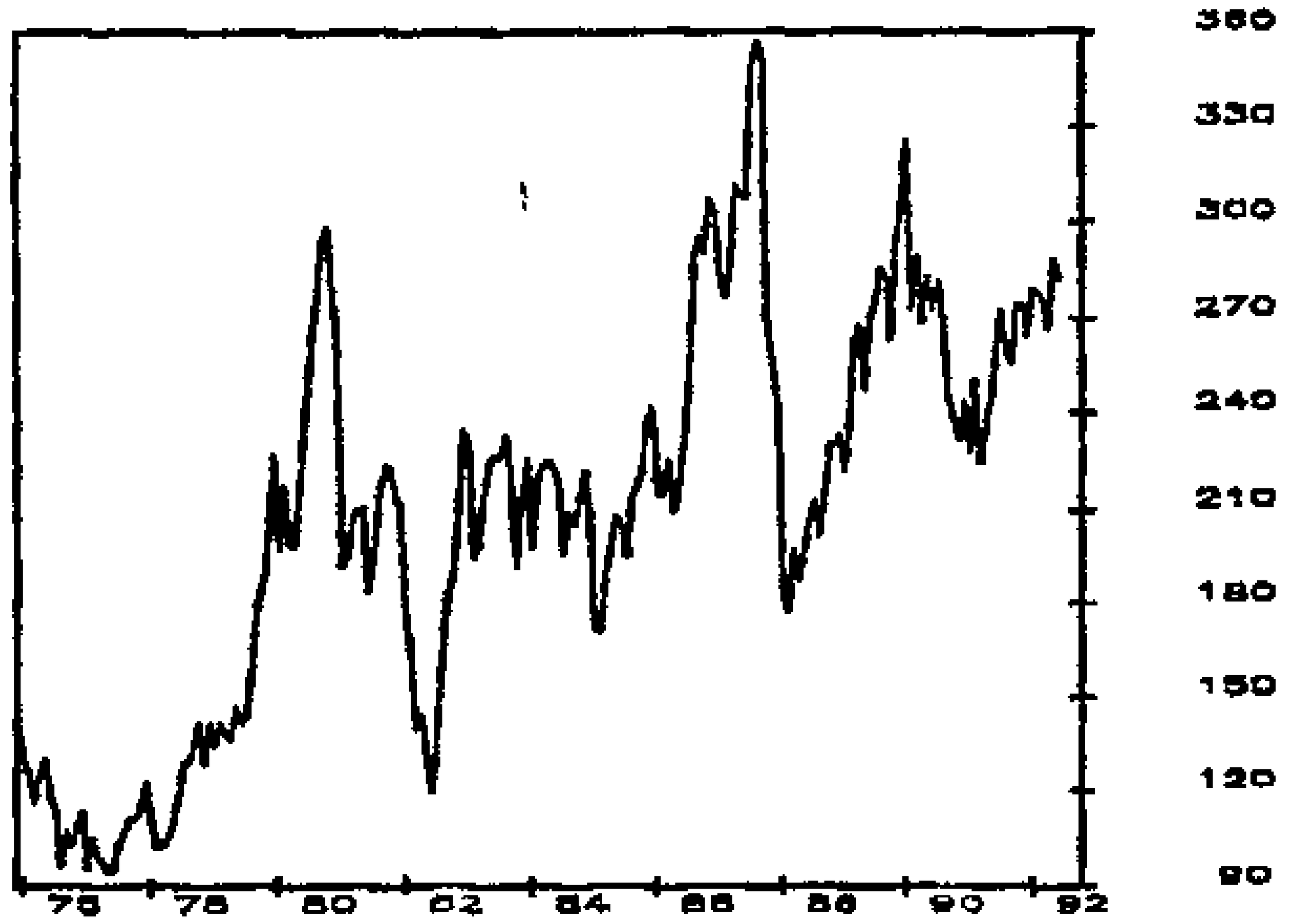
Meanwhile, the discount of the financial rand against the commercial rand continued to widen It rose from 21,9% before the massacre at Boipatong on June 17 to 30% on Friday and 31% on Tuesday afternoon This pushed the effective yield on the Eskom 11% bonds to over 20% Whether this will tempt nonresidents to come back into the market remains to be seen ■



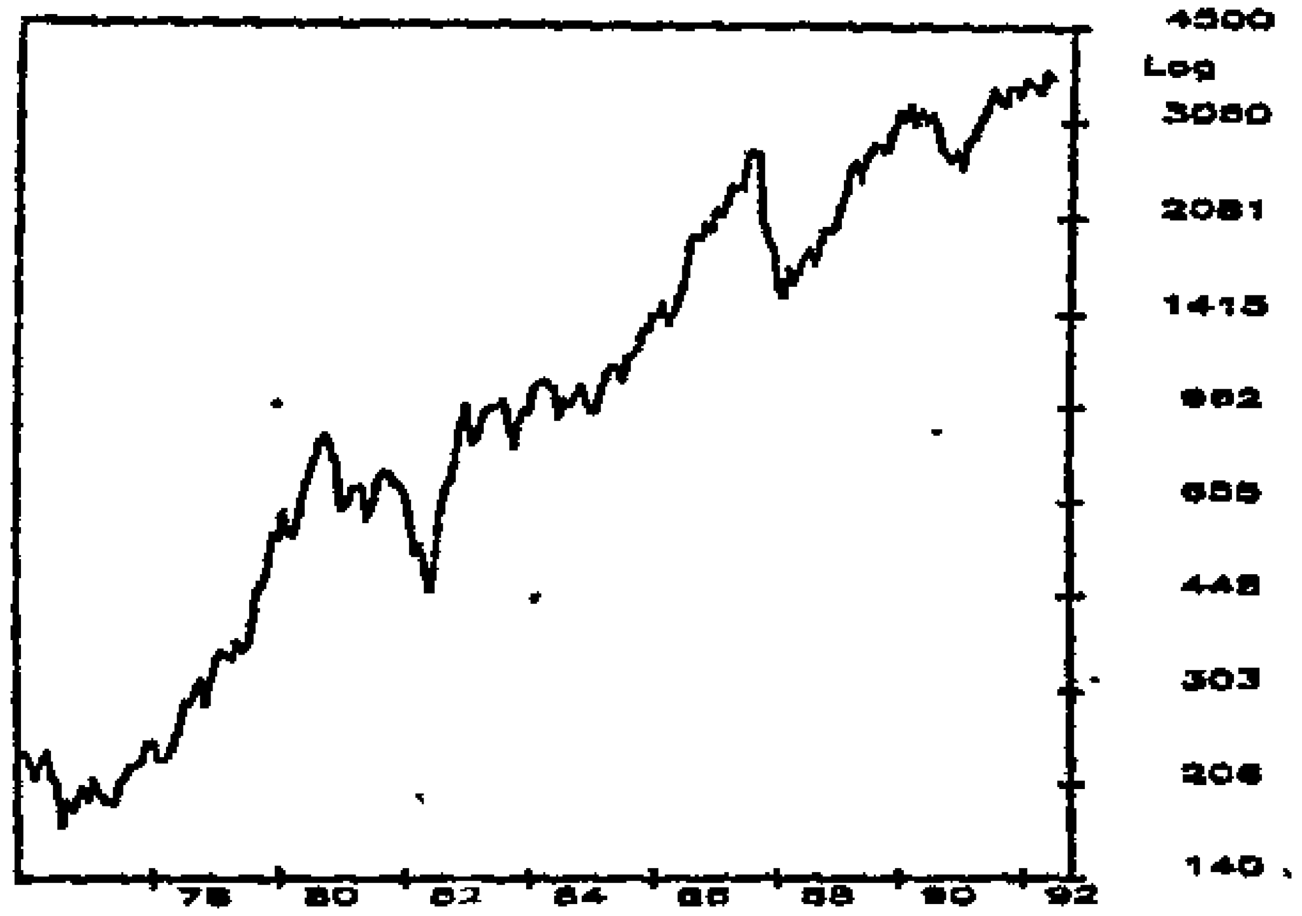
Right attitude paramount

STAR 18/7/92 (232)

THIS is the last in the series of articles dealing with the relationship between the stockbroker and his client. The author is Dr MANNY POHL, head of research, at Davis Borkum Hare.



The JSE All-share Index adjusted for inflation: 1976-1992.



JSE All-share Index monthly: 1976-1992.

THIS series has examined many sides of investment in the stock market. Today's final article is concerned with the attitude we need to take towards investment in the present turbulent times.

Making investment decisions based on fundamental economic and financial principles is certainly more difficult when major political change is under way. As we have mentioned in previous articles, investment is a hard-headed business, requiring reliable data and all the powers of reason and judgment that one can master. Emotions are no help

Future

Politics, on the contrary, tends to play on, and with, emotions. For decades, ideologies have had a strong, often damaging, effect. This approach may continue in the new South Afria, though priorities will be different.

How, then, does the investor plan for the future?

He is going to have to hold on tighter than ever to time-honoured rules of investment and not be blown around by the disturbing news or the apparently sudden political changes. I say "apparently" because the news often leads one to suppose everything is suddenly different, when underneath it all, life goes on more or less as normal, with most people going to work using transport, doing shopping, paying bills, enjoying sport and entertainment, more or less as usual. All these activities have their economic aspect.

Obviously, if a new government decided to nationalise all economic functions and activities, there would be no place for the individual or institutional investor

It seems more likely that there will be a mixed economy, which is what South Africa has had throughout this century There will, of course, be changes and there is a reasonably good chance that there will be economic growth

The long-term investor must be prepared to ride out short-term events. A case in point is the crash of 1987. Our market was nervous because of high share prices but it was the collapse of Wall Street that precipitated panic in the investment community, causing, in five months, a 45 percent fall in the JSE Overall Index. As can be seen from the graph of the index, this collapse, which caused great distress, now appears as a short-lived down-spike which has since been overtaken by the long upward trend Any investor who sold his shares would have had to buy them back quickly to avoid being left out in the cold

A far more serious danger to wealth than the market's fluctuations is inflation. The upward trend in the index since the late 1970s reflects the power of equities to counteract inflation's destructive effect on money Even if the inflation rate is subtracted from the index, the graph shows that real growth has been achieved.

Represents

The index is at present roughly 15 times what it was at the end of 1976 Adjusted for inflation, we see that it is now about three times what it was then. Assuming we can trust the official inflation figures, that represents the growth in real wealth that would have been achieved with a portfolio structured in line with the index.

Heavy market sell-off sends blue chips reeling

STAR 10/7/92.

By Sven Lunsche (232)

Panic selling by nervous investors continued to hit the stock market yesterday, driving down the value of blue-chip counters

Analysts said that large volume sales by private investors were mainly responsible for the slide but added that foreign investors were beginning to discount the weak financial rand and were putting through sale orders

The industrial index closed 70 points off at 4 234, after hitting a day's low of 4 232, and the overall index was 65 points lower at 3 449.

So far this week the industrial index has plunged 265 points, almost six percent, while the overall index has shed 202 points, or 5,5 percent

The gold index has held fairly steady, supported by a firmer gold price and the weak finrand, falling by 24 points yesterday to 1 052 and by 47 points on the week.

The downslide has also been aided by the country's large insurers and pension funds, who have been staying on the sidelines and boosting the liquidity levels of their portfolios

This has become evident by recent quarterly reports of major unit trusts, whose average liquidity ratios have been been raised to between 15 and 25 percent of their investible funds over the past three months.

Analysts added, however, that the potential for investing funds in liquid assets was limited and that institutions could soon return to the market to limit the slide in share prices.

The downside was led by blue-chip stocks, with Liberty shedding five percent, SA Breweries two percent and Anglo's by just under one percent.

Most dealers once again ascribed the slide in equties to political worries by both private and foreign investors, who, according to one economist, "tend to overreact to domestic political events"

The financial rand, the most reliable indicator of foreign perceptions of developments in SA, yesterday moved sideways closing at 4,04 to the US dollar

It hit a two-year low of 4,10 at one time on Wednesday which widened the discount between the financial rand and the commercial rand to 32 percent The commercial rand also weakened slightly by 1,5c to R2,763 against the US currency

The Econometrix Research Institute suggests that the discount could grow even larger in the light of "a conspicious absence in recent weeks of any intervention by the Reserve Bank aimed at stabilising the finrand"

They add, however "In the light of our perception that foreigners are extremely sensitive towards political events in SA, it is a fair bet that the finrand could rally sharply if negotiations are resumed"

Whether to sweat it out or get out

MONEY MATTERS

MAGNUS *Heystek*

GIVEN the almost universal opinion that the stock market is hopelessly overvalued, how can the investor hedge his bets so as not to lose in a crash, but also not miss out should the market rise?

STAR 18/7/92 (232)

ON MONDAY evening, during a seminar held by The Star Investors' Club, one of the speakers, Bryan Coyne of Investec Bank, asked. "How many of you think that the Industrial Index is likely to go down in the next 12 months?"

A sea of hands was the reply

Then he inquired who thought the market was likely to go up Of the approximately 250 people only one raised a hand

If so many private investors think the market is likely to go down, what are their options? Do they sit and sweat it out (as unit trust fund managers keep on telling them) or do they sell and get out of the market?

Both options merit discussion The performance of the Johannesburg Stock Exchange during the crash of 1987 bears mention On October 20 1987 the market fell by 12 percent in one day, and in the next four months dropped another 30-odd percent.

Less than two years later the Industrial Index again exceeded its pre-1987 peak and kept on rising, peaking at 4680 on June 9 last month. Since then the index has dropped 10 percent before recovering somewhat this week.

Similarities

Despite this slight improvement, mostly as a result of the firmer gold price, almost everyone still seems to agree that the market is currently hopelessly overvalued

The similarities between the JSE now and just before October 1987 are quite striking. In September 1987 the average dividend yield on the overall market was 2,5 percent, by the end of last month it was 2,4 percent. The earnings yields were 6,6 percent and 6,5 percent respectively

One important difference was that in 1987 the dividend growth was still averaging 25 percent. Currently the growth in dividends has slowed down considerably to only 2 percent. So, using the argument that the JSE normally discounts future values, it is now much more overvalued than in 1987 Ominous indeed.

But many investors, especially the wealthier ones who have built up blue-chip portfolios over a number of years, cannot all just sell their shares and wait until the market recovers

Does this mean private investors are totally defenceless in this scenario?

Not at all

Investors with large unit trust portfolios have the option of switching all or a large part of their equity-based investments into a fixed-income fund This has the advantage of preserving capital, as fixed-income funds are not linked to the JSE.

Income funds are not as volatile as equity-linked funds, and the investment returns, while not matching most equity-linked funds, have averaged between 16 and 20 percent a year over the last 10 years

The alternative would be to completely sell out of one's units and buy them back later The total cost of this is much higher than switching which, incidentally, also entails costs

The advantages of switching are obvious, provided you switch at the right time and for the right reason

Say for example you have R1 million invested in unit trusts (at the repurchase price) but you think the market is highly overvalued. You have been investing in unit trusts for a long time, have been very happy with the returns, but don't see any reason why you should lose anything between 20 and 50 percent of the value if the market drops

You decide to switch your units into an income fund to protect your capital Understanding the cyclical nature of stock markets, you will buy back later

By selling your units you preserve the value of your capital at R1 million, and in the meantime you will also be earning up to 16 percent on your money

Your timing is spot on, the market drops by 30 percent, whereafter you decide to repurchase your units Not only have you preserved your capital at R1 million (and earned some interest in the meantime) but you are now in a position to buy back 42 percent (work this one out yourself) more units than you sold.

By the time the market has recovered to its original position (a recovery of 42 percent is necessary) you now have R1,4 million (plus the interest you received while in income funds) If you had stayed within the unit trusts without doing anything, you still would have only R1 million

Ah, the unit trust fund managers are going to say, how do you know when it's time to sell and time to buy back again? Most ordinary investors usually get it wrong Rather leave the money with us and we will manage it as best we see fit, they say

This viewpoint has plenty of merit, I agree

Switching is not something that is recommended every time the market undergoes a slight correction But anyone with more than an elementary knowledge of stock markets knows that at times (such as now) the market is so overvalued and so dangerously overheated that one has to act

But what about the investor with a large direct share portfolio? Does this investor sell out? Once again the answer is no By making use of derivative instruments (derived from the stock market) the individual investor can hedge against possible declines

A put option (expecting the market to go down) can be purchased by selling some shares, approximately 7,5 percent of the total value of one's share portfolio This has the following advantages

Firstly, the investor still has an exposure to the stock market to the tune of 92,5 percent of the total portfolio. If the market drops, the increase in the value of the put option will balance out the decline in the value of the share market. Should the market go up, it will mean that the put option will become worthless, but at least one still has an exposure of 92,5 percent of one's original portfolio

Insurance

View the purchase of an option (either put or call) as an insurance premium, much like fire insurance on one's home If your house does not burn down, all you have lost is the premium

Very much the same principle applies with options. Remember that an option differs greatly from a futures contract: it is an option, never an obligation

Alternatively, if you firmly believe that the market is going to come crashing down, but still would like to benefit from a rising market should you be wrong, you can sell your entire share portfolio and purchase a call option with a portion of your capital.

Doing this will also protect your capital gains of recent years, while you will not lose out on any further gains in the market.

But try to gain some understanding of the futures and options market before you make any decision In the next few weeks YOUR MONEY will run articles on the futures and options market.

Royals back in the good books

STimes (Buss) 19/7/92

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THE JSE WEEK

By JULIE WALKER

ROYAL companies regained favour after losing ground in the time between warnings to shareholders.

Talk is that the Del Monte deal has been signed and will be announced shortly. The vehicle to back, it appears, is Royal Foods.

Royfood rose from 675c at the start of the week to close at 775c. Royal added 100c to 725c and Royhold 50c to 750c.

There is a whisper that the group might concentrate solely on food and sell out of Roychem.

Tiger Oats took a knock to R38 after looking overpriced at R44, but recovered R2.

There was a bookover of 1,1-million Curfin at 630c on Thursday, Momentum selling out of a portfolio. Syfrets was reportedly the buyer. Curfin was 770c in June.

A deal of 229 000 Pep was booked at R11,75 on Friday.

The market rebounded on Wednesday on technical elements after eight days of falls The United Nations debate, Cosatu's possible softening stance on strikes and a merrier gold price all played a part in stemming the market's slide

Gold was buoyed by fears about reduced Russian production and about the disruption of SA supply. Speculative buying of platinum on similar grounds rubbed off on gold. It held above \$350/oz nearly all week, rising close to \$357 late on Friday.

Kloof rallied as investors digested the implications of the deal with Venters and Libanon. Using Friday afternoon's prices Libanon at 245c looked the cheapest way into Kloof at 2 875c.

Lonrho put on more than 20% to 620c in spite of concern about debt and management.

De Beers came under pressure when it ought to have been cushioned by a generally weak finrand. Its high liquidity counts against it in bearish times — eveyone knows he can buy it back at any time.

There was a stampede in the gilt market, rates dropping by amounts not seen for years. Rates have eased more than 60 points in recent weeks

Although foreigners have been sellers, SA buyers have grazed stock at a good price. The SA gilt market is a haven in equity-market disruptions.

Union's trust fund halfway to target

STAR 20/7/92

Finance Staff 232

CAPE TOWN — Just a month after its launch by seven trade unions, the Community Growth Fund is already halfway to its first year target of R100 million.

R50 million has already been pledged for the fund, set up in June by four Cosatu-affiliated unions — including the powerful National Union of Mineworkers — and three Nactu affiliates for the placing of workers' provident and pension fund money.

The CGF plans to invest in JSE-quoted companies which satisfy social as well as profitability criteria.

Job creation, wages, trade union recognition, health and safety and affirmative action programmes to promote blacks and women will all be taken into account.

Through their representatives on the trade union-controlled company Unity which controls the fund jointly with Syfrets, workers will have a decisive say in where their money is invested

Thirty to 40 companies are under investigation for the final list, says Ian Hamilton, senior manager of Syfrets, which administers the fund and which is contributing R2 million

"Management attitude towards unions is emerging as a key selection factor," he says

But, insists Mr Hamilton, the first criterion is one of profitability "We've been approached by companies which claim to satisfy all the social criteria. If they don't have the growth record we're looking for, we don't consider them."

Cash flow

The fund is looking for cash flow rather than lump sum investments, says Mr Hamilton. "We recommend that the provident funds leave their capital sums in guaranteed funds so if the market slumps, members don't suffer losses when they leave or are retrenched. Cash flow can be invested in non-guaranteed funds which offer better returns"

"The public's interest in the fund has been remarkable, especially considering that we haven't yet done any advertising," said Mr Hamilton.

Syfrets is technically ready to start investing on the JSE, but Mr Hamilton says he is in no hurry "With the market likely to go on see-sawing in the immediate future, there's no reason to rush."

The fund's first quarterly report will be published at the end of September

JSE's non-resident gilt sales rocket

BiDAY 20/7/92

HILARY GUSH

NON-RESIDENT gilt sales executed through the JSE last week were more than six times the previous week's figure amid continued political uncertainty

Substantial foreign selling of government bonds characterised the early part of the week with JSE gilt sales from abroad reaching R276,3m compared with R45,6m recorded the week before

Foreign gilt purchases were also down on the previous week to R70,3m from R84,9m

In the week ended July 10, non-resident transactions netted R206m in sales against the previous week's net gilt purchases of R38,9m

These figures are not comprehensive as they represent only those transactions by foreigners which are executed through the JSE

Meanwhile the capital market remained steady with quiet trade on Friday (232)

The yield on the benchmark R150 stock was little changed at the session's close at 15,29% from its opening of 15,3%.

Similarly the yield on the Eskom 168 — the bellwether semi-gilt — remained stable through the day from an opening of 15,175% to a 15,18% close

Bad debts add to woes

PETER GALLI 232

THE increasing risk of bad debts and subcontractor insolvencies must be added to the construction industry's numerous woes, Ovcon director Jan Kaminski said in the latest annual report BDAY 20/7/92

"Extremely difficult market conditions reported last year have worsened, becoming by far the longest recession in our memory. However, in spite of this all our divisions improved profitability compared to their budgets, even on the lower turnovers available," he said

Chairman Andrew Ovenstone said the group was concerned about the state of the economy, but expected it would at least maintain pre-tax earnings in the present financial year "The economy needs to move forward so that jobs can be created and advances on the political front are successful Ovcon is presently operating below capacity and is well poised to take advantage of renewed infrastructural spending"

Ovcon was restructured and listed in March 1991 to involve broader management in its shareholding The relationship between Ovcon and its previous controlling shareholder, Ovbel Holdings, remained close, he said

In the year to end-March, Ovcon declared dividends of 12,5c a share on the back of earnings of 46,8c a share.

Traded options on Gencor to be listed

BDAY 20/7/92. (232)

Business Day Reporters

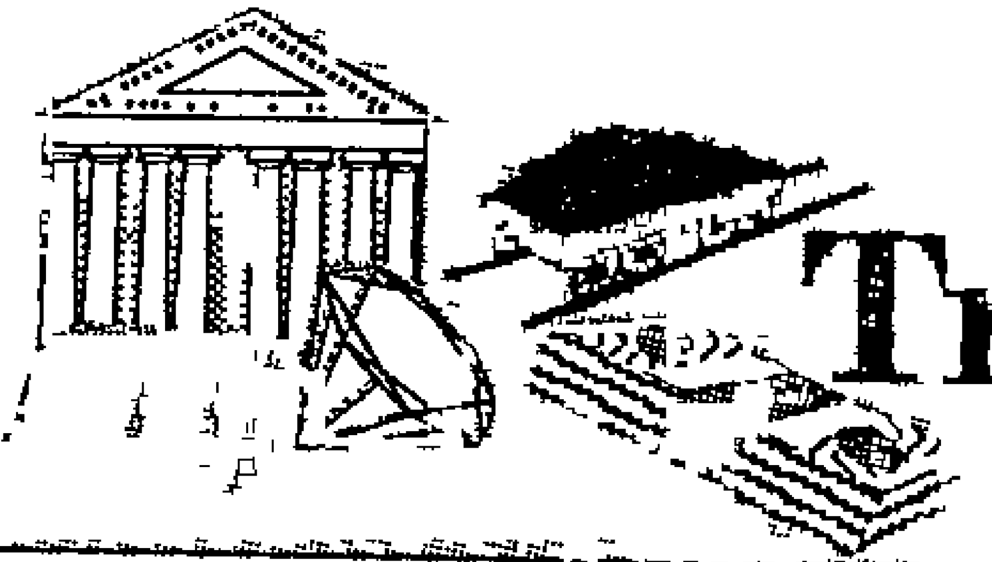
THE JSE would list traded options on Gencor shares from Wednesday, JSE executive president Roy Andersen said on Friday

Options would be settled in cash and allocated to the March expiry cycle. With the share price ranging between R11 and R12, puts and calls would be listed with strikes of R10, R11, R12 and R13 when trading commenced, said Andersen.

On recent speculation which indicated that the Gencor option was replacing the option on Barlows, he said "While the JSE regularly reviews the performance of existing contracts and considers the introduction of new ones, no decisions have been taken regarding the replacement of any TOM listed options."

Although no Barlows options were available currently, they met "remained a valid candidate".

The listing was motivated by interest from the broking community and institutional investors, he said.



Unit Trusts

A Star survey

The unit trust industry is the main vehicle for the small investor to get into the stock exchange. It now has more than a million account holders and all the major institutions run unit trusts. Stephen Cranston interviews some of the principals in the sector.

Old Mutual's biggest multimedia campaign

STAR 20/7/92. (232)

Old Mutual Unit Trusts has launched its biggest multmedia campaign which underscores the advantages of investing in their six unit trusts

Old Mutual, which has more than 30 percent of the unit trust market, began the campaign with a 40-second TV1 commercial

The environmental theme features the honey badger, listed as a vulnerable species by the SA Red Data Book.

"The concept is the symbiotic relationship between the honey guide and the badger, the guide being the investor and the honey badger — Old Mutual Unit Trusts — accessing the wealth for him," says Lindsay Smithers-FCB's Anton Oosthuizen.

The new campaign by the unit trust division is in synergy with the parent's corporate campaign — handled by Ogilvy and Mather.

Old Mutual Unit Trusts are positioned separately with great expertise but still within the folds of Old Mutual itself

The campaign on television, radio and in the print media will have a broad mass reach and marks a new stage in Old Mutual Unit Trust's marketing

At the end of last year Lindsay Smithers-FCB began reviewing the strategic positioning of Old Mutual Unit Trusts.

Says Mr Oosthuizen: "Old Mutual Unit Trust has more account holders than anyone else and are also performance leaders

"We decided to emphasise their leadership," he said

"The basic positioning of the campaign is that if thousands of other South Africans are profiting through investing in Old Mutual Unit Trusts, why not you?"

"The campaign has a strong call to action and will support the sales force in their operations by creating interest," he said.

"Old Mutual Unit Trusts have always been highly responsible in marketing unit trusts.

"In the past the approach has been educational, featuring the R3 billion flagship fund, the Investors' Fund

"But with the growth of Old Mutual Unit Trusts — there are now six funds — the educational approach in mass media has become outdated.

"Old Mutual's track record and expertise applies to all the funds and we are urging investors to consider the wide range of investment opportunities offered by Old Mutual Unit Trusts

"Their leadership flows from the spread of funds which have consistently beaten inflation and is reflected in their dominant market share and number of account holders," Mr Oosthuizen said

The financial category of advertising is probably the most cluttered

Old Mutual's is a fresh campaign which would be both different, relevant and unexpected.

"Our second objective was to invest as much as possible in flighting the commercial and not in production

"While we did shoot locally, stock footage was sourced from Kenya, London and the United States which was cost-effective," he said

STAR 20/7/92.

Unit trusts can have educative role

Unit trusts can make a large contribution to cultivating an understanding of the advantages of the free-market system among everyone in the community, says deputy chairman and chief executive of Sanlam Pierre Steyn

Mr Steyn was speaking, at a recent occasion where Sanlam Unit Trusts' top marketers were recognised for their achievements, about the role of unit trusts in the economy.

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Recovery

Mr Steyn said that as South Africa was on the verge of a new political and economic order, the country could not afford to make the wrong choices

"The recovery of South Africa's economy will depend on the role that the free market plays in it.

"The IMF and the World Bank state categorically that a free-market economy based on capitalistic principles will guarantee foreign loans and aid"

Mr Steyn said "Other alternatives like nationalisation will have exactly the opposite effect.

"Communism as an economic system has been proved to be a failure throughout the world," he said.

"In South Africa, many big companies which are known for their role in job creation and prosperity have free-market principles to thank for their existence," said Mr Steyn

"Unit trusts have a large role to play in helping everyone to savour the advantages of the free market

"Buying shares on the Johannesburg Stock Exchange is widely regarded as something that only the rich and privileged have entry to," he said

"Sanlam and Sanlam unit trusts take a great deal of trouble to bring the message home that unit trusts are there for everyone."

Mr Steyn said thousands of South Africans had a feeling of mistrust about the free-market system

Exploited

"Many regard it as a system in which people are exploited to make a handful of people rich.

"Through unit trusts, Sanlam strives to convey the message to investors and to the community, that we want to establish and maintain a healthy economy based on sound principles," Mr Steyn said

In units we trust . . . . Sanlam chief executive Pierre Steyn says unit trusts can help illustrate advantages of free-market system.

Syfrets is top performer

STAR 20/7/92 (232)

The Syfrets Growth Fund has been independently rated as South Africa's top performing general equity fund over five years with an all-in annual return of 21,7 percent — more than two full percentage points ahead of the nearest rival.

The rating, released by the Association of Unit Trusts for the quarter ended June 1992, puts the Syfrets Growth Fund ahead of the 15 other general equity funds, which boast a five-year track record

Backbone

General equity funds, which are invested in a spread of JSE-listed equities, are the backbone of the unit trust industry and account for R10 billion of the total R1 billion market capitalisation of all South African unit trusts

The five-year return is regarded as one of the industry's most important benchmarks because it illustrates a unit trust's ability to sustain income and capital growth over a meaningful investment period.

The Syfrets Growth Fund was launched in April 1987 during the pre-crash bull market.

Despite subsequent market turbulence, the fund has managed to consistently deliver good investment returns.

Hugo Lambrechts of Pretoria University said of the Syfrets Growth Fund· "This fund became five years old in April and can, in my opinion, be regarded as by far the most successful unit trust established since 1987"

The Syfrets Growth Fund, which has 41 000 investors and a market value of R627 million, is one of five unit trusts managed by Syfrets

The others are the Syfrets Trustee Fund, the Syfrets Income Fund, the Syfrets Gilt Fund and most recently the Community Growth Fund, which was launched on June 1 in conjunction with the union movement.

Syfrets unit trusts marketing manager Kevin Hinton says "The five-year performance figure for the Syfrets Growth Fund confirms our ability to deliver good investment returns on a consistent basis"

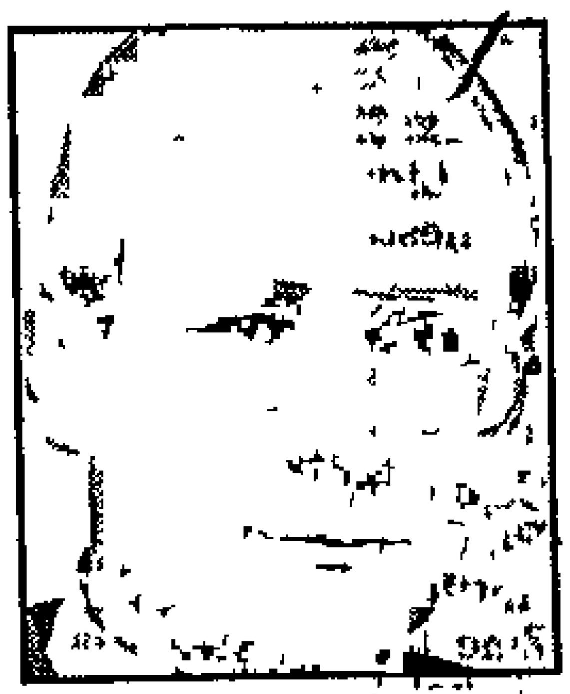
Anniversary

Mr Hinton attributes the performance to the fund's portfolio manager, Tony Gibson, and to the strong skills base Mr Gibson has been able to draw on within Syfrets Managed Assets, the firm's investment management company.

"The blending of diverse talents into a strong team structure is a key element of our portfolio management," says Mr Hinton

The Association of Unit Trust's recognition of the Syfrets Growth Fund is expected to enhance the growth prospects of all Syfrets unit trusts

A fifth anniversary advertising campaign kicks off today in the press and on radio.



Geoff Richardson
UAL MD

Pioneering products for SA's needs

STAR 20/7/92

The UAL unit trust division is both an originator and an ongoing participant in this increasingly popular investment arena. (2323)

The division manages and markets open-ended unit trusts and a comprehensive range of related investment/retirement products

Through UAL Management Company, the department administers three equity and one gilt unit trust According to UAL's MD, Geoff Richardson, the department has been highly creative in pioneering the successful design and marketing of products for personal investment, pension and retirement needs.

Unit trusts ~~are~~ sold into the retail market by UAL Investment Planning Services, largely through independent intermediaries such as personal financial advisors, lawyers, accountants and brokers.

The main UAL Unit Trust is the flagship and is a general trust seeking value from exposure to quality shares in all the major sectors of the JSE UAL Mining and Resources is a specialist trust primarily investing in the natural resources and mineral extraction industries

UAL Selected Opportunities focuses on medium-sized companies that are undervalued and have re-rating potential; as well as on companies whose equity may not be sufficiently tradeable for the general equity trusts.

UAL's Gilt Unit Trust is designed to meet the prudential guidelines followed by pension funds and insurance companies. However, with its focus on total return on capital and income, it has decided attraction for the individual investor as well.

Friends in deed . . . Unit trusts and stokvels have much in common — but a direct comparison shows unit trusts have more going for them from the ordinary investor's point of view.

Investment that caters for the small man

STAR 20/7/92 (232)

A unit trust has many features in common with a stokvel, the most common kind of saving mechanism in the townships.

But a direct comparison between the two investment instruments shows the unit trust to have more going for it from an ordinary investor's point of view. The stokvel is widely used as a means of raising funds for a variety of purposes, ranging from social functions to a convenient and effective savings vehicle for its members.

The unit trust similarly caters for the small man, being geared to accommodate modest monthly contributions pooled and invested in a spread of blue chip shares on the stock exchange.

Most stokvels abide by a constitution containing the rules by which it is managed, enabling would-be investors to assess it

The majority of stokvels put the money entrusted to them into a bank or building society account and control and monitor the funds carefully.

Unit trusts are also generally carefully managed, as they are managed by specialist fund managers and blocks of shares are regularly reallocated in accordance with trends in the stock market, so as to get the best returns for investors.

Both the stokvel and the unit trust are geared to release investors' funds at short notice, but the unit trust is greatly superior in that it will pay out within 48 hours of a request being lodged, whereas stokvel members wanting to draw funds have to wait longer — in some cases more than a week, where all the signatories need to get together to sign bank withdrawal forms

Some stokvels are dedicated burial societies holding and accumulating members' savings to ensure that burial expenses are fully covered when needed

Certain unit trusts make special provision for burials and funerals through life insurance-related schemes and are often available as add-ons to provide a comprehensive package in which the unit trust is just one component.

In addition, some packages, such as IGI Life's Complete Savings Plan, even have a premium waiver on disability, on both the endowment policy (life product) and unit trust portion

Both the stokvel and the unit trust, because of the relative accessibility of funds compared with long-term savings plans such as endowment policies, are a useful resource for large purchases such as a car, an appliance or a deposit on a house

In addition, they can serve as emergency funds.

Both savings vehicles can also cater for the provision of loans to investors but unit trusts, as the more widely recognised of the two, enjoy greater acceptance by banks to stand as collateral against loans

However, should a stokvel invest in a unit trust, then the members can benefit from bank loans

Finally, the decisive issue is how stokvels and unit trusts compare as inflation-beaters Here the unit trust is the hands-down winner, as unit trusts have consistently yielded an annual return of 20 percent a year for the past two decades.

Stokvels, though, as with the majority of savings vehicles in South Africa have almost as consistently fallen victim to the ravages of inflation

Specialist funds bring in more than R28-m

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STAR 20/7/92

Standard Bank's two new specialist unit trust funds, the International Fund and the Industrial Fund, have brought in more than R25 million since their launch on May 18.

"Sales inflow from these two funds has vastly exceeded all expectations," says Derick Finlayson, managing director of Standard Bank Fund Managers

The new funds complement the existing Mutual, Gold and Extra Income funds.

The International Fund, a first in South Africa, is made up of equities in JSE-listed companies whose operations are focused on the international markets or which operate businesses overseas.

The Industrial Fund, a first in South Africa, is made up of equities and, where appropriate, high interest-bearing investments

Mr Finlayson says that the more specialised requirments of the investing public and the need to broaden its range of funds to meet these demands prompted Standard to launch the new funds.

South Africans have typically concentrated their savings on investment available in the local market, but the International Fund has created an opportunity for them to broaden their investment horizons by purchasing a stake in a unit trust with an international flavour

He says South Africa is being increasingly welcomed back into international business, and fuller participation signified considerable opportunities for many JSE-listed companies

The fund will maintain a substantially fully invested portion in order to optimise investors' exposure to the international counters held in the portfolio

"A unit trust investment specialising in companies which trade and operate in foreign economies gives scope to South

Mr Finlayson says that most African investors to participate in the diverse and significant markets available in the international business sphere

"Diversification is a key ingredient of any successful investment strategy and the International Fund presents investors with an ideal opportunity to spread their investment risk beyond the local business arena"

At present, exchange-control regulations restrict the fund to investing in companies listed on the JSE However, should there be a relaxation in these regulations in the future, the fund is earmarked to invest in companies listed overseas

A further benefit of investing in the international fund is the protection it provides against the possibility of a continuing decline in the value of the rand, something local investors face due to the high rate of inflation in this country compared with its major trading partners.

"The International Fund presents investors with an excellent opportunity to invest in South Africa's return to the international business arena and to accumulate assets with an international pedigree," says Mr Finlayson.

The Industrial Fund is a specialist unit trust offering the opportunity of investing in the industrial market.

Mr Finlayson says. "The industrial sector of the South African economy has a track record of dynamic performance and contribution to the local economy.

"Its importance is likely to grow as the country builds up an economy less dependent on gold and precious metals."

Mr Finlayson says that industrial shares have provided excellent returns — among the best on the stock exchange and well ahead of the inflation rate.

Top industrial equities spearhead the selection of the portfolio and are supplemented by high interest-bearing investments when appropriate.

He says "Having recently attained the R1 billion mark in assets in our existing three funds, we felt that the time was right to launch these two specialist funds.

"The fund aims to provide a return comprising long-term growth of capital and income which will exceed inflation and the return associated with the industrial index"

Mr Finlayson says that Standard Bank's family of funds now offers investors a more diverse spread of unit trusts

Unit trusts attract the veteran investors

STAR 20/7/92

Older investors have been quick to grasp new long-term investment opportunities offered by unit trusts, says Old Mutual Unit Trusts assistant GM Bastiaan van der Westhuizen

He says "This group of investors makes up more than 115 000 of our 400 000 investors Furthermore, holders of unit trusts administered by the life assurer who are over 50, represent approximately 11 percent of all account holders in the entire industry"

The outstanding inflation-beating returns offered by unit trusts is clearly a major factor attracting these investors Another contributing factor is that most people who fall into this age group no longer have dependants and can therefore afford to supplement their retirement annuity with a unit trust investment

Old Mutual Unit Trust offers various packages tailored to meet the investor's retirement needs One of these packages is Old Mutual Retirement Trust — an investment in the R3 billion strong Investors' Fund

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Retirement Trust is aimed at investors who want to supplement their retirement annuity or who want to invest the cash lump sum received from their annuity on their retirement

A good example of investing in the Retirement Trust is when Darby and Joan Wilks (not their real names) invested R10 000 in June 1981 Darby was 50 and planned to invest the money for 10 years (all distributions were reinvested)

By the end of May 1991 his investment had grown by 25,02 percent a year, leaving him with units to the value of R93 273

Darby and Joan did not need the money immediately, but instead decided to have the half yearly distributions paid out to them Over the following year, to May 1992, they received more than R4 000 and their capital had grown to R115 925

A second option available to the investor who has a lump sum to invest is Old Mutual's Phased Portfolio

Easy route to balanced portfolio

STAR 20/7/92.

(232)

According to John Bowman, MD of the Norwich Management Company, which manages the Norwich Unit Trust, unit trusts are unique in being able to offer investors the combined features of growth, flexibility and liquidity

There is little need to re-emphasise that in the SA context, equities (or ordinary shares) have consistently been the best performing investment category, whether looked at over a period as short as five years, or as long as 30 years They are the only investment — apart from property — which has consistently beaten inflation

This fact has been convincingly highlighted in various surveys and there is little reason to suppose this trend will change substantially during the years ahead

Accordingly, provided an investor does not have an immediate high-income requirement, is prepared to live with short-term fluctuations in the value of his investment and has medium-term investment horizons, equities remain a good investment And there is no doubt for the man in the street unit trusts are the most practical way into equity investment

John Bowman MD of Norwich Management Company

There is no other way in which such an investor can obtain exposure to a balanced portfolio of shares at so little cost In the case of the Norwich Unit Trust, for example, for a lump sum investment of R500, or a monthly investment of R25, an investor can get exposure to a broad spread of gold, other mining, mining financial, financial and industrial shares

The investor would have to be wealthy to obtain such a spread on his or her own The managers of this unit trust believe in a focused approach and at 23, the number of counters in the portfolio is low by comparative standards — this is in order to streamline effective portfolio management

However, for an individual investor to construct such a portfolio, buying only 100 shares in each of these 23 companies would cost no less than R103 000 So as a proven growth vehicle, unit trusts have no equal.

On the other hand in terms of flexibility and liquidity, unit trusts are also unique Some other investment and savings plans do offer exposure to a balanced portfolio, including a high proportion in equities

However, the features of flexibility and liquidity are absent from virtually any other such plans, where early redemption of investments is usually accompanied by cost implications

Fund managers will always emphasise that unit trusts are to be regarded as medium-term investments, with an investment horizon of at least three years — in view of the short-term price fluctuations which are a feature of any equity investment

But in the event of the unexpected, an investor can cash in his units immediately The costs of doing so are moderate, as there is a maximum 7 percent spread between buying and selling prices So liquidity is assured and easy

Moving finally to flexibility There is no other growth investment which provides the investor with the ability to increase or decrease his regular investment, or add a lump sum at any time, as easily as one does with unit trusts

So the benefits of unit trusts, offering the combined features of growth, liquidity and flexibility are very real for the individual investor

Niche markets 'key to future growth'

STAR 20/7/92

(232)

While the local unit trust industry has shown phenomenal growth over the past five years — with assets increasing by 238 percent and the number of mutual funds growing to 46 — there are still extensive opportunities for expansion, says Francois Goosen, head of the Southern Unit Trusts operation

And he believes that future growth will be in the area of niche markets, where funds are tailored to the needs of specialist investors.

An example of this trend was the recently launched Southern Pure Specialist Fund, which caters for specific groups who have certain socially responsible investment criteria in common

Mr Goosen said "The fund was developed for investors whose moral code and ethical values prohibit investment in certain industries

"It has also been designed to attempt to comply with the specialist requirements of enviro-friendly groups

"Catering for this niche in the market means that investments in interest-bearing instruments, life assurance, intoxicants, hotels, gambling and certain commodities have been excluded"

Mr Goosen said the fund was not a specifically Islamic fund investing in Halaal companies — an impression, he added, which had been created in some media reports

"However, as the Muslim community represents an important market, the Pure Specialist Fund does its best to meet their specific value systems"

Compared with the unit trust industries in the United Kingdom and the United States, the local industry was small, said Mr Goosen, even taking the relative sizes of the economies into account

A mere five years ago the combined assets of all unit trust funds in South Africa stood at R3,8 billion, a figure which has now grown to R12,8 billion

The US offers investors a choice of more than 2 500 funds while about £60 billion has been invested in unit trusts in the UK

The recent growth in the number of funds and the increase in assets under management resulted in the local industry becoming even more competitive, and the race has been on to be the first to launch specialist, targeted funds

"When competing for a selected target group, it is important to be the first in the market as any similar funds will be seen as copies and naturally attract fewer investors," Mr Goosen said

This competitiveness is also apparent in the area of investment performance where investors carefully monitor fund returns over the short term (periods of anything from one quarter to one year), medium term (three to five years) and even longer periods

This has led to Southern Unit Trusts adopting a relatively conservative investment philosophy

"If a fund manager aimed to be in the number one spot each quarter, he would need to go out on a limb and take some bold decisions which would increase his risk significantly," he said

"If these decisions didn't pay off, the fund could show a highly volatile performance

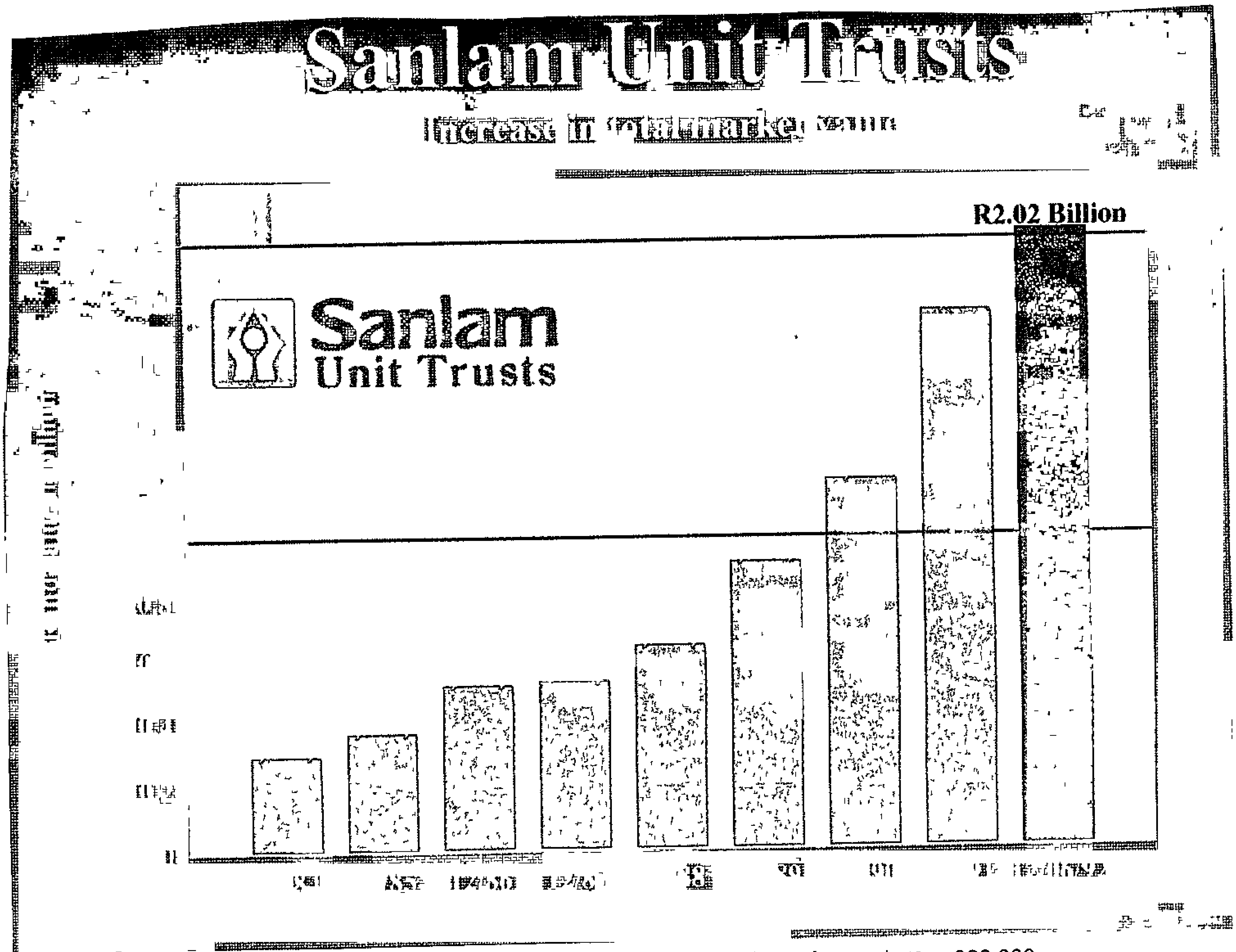
"We have tried to eliminate the volatility, and over the past six quarters our general equity unit trust is the only fund in the industry to have consistently performed above average in survey rankings"

This strategy has produced handsome dividends as the Southern Equity Fund, with a return of 24 percent was in the number one position for the 12-month period to the end of June in the Association of Unit Trusts survey.

Since inception of the fund in October 1988, investors have received a 25,4 percent return during a period in which inflation averaged 14,7 percent.

Mr Goosen said that unitholders were regularly offered advice on their investments via the media, but that it was important not to lose sight of one of the key elements of a unit trust investment

"When investing in a unit trust, one is transferring cash into units and this allows one to build up more units when the JSE underperforms — in other words, the same rand value buys more units in a weak stock market cycle"

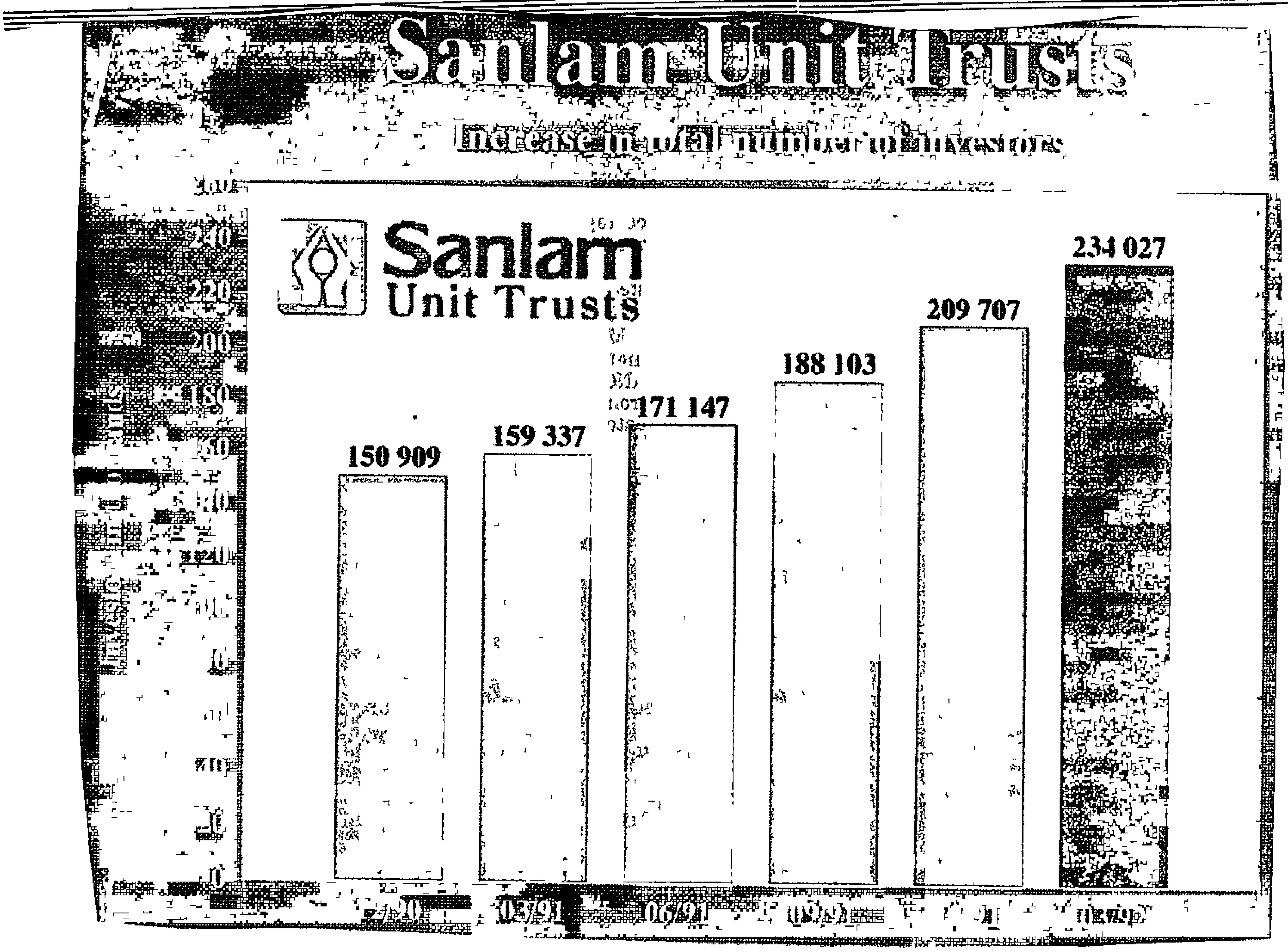


Sanlam Unit Trusts' total assets broke through the R2 billion barrier in June.

The five portfolios reached the R1 billion mark in February 1990

The number of investors grew over the same period from 159 000 to more than 230 000

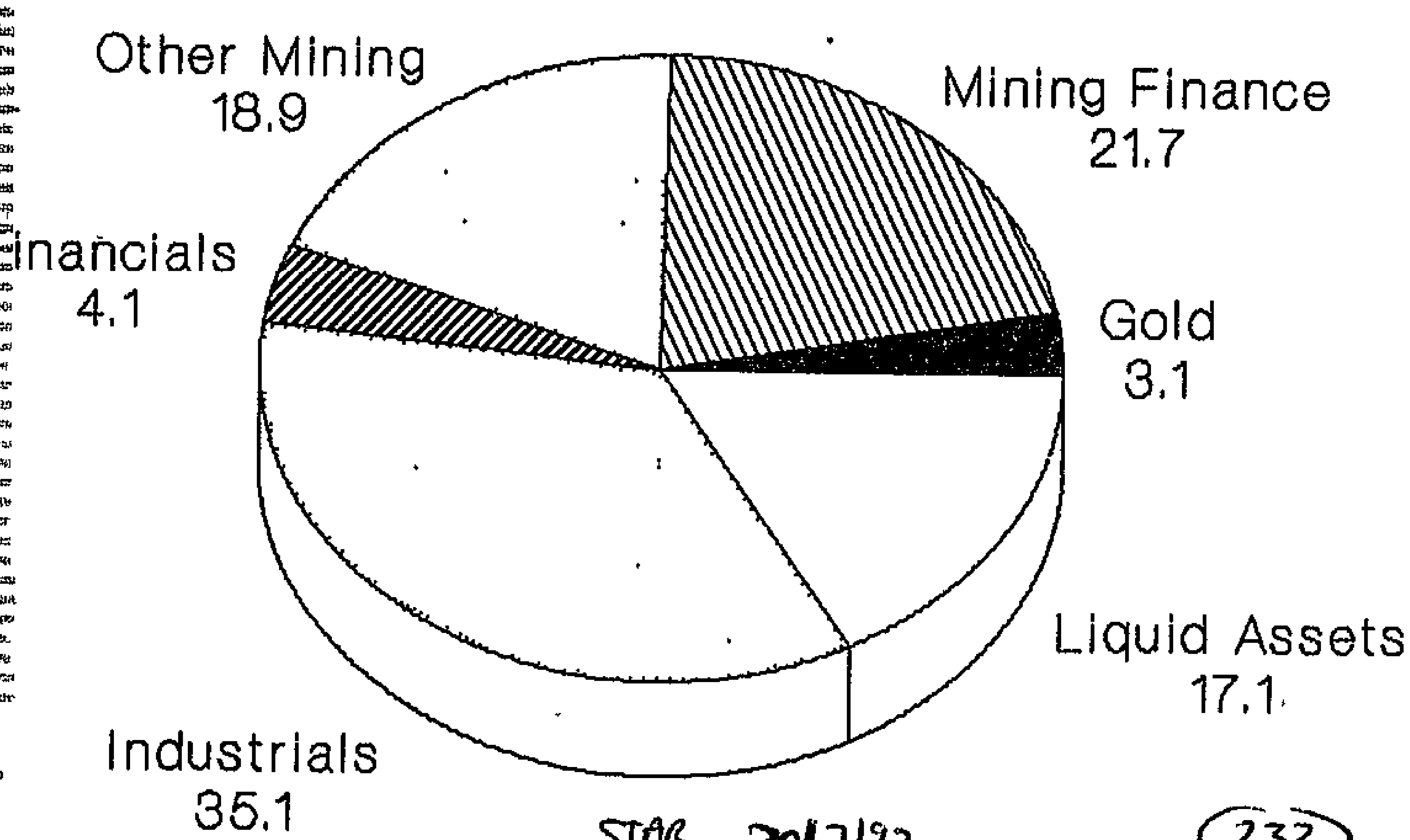
Inflow market share also trebled



NORWICH UNIT TRUST

STAR 20/7/92

PORTFOLIO PROFILE
30 June 1992



STAR 20/7/92 232

COMPANIES

JSE fund may soon process claims

MERVYN HARRIS 232

CREDITORS of defaulting stockbroking firms, H G Crosby & Co and Andrew Forbes & Co, could soon have their claims processed on the JSE Guarantee Fund

The JSE said on Friday that accountants Deloitte Pim Goldby had compiled a list of Crosby creditors who will receive the necessary documentation to prove their claims The firm should be in a position to present a preliminary list of Forbes creditors within the next two weeks when the processing of claims can begin

In both cases, however, certain claims can be processed only when the final liquidation and distribution accounts have been lodged by the liquidators and confirmed by the Master of the Supreme Court

The investigation into Crosby's affairs by the loss adjustor appointed by the insurers under the JSE's fidelity insurance policy has been completed The investigation into Forbes's affairs is nearing completion

The JSE hopes to receive the reports on the admittance of claims under its policy shortly BDAY 20/7/92

A final liquidation order is expected soon on Forbes, which was placed under provisional liquidation on June 17 This follows Supreme Court approval of Oliver Powell of Kessell Feinstein and Lieb van Jaarsveld of Ernst & Young as provisional liquidators

Demand for Benco paper

THE shares of marine diamond exploration company Benguela Concessions Ltd (Benco) attracted demand in mid-afternoon trade on rumours of a R100m deal with Broken Hill Proprietary (BHP). (232)

Analysts said the shares were boosted by ~~rumours~~ that Benco chairman John Gurney was negotiating a R100m BHP investment in Benco. B/DA9 21/7/92

Gurney, a consultant on BHP's latest Yellow Knife diamond discovery at Point Lake in ~~northern~~ Canada, was not available for comment.

Benco, in which Old Mutual owns a ~~39%~~ majority share, rose two cents to 47c.

This takes the gains to 213% since April 1 1992. — Reuter

Minorities accept Holdain's cash offer

232

STAR 2/11/92

By Stephen Cranston

Minority shareholders in Sunpak, Sunvest and Biopolymers have accepted a cash offer from holding company Holdains for their shares. The buyout will cost R53 million

Sunpak manufactures polystyrene packaging, and Biopolymers is a specialist polystyrene material manufacturer Sunvest is the holding company for both

Holdains is offering 130c (compared with a market price of 129c) per Sunvest share, 144c per Sunpak share (140c) and 50c per Biopolymer share (47c)

Holdains has applied to the Supreme Court for sanction of the schemes to delist the companies If the court approves, the three counters will be delisted at the end of the month.

Holdains CE Ian Willis says that Sunpak was not likely to realise significant profits in the short term, and it would take time to bring it up to speed

Safex slowed down by snags

232 SHARON WOOD

THE SA Futures Exchange's proposed options-on-futures market was six weeks behind schedule because of problems in the system's development, Safex CE Stuart Rees said yesterday BIDAY

He now expected the market to be up and running by late-August or the beginning of September.

The creation of a options-on-futures market was expected to be completed this month and would formalise the existing over-the-counter options market.

Major corporations and institutions had approached Safex about formalising the market because it would reduce the risk of deals placed in the informal market. The planned physical delivery of E168 futures had also hit a few snags, Rees said. At present there is no physical delivery of scrip.

He said there were difficulties in removing the theoretical risk of stolen or forged scrip being introduced to the market.

But Rees said Safex had found a solution in the last few days and was involved in negotiations with a settlement agent "Hopefully an announcement will be made soon," he said. 21/7/92

Confrontation looms at Masterbond

PETER GALLI

A CONFRONTATION is looming between the provisional curators of Masterbond and the board of directors and management of Fancourt because the curators are considering applying to put the upmarket golf resort into judicial management

"Judicial management will not only severely affect current negotiations, but could also substantially reduce the value of the assets securing the interests of the debenture and part-bond holders," chairman André Pieterse said yesterday

BDAY 21/7/92

The Fancourt board believed that the uncertainties surrounding the future of Masterbond, the inability of Masterbond companies to operate effectively and to provide the normal administrative duties required of them "effectively incapacitated the Masterbond companies from acting as trustees", he said

(232)

As a result, a meeting of debenture holders is to be called in Cape Town on August 11, to consider appointing Seeff Trust as trustee for the debenture holders

"This move will enable the Supreme Court to be aware of the wishes of the debenture holders when it reconsiders the confirmation or otherwise of the appointment of the Masterbond provisional curators," Pieterse said

The judicial management application

☐ To Page 2

Masterbond

BDAY 21/7/92

(232)

☐ From Page 1

would also effectively destroy negotiations aimed at listing the interests of Fancourt debenture and part-bond holders on the JSE.

The proposal, which directors claimed would properly capitalise the project and provide marketable security, is being negotiated with a consortium of investors

"The consortium is led by Standard Merchant Bank and comprises Group Five, Orient Express and certain financial institutions. Shareholding has not yet been finalised, but will probably be about 50% to the consortium, 25% to developer Golf Estates and 25% to debenture holders," Pieterse said

The proposals were tabled to the provisional curators, who said they could be considered only if the consortium gave an undertaking that the R30m proposed new funding be on a fixed five-year basis and the project be maintained as a going concern during that time

Masterbond provisional curators could not be reached for comment last night

Flurry of bear sales ushers in a new era

MERVYN HARRIS 232

THERE was a flurry of bear sales on the JSE yesterday after last week's amendment to the Stock Exchanges Control Act, which allows such sales at the last recorded sale price or at a higher price.

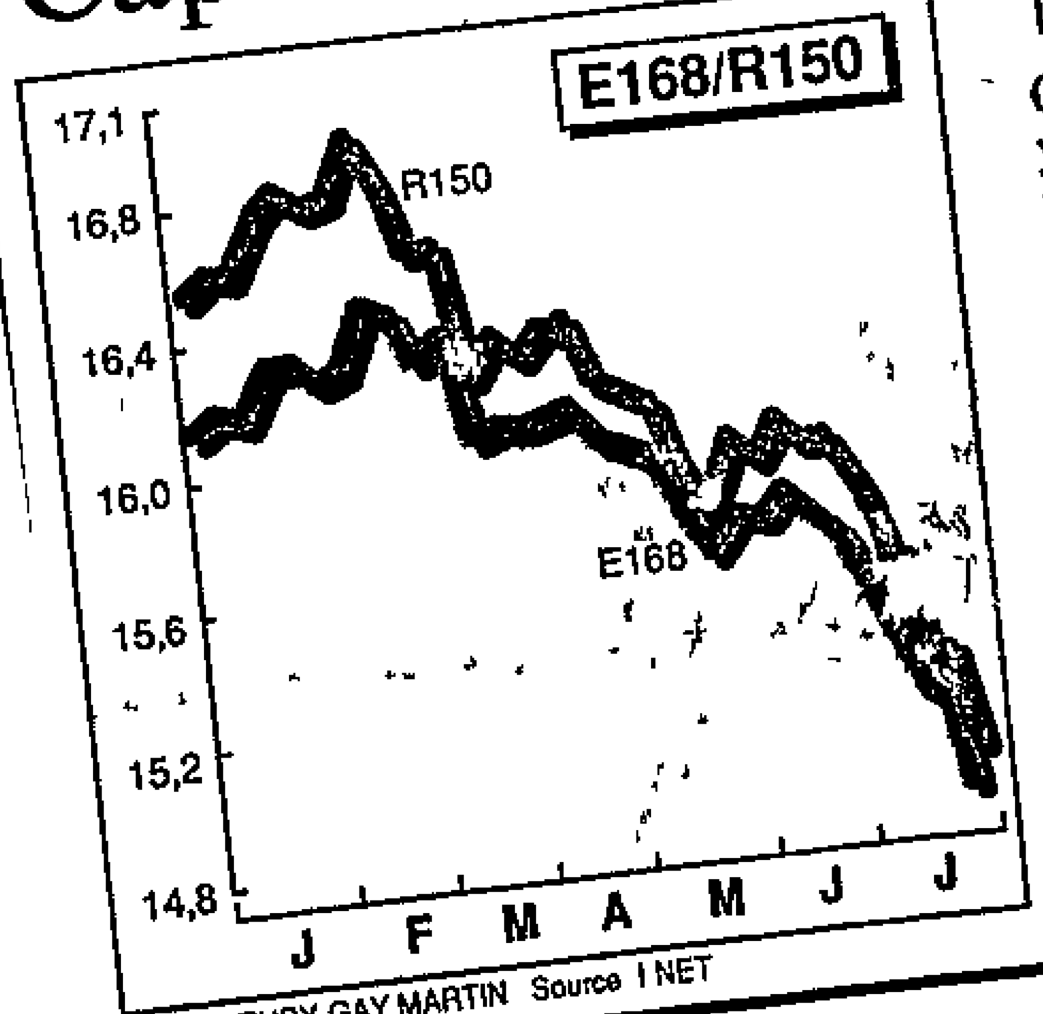
The Act previously provided for a bear sale — selling shares not owned on the assumption that they can be bought later at a lower price — to take place at a higher price. B/DAY 21/7/92

The change has made such sales easier and yesterday's bear sales ~~involved~~ leading industrial shares

They included Barlows at R51,75, Engen at R41, SA Breweries at R52,75 and Rembrandt Group at R24,25.

All the sales were at the last recorded cash sale price This brings the JSE into line with the trend on major world markets, where bear sales can be made at an even lower price than the last sale price.

Capital market hits 5-year low



Graphic RUBY-GAY MARTIN Source I NET

(232) HILARY GUSH

CAPITAL market rates hit 57-month lows yesterday as bullish sentiment mounted following large institutional buying on Tuesday

The yield on the bellwether ~~Eskom~~ 168 slumped to 14,88% at the session's close after opening at 15,07%. The yield on the benchmark government R150 stock closed at 15% from a 15,24% opening

Rates on long-term bonds last sagged to similar lows in October 1987

Dealers said traders short on gilts had bought up stock on the back of significant R150 bond purchases by the public investment commissioner on Tuesday Both local

☐ To Page 2

Capital market

8/DAY 23/7/92 (232) ☐ From Page 1

and foreign institutions had been active in the market, they said

Simpson McKie gilts analyst Marilyn Visser said market sentiment was bullish on institutional demand and technicals She said that although there was no longer a short-term relationship between the gold price and capital market rates, traders were getting "quite excited" about the bullish mood in the gold market

She added that the higher gold price acted more as a reinforcing, rather than initiating, factor in the bull run

Analysts said the move out of equities and into gilts which started in the first quarter was maintaining its momentum Market players described money market rates as "flat" while shares on the JSE were not performing well The capital market was the one area where investors could find value

As the 15% technical level for Eskom stock yields had been breached, analysts expected a further drop in capital market rates today

Meanwhile, economists who participated in the latest SPL Banking Services Forecasting Project expected the yield on the E168 to fall to 14,47% by December and to 14,37% by this time next year

The prime overdraft rate was predicted to fall two percentage points to 16,25% by year-end and to 15,5% by July 1993 Other short-term rates were forecast to show similar drops which would cause a steepening of the positive yield curve

International slump catches up with JSE

BDAY 23/7/92 232

MERVYN HARRIS

SHARE prices were hammered on Diagonal Street yesterday in the wake of a renewed shakeout on the major global share markets on concern over the ailing world economy

The latest downtrend on international bourses started in Tokyo as the Nikkei index slumped 466 points to 15 542, its lowest level for six years It spilled over to London, where the FTSE 100 ended 1,6% or 28 points down to 2 388, and then to New York where Wall Street ended almost 1% lower

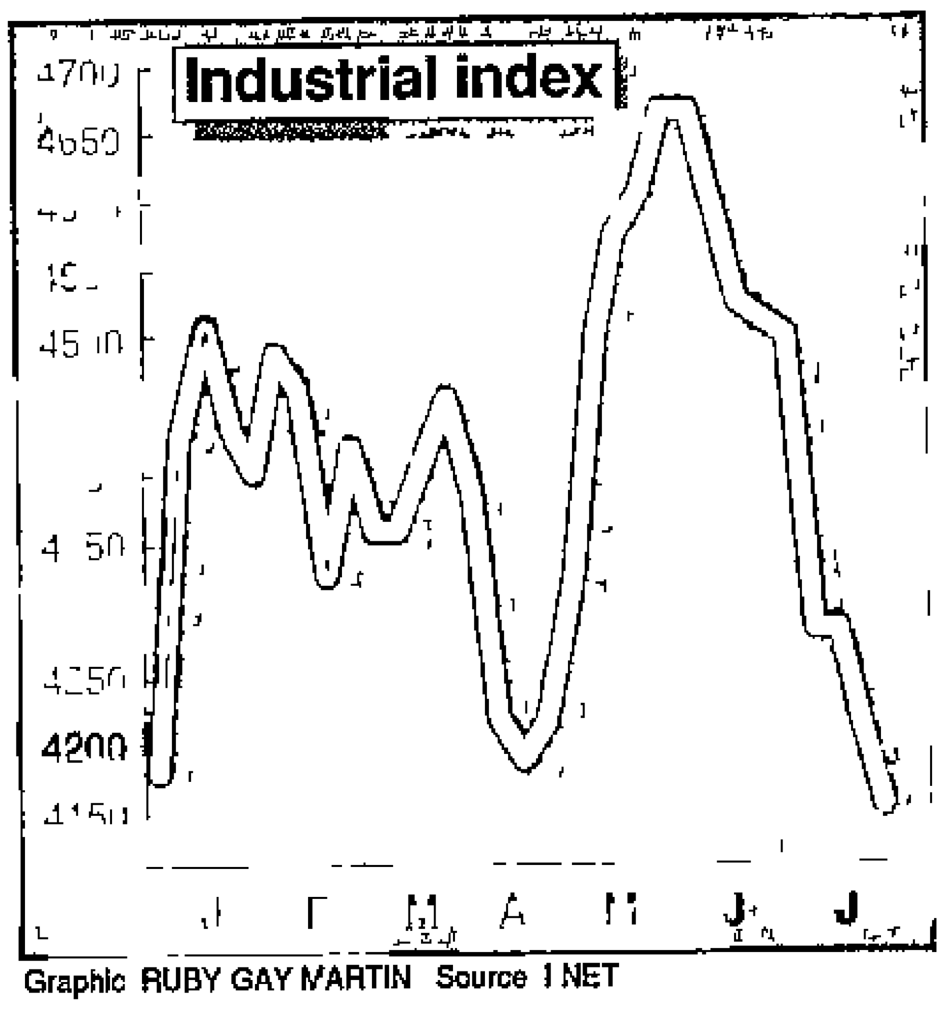
Offloading of shares by worried investors on the JSE pulled the overall index down 1,2% or 44 points to 3 385 Share price losses outnumbered gains by 110 to 21

The index has now fallen almost 10% from its early June peak of 3 748 while yesterday's 57-point fall in the industrial index to 4 156 took its decline from the June peak of 4 694 to 11,5% or 538 points

National Futures and Options MD Brett Stacey said "Futures are trading below the JSE cash market which is indicative of a bear market. Volumes have been good for the past week as a lot of institutions and funds are using futures to hedge."

Poor market sentiment rubbed off on gold shares and the index ended 10 points down at 1 111, but off its low as the metal rallied in the afternoon on rumours, later denied by US Defence officials, of Western forces bombing Iraq

In volatile trading, gold closed $1,25 higher in London at $359,10 and at $359,40 in New York. Analysts said the metal could make a renewed assault on the $360 level on concern over Iraq's defiance of Gulf War ceasefire terms Platinum ended firmer at $380,50 on the Nymex



Graphic RUBY GAY MARTIN Source I NET

UNIT TRUSTS (232)

Turning to cash

FM 24/7/92

Effects of political irresolution are finally working their way through to the market One consequence is that the unit trust portfolios have shown a marked swing away from holding industrial shares and towards increased liquidity This reverses the trend

FM 24/7/92 (232) **FOX**

seen over the past 18 months or so, where portfolio managers had been reluctant to sit on cash

Throughout most of the June quarter, cash flow into the market remained strong, with a record net inflow of R600m More than 280 000 new accounts were opened and the market value of assets managed by the 46 unit trusts rose some 6%, to exceed R12,8bn

But Unit Trust Association chairman Clive Turner advises a cautious approach to the equity market in the coming months, again emphasising the long-term nature of this type of investment This comes after an unusually heavy demand during the past few weeks by private investors to liquidate their holdings or switch them

Uncertainty in the market has also seen a swing by unitholders towards high-income trusts, this represented a tenth of the quarter's gross sales Industrial shares still make up the bulk of portfolios, though this is probably due more to capital gains than a continued high level of purchases

Average annual return from general equity funds, which account for 81% of the industry's assets and accounts, was 18,5% — outperforming both inflation and the JSE All Share index Best return was achieved by Southern Life's equity fund (24%), followed

Unit Trust Association's
Turner cautious

closely by Syfrets Growth fund (23,6%)

Strategies of the two companies differed in terms of their preference for liquidity Southern Life increased its cash and short-term holdings to 15% of its portfolio, while Syfrets reduced its liquidity from 15% to 10% Both marginally increased their exposure in mining finance Sygro outperformed the industry average of 16,7% on a five-year performance, with a return of 21,7%

For general equity funds as a whole, cash holdings increased by 18,5%

Performance by the more volatile specialist equity funds in the year to June ranged from a negative 20,8% by Old Mutual's Gold fund, to a positive 25% by Senbank's Industrial fund The divergence in results reflects the poor performance of the mining and related sectors of the JSE in the months to June

There still remains, not without reason, a strong preference for mining financials and other mining shares over gold producers, though with some exceptions Momentum holds 11% of its portfolio in gold, reflected in its one-year performance, which showed a return of 13%, well below the average

Sage remains the only unit trust with a foreign portfolio, where 80% of the funds are held in cash and bond holdings

Five new funds were established in the quarter, providing further choice for investors In addition, the former Safegro fund was taken over by IGI and the Volkskas equity fund was renamed ABSA

The broader spread of trusts available to investors reflects the continued sophistication of the industry The choice ranges from the traditional portfolio under the umbrella of companies such as Commercial Union to the more high-risk investment such as the UAL Select Opportunities fund *Marylou Greig*

One out of 10 listed firms risks failure, says survey

BIDAY 24/7/92. (232)

DUMA GQUBULE

ABOUT 10% of companies listed in the industrial sector of the JSE are "at risk of failure", says a recent survey

The ratings survey of 522 listed industrial companies was based on information gathered over a three-year period by Status Corporate Services (SCS), a joint venture between McGregors and KreditInform All the companies were given a survival probability on a scale of 0-100%, which "immediately tells you if a company is good or bad," McGregors director Simon McGregor said

The term "at risk of failure" was defined as the potential for bankruptcy, the placing of a company under judicial management, nonpayment of dividends, recording of trading losses for three out of five successive years, level of net profitability after tax and before extraordinary items during the same period, or takeover of a weak company

The ratings process employed six ratios — given weights according to SA conditions — which cover conventional areas of liquidity, profitability, leverage, activity, working capital management and control.

KreditInform MD Ivor Jones said the survey was the most definitive study of the industrial sector available A couple of companies had gone into provisional liquidation over the past three months and the survey's ratings of these companies had been spot on, he said

Gideon van Rhyn, who helped construct the model, said users would be able to identify good or bad risks and to extend or reduce exposure accordingly He said he was amazed at the unscientific approach to rating companies. This was usually undertaken by a panel of people expressing opinions without the benefit of solid information

SCS would monitor future activity enabling the investment community and all companies granting credit to make more profitable decisions

Jones said a similar study of listed companies on the London Stock Exchange, carried out before the current recession, found that 16% were at risk of failure Economists conservatively predicted that the figure now was more than 20%, due to the continuing worldwide recession

Foreign capital 'waiting for political settlement'

BDAY 24/7/92 (232)

ANDREW KRUMM

LARGE inflows of foreign capital — desperately needed to develop major projects and create jobs — would wait for a political settlement, said Investors Mutual Fund chairman HL Shill

Reviewing unit trusts Sage Fund's and Sage Resources' results for the year ended March 1992, Shill said a political settlement would halt violence and strikes, and promote productivity and foreign interest

"As we progress politically, the lifting of the last sanctions and the opening of additional markets for export should result SA's access to World Bank and IMF finance should emerge and promote easier monetary policy as the need for a large current account surplus is diminished"

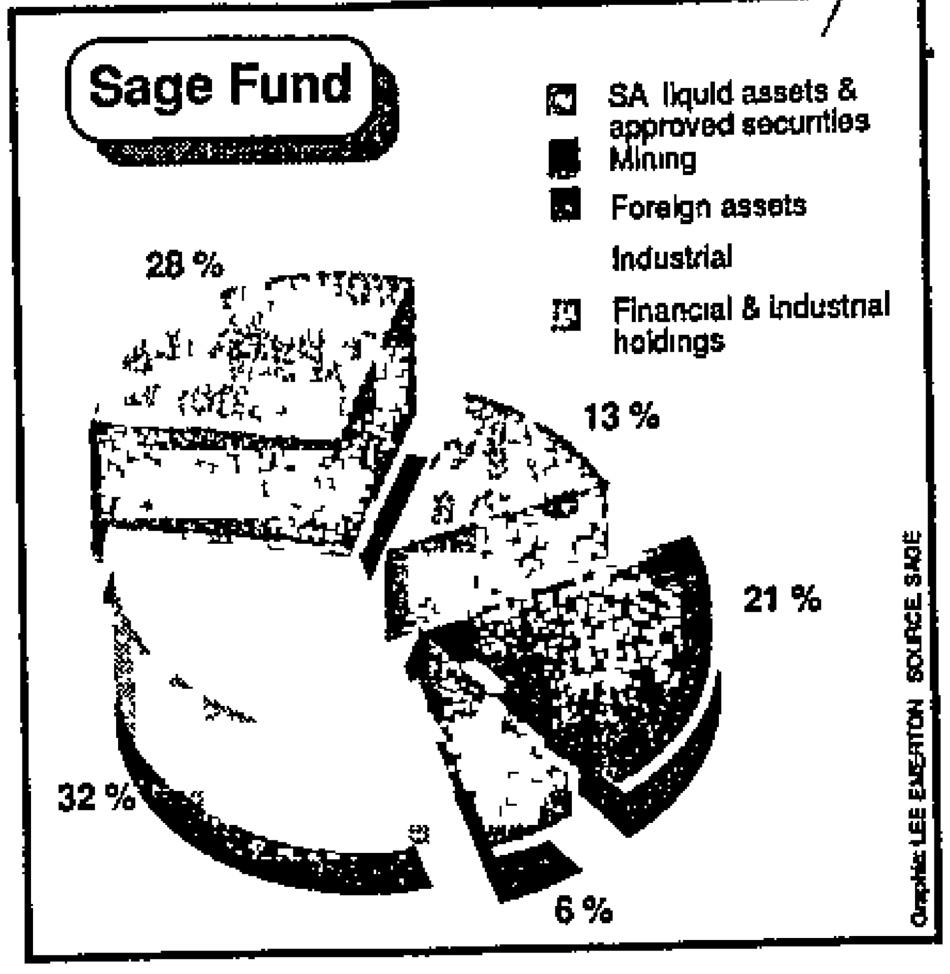
The outlook for the domestic economy was also dependent on political progress and a mild international recovery in 1992

The domestic upswing would be delayed due to the effect of drought on agriculture

"The R16bn budget deficit — at 4,5% of GDP — combined with the relaxation of HP restrictions and the lowering of bank rate shows governments attempt to stimulate the economy"

Meanwhile high levels of social expenditure would boost building and construction, while accelerated depreciation allowances to export industries should assist major capital projects

Shill said the unit trust industry had continued to expand during the year "Total industry assets rose by nearly 46% to pass the R12bn mark, while the number of unitholders' accounts increased 33% to exceed 1-million for the first time The net inflow to the industry, which increased 39%, was a record R1,5bn"



Shill said Sage Fund posted a 29% return for the twelve months ended March 1992 and unitholders received 98,7c a unit The Fund's total assets increased to a year-end record of R989,7m, while unit sales hit their highest ever at R101,5m However, net inflow at R17,8m was substantially down from R58,7m in the preceding 15 months "This was due to one institutional holder distorting repurchases with a large redemption"

Specialist unit trust Sage Resources — which focused exclusively on natural resources — only recorded a marginal net inflow However, Sage Resources posted a return of 14,4% this year, substantially up from the -12,8% in 1991, reflecting the improved performance of the mining and resources sector, Shill said

Many JSE-listed industrial firms at risk of failure

STAR 24/7/92.

By Sven Lünsche 232

Some 30 industrial companies listed on the JSE — about 10 percent of the total — are at risk of failure, according to a new ratings survey.

The survey, carried out by Status Corporate Ratings, a joint venture between Kreditinform and McGregors, has rated 300 companies on the industrial sector in terms of past and present financial performances

Ivor Jones, managing director of Kreditinform, yesterday refused to provide a detailed sectoral analysis, but said the model used to conduct the survey had been successful in forecasting company failures on the London Stock Exchange

He said "at risk of failure" could imply potential for bankruptcy, but also the non-payment of dividends or net trading losses for three out of five financial years.

He added that once a company had been identified as risky, action to restore its financial viability or closure could follow within a very short period of time.

The model had been applied to a number of recently liquidated companies and had provided evidence of their precarious positions well in advance of the final liquidation order.

Since the beginning of this year a number of JSE-listed companies have been delisted, either as a result of a takeover or after liquidation or insolvency

Over the past two months alone, five companies have been delisted as a result of liquidations — Kemtrade Holdings, Europa Acceptances Group, New Company Investments, Debonair and Money and Management Holdings

Apart from the industrial board, the development capital and the venture capital sectors have been particularly vulnerable to liquidations.

Mr Jones said, however, that the ratings were only a "predictor", judging JSE industrials on their creditworthiness, rather than the potential investment position.

"The rating process employs six financial ratios — liquidity, profitability, leverage, working capital, management and control — each accorded a specific weighting in the model," he said

World woes send shares tumbling

WORRIES about the health of world stock markets sent the Johannesburg Stock Exchange sliding again this week. 232

Blue chip shares dropped by 1,3 percent on Wednesday, though a new firmness in the gold price underpinned gold shares Midweek the gold price was heading towards $360 an ounce WMail 24/7-30/7/92.

The overall index of the JSE midweek at 3 385,0 was around 10 percent lower than its June high of 3 748, and the industrial index more than 11 percent lower than its June peak of 4 694

The drop in world stock markets was precipitated by a fall on the Tokyo stock exchange to a six-year low as pessimism over Japan's economic outlook and falling corporate profits took hold

Wall Street stocks fell as soon as the market opened and the Paris bourse plunged to its lowest close this year

London shares were also hit by figures showing little sign of the British economy pulling out of its long recession

Make use of planning strategy to increase your capital gain

STAR 25/7/92

232

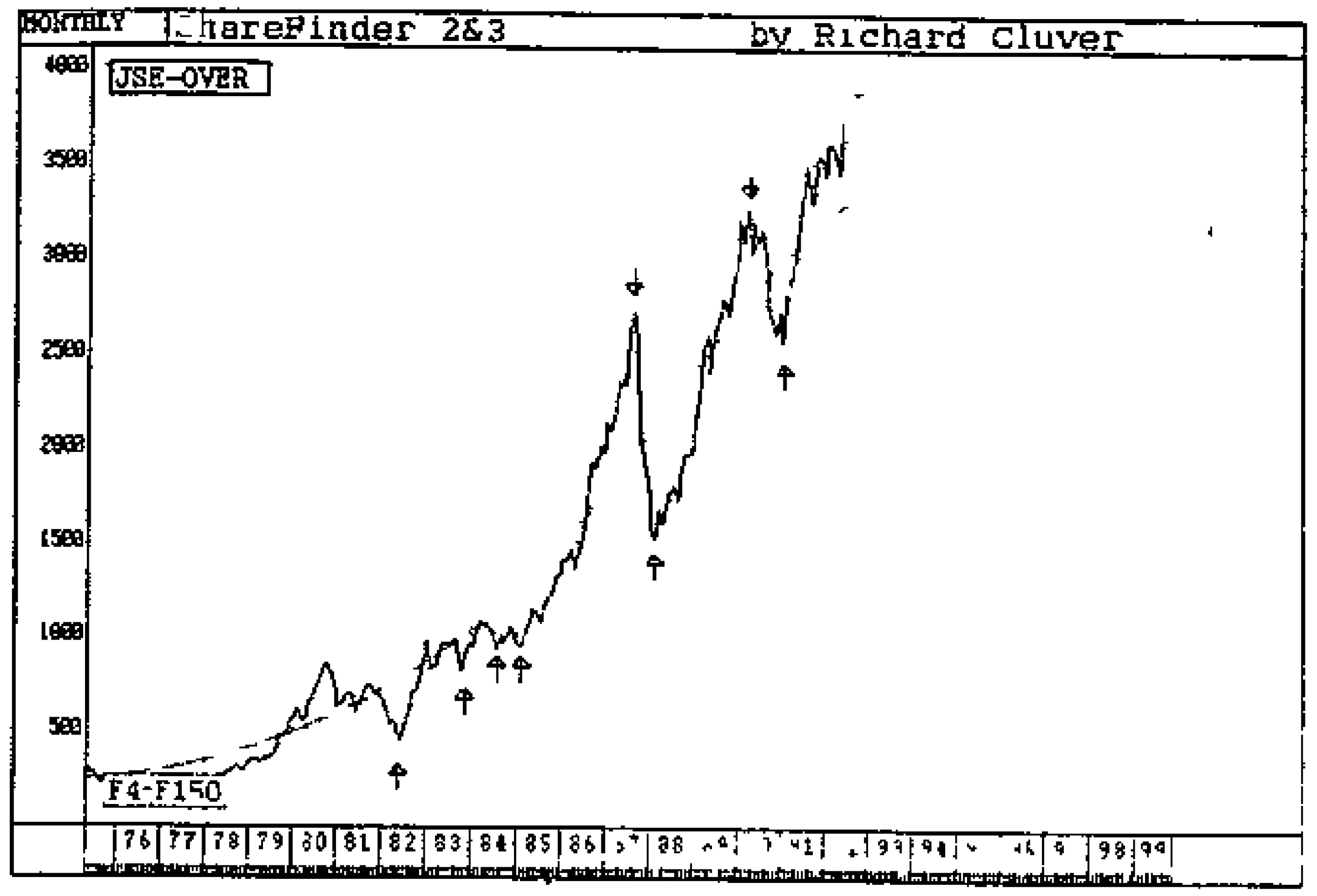
FOOTSTEPS TO FORTUNE

RICHARD Cluver

IF you listen to the campaigns of the unit trust marketers, the path to fortune is the monthly instalment, for with it comes that instant panacea, rand-cost-averaging which, they argue, allows one to ignore market ups and downs Well yes

Consider my long-term graph of the JSE Actuaries Overall Average It is plotted on a basis of month-end prices which in fact makes it very much a replica of the average "general fund" which is invested in a wide spread of shares

On to it I have overlain an average line which plots a moving average of the buying price one would obtain were the index in fact the selling price of a unit trust and one were buying into it on a regular monthly basis



31-day call

Four distinctly different investment strategies are possible. Let us start each one on January 1 1982 and assuming we have R100 a month to invest, run computer models of each one from then to the present.

□ Rand cost averaging
Unit trust salesmen constantly extol the virtue of investing a fixed sum every month Had one done so one would have invested a total of R13 000 to date and the current value would have been R33 988 That is an attractive overall growth of 161,44 percent.

□ Averaging at the bottom
This strategy would have one investing R100 a month in the bank on 31-day call and buying every time the index line cuts below the average line, continually investing R100 a month throughout the time the index is below the average Once the index line cuts above the average line, one ceases buying units and diverts the monthly R100 once again into the bank call account

Such a strategy would by now have won you a 188,43 percent capital gain This strategy is, in other words, 16,72 percent more efficient than rand cost averaging.

□ Buying only at the bottom.
Refining the above strategy, one might save the monthly R100 in a call account and, ideally by using computerised share market analysis techniques, attempt to make lump sum buys at the precise moment when the the market reaches the bottom of each cycle — the points indicated by the bottom line of arrows in my graph In practice it is very hard to precisely hit these bottom points, but not at all difficult to average in at the bottom by splitting your money into three or four lots and buying at timed intervals when you think the bottom has been reached

The result of buying in at the bottom and staying in for the rest of the ride would have been a 235,5 percent capital gain That is, in other words, 45,9 percent more efficient than rand cost averaging.

□ Buying at the bottom and switching out at the top
It stands to reason that the most profitable strategy of all would be to not only buy in at the bottom, but to attempt to switch out every time the market peaked Since the unit trusts permit their customers to switch around within their family of funds at an up-front charge of just one percent, it is practical to switch to a gilt fund whenever the market peaks and switch back to a general fund whenever the market hits bottom In between times one would, of course, continue saving R100 a month in a call account

The result of this fourth strategy would be a remarkable 585,5 percent capital gain It would, in other words, be 263 percent more efficient than rand cost averaging

FundFinder 2

Past experience has taught me that advocating this buy-at the-bottom, switch-at-the-top strategy invariably brings forth criticism from the unit trust industry which, understandably shudders at the prospect of vast numbers of investors simultaneously liquidating their units Their response has always been that it is fine in theory but it cannot practically be done I am accordingly delighted to be able to now retort that it can.

To prove it I have created a very simple computer programme, FundFinder 2, which anyone can operate and which tells you precisely when to buy and when to sell

Next week I will explain how you can pick out market tops and bottoms with considerable accuracy

□ Footsteps to Fortune is a serialisation of Richard Cluver's latest book "How To Make a Million" which, together with his other titles, "Making Money With The Mutuals" "Investment Without Tears" and "Advertising For Free" is available from The Promotions Department, The Daily News, Box 47549, Greyville 4023. They are priced at R40 each inclusive of postage and VAT. Demonstration disks of his ShareFinder sharemarket analysis computer programmes cost R35.

IGI Life's new angle on RAs

STAR 25/7/92

If you thought until now that retirement annuities are a standard package, IGI Life has a new angle on it with its Domestic Provider policy

The Domestic Provider, launched last year, is aimed principally at looking after the late life needs of domestic workers, but it can have — and is having — a wider application.

IGI Life's MD, Paul Cushway, says the Domestic Provider may be viewed as an alternative to the standard RA as it can incorporate some of the RA features — notably the post-retirement income — but has greater flexibility in line with the circumstances of the average domestic worker or small business employer

Among the package's flexible components are the fact that it can be transferred from one employee to another and also contains a provision for access to cash to provide for an employee's emergency needs

Another important way in which it offers more than the typical RA is that it makes provision for money for retirement as well as funeral benefits and basic accident benefits

The policy is unique in that it comprises an owner (the employer) and a second life assured (the worker) This means that the employer has a savings scheme held on behalf of the employee and a small amount of life cover, whilst the employee enjoys a range of other insurance benefits

Take long view, investors urged

STAR 25/7/92 (232)

Markets can boom in shaky times

STEPHEN CRANSTON

IT IS generally agreed that it is not a good time to move into the stockmarket, whether directly or through a large lump-sum payment to a unit trust.

There has been a substantial market "correction", as brokers and fund managers prefer to call downturns. And further corrections seem likely in view of the falls in international markets and the industrial unrest planned for early next month.

There has been a slight increase in repurchases of unit trusts, as there has been some disappointment with their recent performance after the record returns of 1991

However, Eric Langland, of Sage Unit Trusts, says investors are learning that markets are volatile but that over a longer time-span, equities provide better returns than other investments.

Cautious

But he does not recommend moving funds in and out of unit trusts on a tactical basis. "It gets very expensive once the charges are added up"

But unit trust holders won't have a dramatic effect on market fluctuations The Johannesburg market is very thinly traded — barely 4 percent of equities are traded every year and the direction of the market is largely determined by fund managers, who are a conservative and cautious breed.

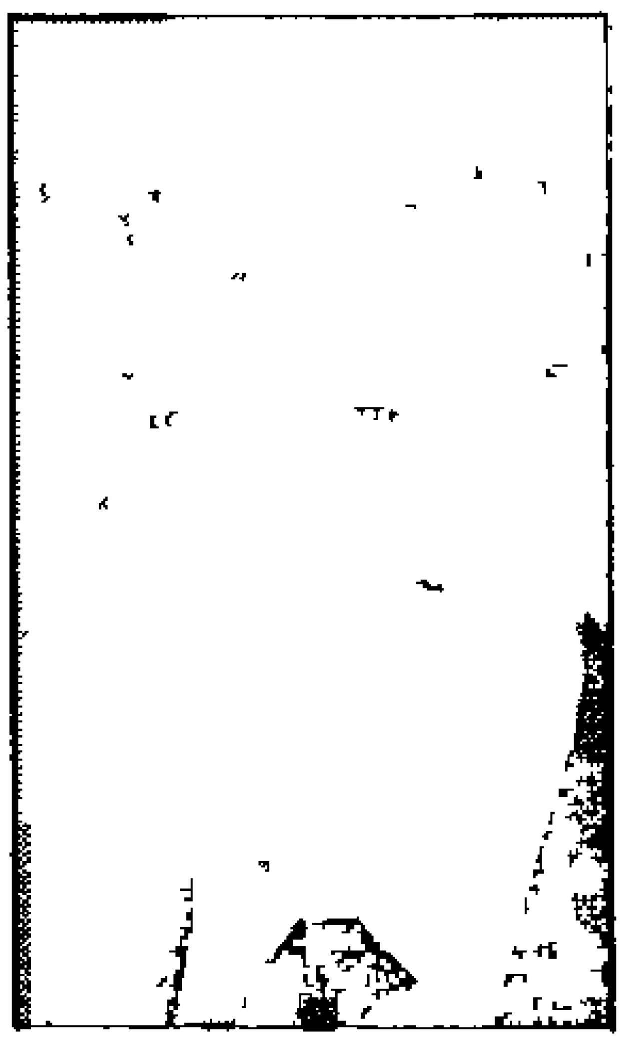
Rowland Chute, a senior portfolio manager at Old Mutual, says investors should stand back from the minute-by-minute developments reported in the media and take a longer-term view

"Of course human sentiment has an impact in the short term, but we don't see a fall in the stock market as such a bad thing.

"It gives us buying opportunities which we can take advantage of"

Chute and the other portfolio managers at the major insurance companies have seen too many market fluctuations in their careers to get too distressed.

ROWLAND CHUTE: Fall need be no bad thing.



STAFFORD THOMAS: Expects to see a rally.

Besides, the alternative investment avenues are not that rosy either.

Exchange controls mean that they have to keep their funds in the country, with few exceptions Interest rates are coming down, which doesn't help sentiment towards bonds and other forms of fixed-interest investments, and there is still a glut of office accommodation in most parts of the country

Dawid Meades of brokers Meades, De Klerk says the private investor is justifiably pessimistic as he is exposed to doom and gloom in the mass media, but that markets can still boom in times of political uncertainty

"In the 10 years after UDI, the Rhodesian Stock Exchange stayed strong in spite of the chronic political uncertainty there"

Meades argues that since the introduction of financial sanctions on South Africa and the debt standstill, the country has been forced to keep up a surplus on its balance of payments

It has been far easier to invest in equities in mature companies and hold back on new investments during a period of uncertainty.

This has led to "a permanent bull phase in the market" as there are funds which need to be housed somewhere.

Meades urges the small investor who invests regularly in the stock exchange to continue his monthly payments. But he does not recommend investing a lump sum into the present market.

Sanlam senior portfolio manager Stafford Thomas, however, believes we are approaching the end of the market decline. He expects to see a rally as there is a likelihood of another cut in interest rates.

He notes that George Bush can expect a boost in the polls after the Republican convention next month This will boost Wall Street, which has a clear preference for the Republicans. "There is no reason to expect a smash-up in the Dow Jones index."

Talking down

Thomas says the net inflow of funds into the Sanlam unit trusts has been maintained although there was a small net outflow on a couple of days recently "There is some disappointment at the length of the recession but the economy is in the process of turning up, even if it is taking its time."

Thomas adds that people have been trying to talk down the market for five years, so he's not particularly worried about the current downward phase.

Short-term prospects, though, are not rosy Dee Camparoglou, technical analyst at Frankel Max Pollak, says the market will continue in its bear phase for at least the next three months

She adds that industrial shares are looking tired, but there is continued value from platinum and mining financials and renewed prospects for golds

The private investor, she believes, is better off in cash for the time being as there is a large downside risk in the current market "There will be purchase opportunities, but it will require expert knowledge to spot them"

Change of mind for Rosenberg

By JULIE WALKER

IT took 10 weeks of negotiations between McCarthy and Prefhold before the proposed merger was agreed on.

Prefhold's Terry Rosenberg says it started when McCarthy chairman Brian McCarthy asked him to become a non-executive director.

"I turned it down because I didn't think I had anything to contribute."

Now Mr Rosenberg is to be chief executive of a group with a market capitalisation of nearly R1-billion.

"I had no idea what a wonderful company McCarthy was until I was invited to have a look. But I'll have to learn a lot about motor retailing," says Mr Rosenberg.

Mr McCarthy, who will chair the group, says growth opportunity in motor retailing is not high because manufacturers are reluctant to allow any one retailer to dominate. With a 14% share of the car market and 102 branches, McCarthy can be considered a mature business.

Prefhold has room to grow as a mass marketer through its three divisions — Game, Beares and draper Clobea.

The deal has two stages. Prefhold members will be offered (but not obliged to accept) four McCarthy shares for five Prefhold ordinary for 75% of their holdings. Both classes of Prefhold debentures will be exchanged for corresponding McCarthy scrip. 232

McCarthy ~~will then sell~~ all its businesses into Prefhold for the issue of 108,5-million Prefhold shares. It will become a pyramid of Prefhold.

Control of McCarthy will rest jointly with the Prefhold consortium and Anglo American-Amic, with between 20% and 27% each depending on minority acceptance rates, the McCarthy family's 6% to 8% furnishing absolute control.

Prefhold's name will be changed to McCarthy Prefcor (McPref).

McCarthy's 36% of Midas will be sold to Prefhold, but because effective control will not change, there is no need for an offer to the minority.

US anti-trust expert calls for war on monopolies' barriers

BDAY 27/7/92

(232)

TIM COHEN

PRETORIA — SA ought to "declare war" on the many barriers which still restrict businessmen from entering various markets, US anti-trust legislation expert Thomas Krattenmakker said at the weekend

In a discussion with representatives from a broad variety of SA organisations conducted by satellite link-up, Krattenmakker said the necessity for anti-trust legislation could be minimised by scrapping legislation restricting entry into the market

Krattenmakker, a professor of law at Georgetown University, said during the discussion sponsored by the US Information Service that anti-trust legislation should be aimed at achieving specific ends, and not used in a "scatttershot" way to achieve political or social policy ends

However, anti-trust legislation could well have positive spin-offs

For example, if it was decided that a preponderance of large companies increased the risk of discrimination in the workplace because fewer discriminatory practices would involve more people, then legislation specifically addressing this problem should be introduced

Anti-trust legislation might well reduce the size of companies, but its primary aim should be to allow the consumer, rather than the producer, dominance in the market

He said the necessity for anti-trust legislation would also be reduced by allowing foreign competitors to enter the market.

The SA government should also adopt a firm commitment to not allow mergers to take place which would give companies undue market dominance

Regarding the definition of monopolies, he said a company's market share was an inappropriate method of determining whether it was a monopoly A company with 90% of the market could conceivably not be a monopoly, while a company with 30% of the market could be one

On the question of tacit collusion between companies — a feature of SA's small economy often dominated by only a few companies in a particular sector — Krattenmakker said there were ways of detecting and combating this problem.

MONEY MARKETS by Hilary Gush

Rates ease off as shortage continues steady decline

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BDay 27/7/92

MONEY market rates eased last week as the shortage steadily fell from its recent highs Yields in the capital market continued to decline after hitting 57-month lows at midweek

By Thursday the shortage was down to July's lowest level at R2,293bn from R2,834bn at the beginning of the week.

Liquidity is not expected to pick up until early August when the month's government spending reaches the market

Expectations of a further two cuts in the Bank rate this year coupled with keen investor demand for short-term paper saw the 90-day liquid BA rate move down from an earlier 13,8%-14,05% trading range to 13,6%-13,75% on Friday.

Negotiable certificate of deposit rates were also lower towards the weekend with nine-month bills trading in a 13,35%-13,45% band from 13,45%-13,55% at the beginning of the week.

Consumer inflation, which fell to a 13-month low in May, is expected to slow further over the next few months Nedbank's latest economic profile forecasts a decline in consumer inflation to 12,4% and a corresponding fall in the BA rate to 12% by the end of the year

Applications for the weekly six-month Treasury bill tender saw the Bank receive R740m in bids for the R150m on offer, at an average rate of 12,68% — 10 points down from the previous week's 12,78% The average rate on the three-month Treasury bills was little changed at 13,39% from 13,4% the week before

On the back of steady institutional demand capital market rates fell on Wednesday to lows last seen almost five years ago A hike in the gold price to a seven-month peak fuelled bullish sentiment

The yield on Eskom 168 bonds — the bellwether semi-gilt — fell to 14,74% on Friday from 15,14% on Monday The yield on the benchmark government R150 stock slumped 40 points to 14,89% from 15,30% at the beginning of the week

Rates on long-dated stock are expected to fall further as institutions readjust their positions and increase their bond exposure at the expense of equities

Russia plans to treble tax on imports

MOSCOW — Russia would treble a new import tax for most goods in September and levy higher rates on certain luxury items to help pay off its foreign debt of more than $70bn, Foreign Trade Minister Pyotr Aven said last week

"We have to spend more on debt servicing and less on imports," Aven said

"We cannot afford to import the things we sometimes import, for example luxury cars and video recorders"

Russia introduced a 5% import tax on virtually all goods on July 1 to curb imports and try to close a yawning gap in the balance of payments Aven said that from September the tax would be increased to an average of 15%

"There are some special excise goods, like vodka and Mercedes cars, which will be (taxed) much higher," he said, but did not detail the higher rates

Aven put the foreign debt at $70bn, excluding debts to ex-Comecon members

The tax would also help protect Russian industries against foreign competition and could cut an expected surge in unemployment as market reforms begin to bite and unprofitable enterprises are shut down

Aven said Russia was owed $140bn, mainly by other former socialist countries and Third World states, but not everyone was keen to pay up He singled out Cuba as one of the worst offenders — Sapa-Reuter

Unit trust assets shoot up by 33,5%

BDAY 27/7/92 (232)

ANDREW KRUMM

THE prospect of good long-term returns pushed total assets in the increasingly popular unit trust industry up by a record 33,5% in the year to end-June.

Pretoria University Graduate School of Management's Prof Hugo Lambrechts said yesterday that more than R12,85bn had been invested during the year.

"The industry's popularity with investors has risen vastly over the past seven years as people became aware of the mostly good performances on offer," said Lambrechts "In the past year alone, the number of unit-holder accounts rose by more than 280 000 to more than a million."

On a short term view, however, the Pretoria University quarterly survey showed that the industry's total assets rose by 5,96% or R723m to R12,86bn in the second quarter 1992 Of that, R600m was the net new investment attracted by the industry, leaving R123m or 1,01% as the organic growth achieved by fund managers. This was less than the 3,0% rise of the JSE's All-Share index during the quarter. And, while ten general trusts beat the index in the quarter to end June, 12 did not, according to the survey's figures.

Responding, Lambrechts cautioned investors not to look to short term quarterly figures for a reflection of investment performance "Investors in unit trusts would have beaten the index by investing in most general funds over the last one, three or five years to end-June On a relative basis, investment in unit trusts offers the man in the street the best available return in the longer term"

However, according to survey figures — on a ten-year view — lump sum investors would only have beaten the index by investing in Old Mutual Investors' Fund On a 15-year view only two funds — Guardbank Growth and Old Mutual Investors' Fund — beat the index

Lambrechts elaborated by saying "the all-share index calculated for lump sum investments in the survey was loaded against the industry, since its calculation allowed for monthly compounding as opposed to the twice annual compounding used to determine fund performances The survey of fund performances also included management fees, which detracts from a direct comparison with the all-share index."

In contrast, regular monthly investment in unit trusts would have allowed investors to beat the indices in virtually all trusts

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Unit trusts

27/7/92 (232)

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and over every period greater than a year.

He advised investors not to be fickle "The good performances started building in 1977, and, although returns on offer fluctuate cyclically, the long term growth trend in the industry remains good.

"Cyclical fluctuations should not send the serious investor running for cover"

Southern Equity Fund was the top performer for the year, achieving an annual rate of return of 23,82%, followed by the Syfrets Growth Fund (23,18%), ABSA (20,76%) and BOE Growth Trust (20,28%)

"However, over three and five years Syfrets is the undisputed leader with rates of return of 25,34% and 21,43% respectively In the past 14 quarters Syfrets has headed the list as best annual performer four times They came second four times, third once, fourth twice and fifth three times In the same period their assets grew from R102,9m to R626,9m," Lambrechts said

Waning confidence sends granite shares into dive

BDAY 27/7/92 (232)

MATTHEW CURTIN

SHATTERED investor confidence in the JSE's granite sector in the past six months has seen shares plummet in a way usually associated with the fickle and high-risk mining exploration sector.

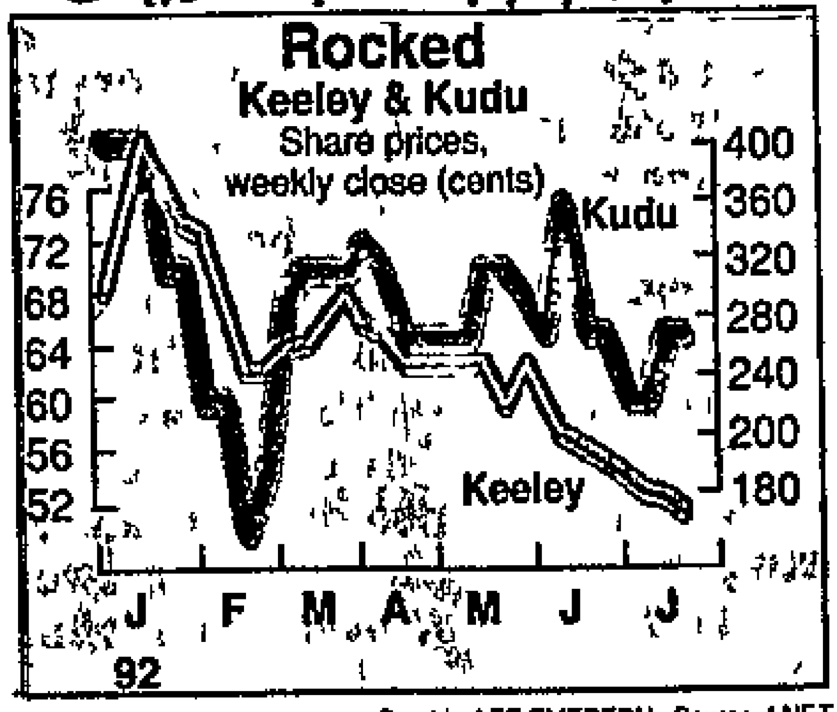
Shares in market leader Kelgran, and holding company Keeley Holdings, have sunk sharply Kelgran closed on Friday at 150c, 12% or 20c down in the past month, compared with 375c earlier this year, and highs of 620c in 1991.

However, the entire sector has suffered, with Marlin Corporation languishing at 25c a share on Friday, bid at 22c The stock reached levels of 220c last year, and 800c in 1989 Shares in Kudu Granite have fallen 8% in the past month to 75c, against 130c last year, and 480c in 1989

The lack of investor confidence in the sector comes at a time when analysts believe the industry as a whole is better placed to consolidate in spite of world recession.

Earlier this year, producers set up a marketing body, the Southern African Granite Association (Saga), while Kudu merged with unlisted producer Impala Granite

These developments left a streamlined granite sector with closer links to mining houses Genmin and Anglo American, via their interests in Keeley and Impala respectively



Graphic: LEE EMERTON Source I-NET

Anderson Wilson analyst Rene Hochreiter said the developments had not buoyed market sentiment because of the depth of the world recession and its impact on the international granite trade

Saga's influence in cutting out price battles between local producers and setting minimum prices for the low-margin high-volume trade in Rustenburg Grey stone, was beneficial in the long run But he said the dearth of demand and weak prices counteracted Saga's early efforts to promote southern African stone.

Another analyst said a question mark over the quality of management at some granite producers was also depressing market sentiment. In the past numerous small producers, like Aurora and Quagga, had come to the market but had been unable to provide top quality products.

Saga executive director Rhynie Greeff said the formation of the association was part of a long-term process to consolidate granite exports In the meantime, the faltering economic growth in the US, Europe and Japan — the major granite markets — had hit the trade badly, especially in the wake of the Gulf war and its disruption to Middle Eastern trade

Greeff said SA producers had maintained their market share of about 13% of world trade in raw granite, even though the volume of trade had fallen

As much as 85% of granite is used in the construction and related industries, where the stone has become increasingly popular as a pollution resistant and attractive material for cladding and decorating buildings Greeff and Hochreiter agreed that the scale of the worldwide slump in the construction industry had offset any competitive edge granite had over other materials.

The remaining 15% of granite production is used in the manufacture of tombstones, principally in Japan, a high-margin business with slow but steady growth

However, Greeff said there were signs that demand from Europe was picking up About 45% of SA granite is exported to Italy, the world's leading stone-cutters He said granite orders for the post-August holiday season were encouraging

COMPANIES

Syfrets Growth Fund is booming

LINDA ENSOR

CAPE TOWN — A net R72,4m flowed into the Syfrets Growth Fund in the three months to end-June — being 21% of the total cash inflow into all general equity funds during this period, Syfrets unit trusts marketing manager Kevin Hinton said yesterday BIDAY 28/7/92

The total market value of the fund at end-June was R627m

"Quite clearly, the Syfrets Growth Fund is pulling in proportionally more money than ever before Its solid performance is now paying dividends," Hinton said

Another reason for the inflow was the launch by Syfrets and UAL last November of unit trust-linked investment products

Association of Unit Trust figures for the June quarter show the Southern Equity Fund as being the best performer among the general equity trusts over a one-year term, with the Syfrets Growth Fund taking the top slot over three years and five years

General equity funds, which invest in the broad spectrum of JSE-listed shares, account for more than R10bn of the R13bn market capitalisation of all SA unit trusts, Hinton said 232

The only other general equity fund to have registered a higher inflow — the Old Mutual Investors' Fund — has a market value of R3,3bn, more than five times that of the Syfrets Growth Fund

Pulling two groups together at holding level @ McCarthy

STAR 28/7/92

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By David Canning

DURBAN — The only person who will change offices as a result of the McCarthy-Prefhold merger cemented last week will be Prefcor chairman Terry Rosenberg, who has signed a minimum five-year contract and will move into the McCarthy headquarters

This, McCarthy chairman Brian McCarthy says, emphasises that there will be no staff cuts and minimum disruption of day-to-day operations flowing from Natal's largest business merger.

The widely-differing histories and activities of the retail groups have led to surprise and some scepticism in business and professional circles about chances of a successful merger into McPref

Brian McCarthy . . . no staff cuts and minor disruption.

Mass market

Mr McCarthy says he can understand some of the doubts being voiced but the key was to understand the rationale, which was largely to pull the groups together at the holding level

For McCarthy (a mature business) — and its major shareholder Anglo American Industrial Corp (AMIC) — the merger represents attractive access to mass markets for the first time

For Prefhold, a major advantage is injection of the stronger McCarthy balance sheet which will help it to expand more effectively

Mr McCarthy says putting together the groups, with total sales of R4,5 billion a year, is the biggest deal he has ever been involved in Yet he has found the negotiating process stimulating rather than draining.

"I was not thinking of a merger when I invited Terry to join our board as a non-executive director

"Although I did suggest to him that maybe as a result of him joining our board our companies may get closer together in the future, the idea of the merger came from him."

Mr McCarthy concedes the proposal initially elicited a lukewarm reaction from his directors

However, Amic chairman, Leslie Boyd, who recently joined the McCarthy board, earlier saw the merits of a link into the markets in which Prefhold operates

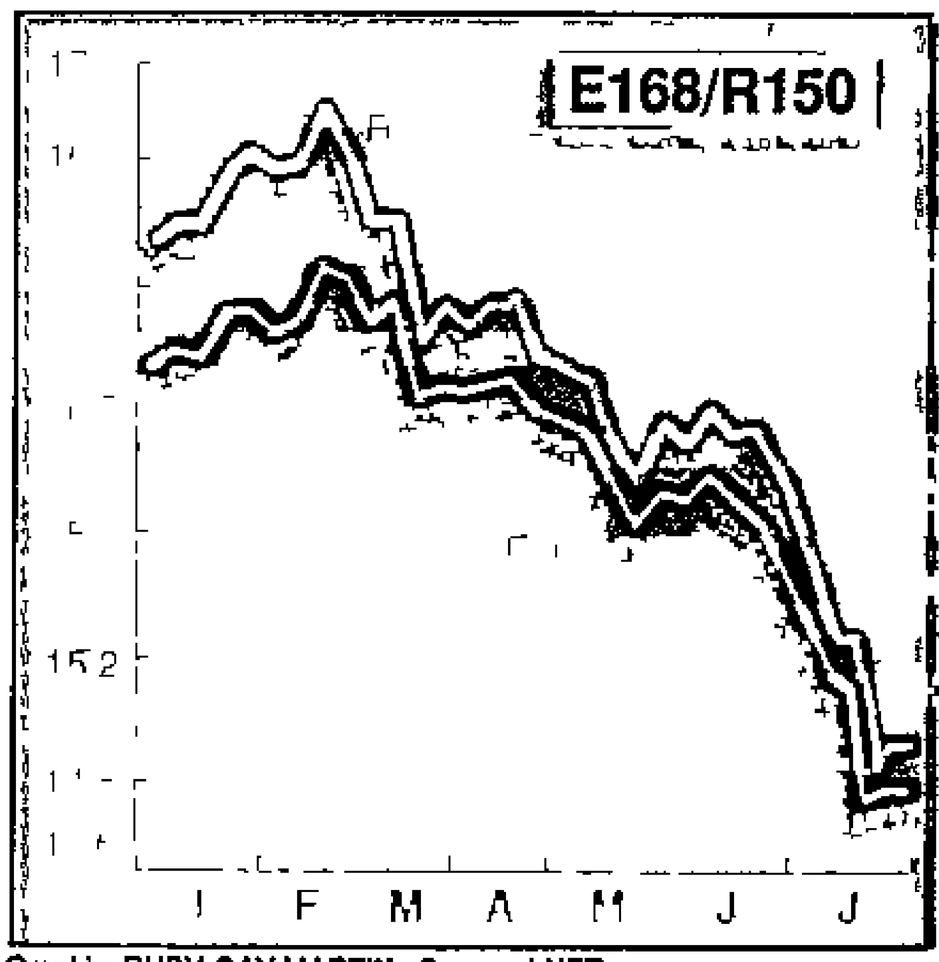
Mr McCarthy says the plan now has the support of the major shareholders on both sides, although a small minority — one or two in each group — have some reservations

Both companies have to call shareholders' meetings to approve the merger (probably in September) and the deal is subject to "due diligence" audits on both sides — but he thinks the requisite majorities will be received

The most difficult part of the procedure was putting a price on the deal — eventually settled at four McCarthy shares for five Prefhold ordinaries

Prefhold's senior and junior convertible debentures will be taken in on the same terms and conditions. This means they can be converted, in the normal way, between 1993 and 2003, but into McCarthy instead of Prefhold, ordinary shares on the same four-for-five basis

Capital market rates dip is a puzzler



Graphic: RUBY GAY MARTIN Source I NET

BDay 28/7/92

HILARY GUSH

CAPITAL market rates continued their decline yesterday after reaching five-year lows last week, leaving dealers puzzled.

The yield on the bellwether Eskom 168 fell to an intra-day low of 14,51% in morning trade, while the yield on the government R150 stock troughed at 14,6%.

Rates on both long-dated bonds recovered in the session to close at 14,79% and 14,91% respectively

Dealers attributed the decline in yields to bullish sentiment, large institutional buying and a further move out of equities and into gilts. (232)

"Facing the recent slide in equities and

☐ To Page 2

Capital market

BDay 28/7/92 (232)

☐ From Page 1

increased liquidity in the money market, the capital market is the last outlet for investors who require a fixed return on their investment"

One dealer put it succinctly "Gilts are the only game in town — where else can you get a return of 14,5%?"

Traders claimed that political developments had a quicker, more marked effect on equities, while gilts reacted more slowly to mounting uncertainty An investment in the capital market thus offered a better, less risky return, they said

One dealer attributed lower rates to limited institutional selling, as opposed to rising demand

Some believed trading was fuelled by option writers who bought stock to hedge their positions after critical strike levels had been reached

Bulls push UAL Gilt to top of log

BDAY 28/7/92

(232)

ANDREW KRUMM

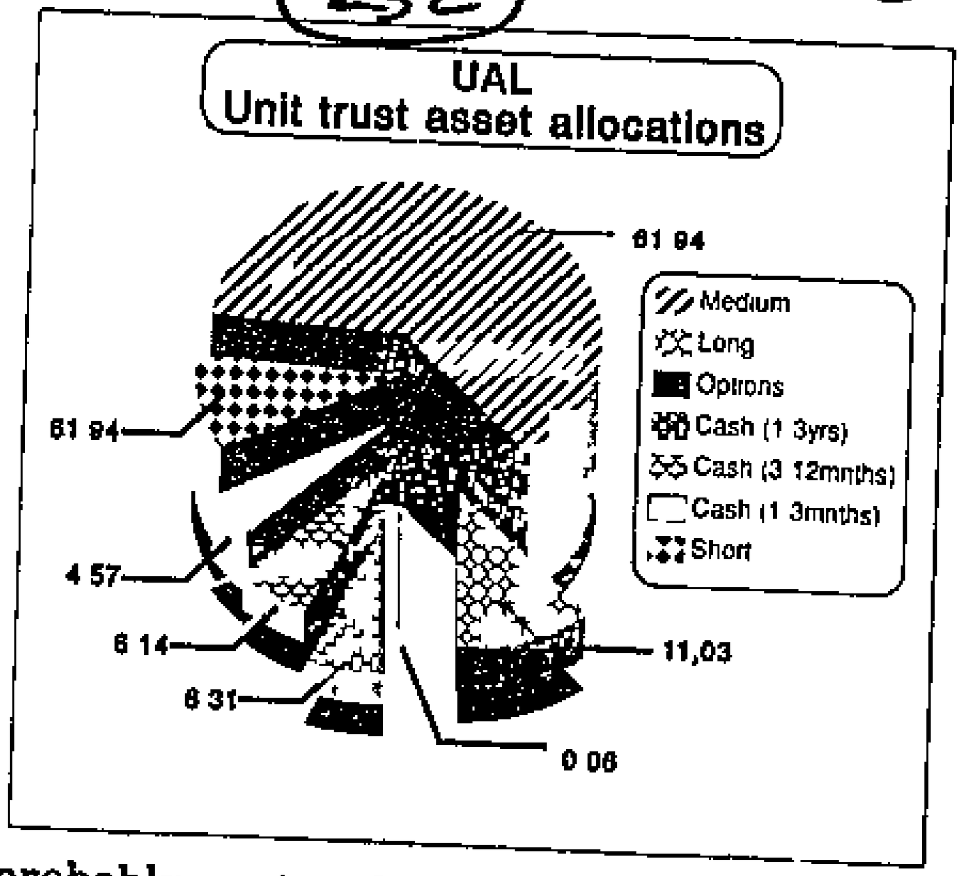
A SECOND quarter bull market in gilts boosted the UAL Gilt unit trust to the top of the performer's log — on a selling to repurchase basis — for the year ended June 1992, says UAL investment chief Alister Calquhoun

In an interview yesterday, Calquhoun said UAL Gilt — which gave investors a 20,19% return — was recently ranked as the top performer for the year (on a selling to repurchase basis) by Pretoria University's June unit trust survey However, the survey ranked UAL Gilt seventh on a repurchase to repurchase basis over the same period, with top performer Senbank Industrial Trust giving investors a return of 24,53%

Calquhoun attributed UAL Gilt's performance to anticipating the bull market which was prompted by market forces which caused medium and long term interest rates to fall This put upward pressure on gilts prices

"Based on expectations of an interest rate drop, we increased our exposure to bonds from 67,17% in January to 82,92% in June This placed the fund in a strategic position, allowing UAL to take advantage of falling interest rates

"In about April other market players began moving into fixed interest investments with the perception that gilts would



probably outperform equities over the next twelve months When the major banking institutions dropped housing bond rates — a pretty sure sign that bank rate would follow — institutional investors ploughed money into long and medium dated gilts to take advantage of the expected drop in interest rates

"With the demand for gilts growing on the back of a perceived under-performance by equities — as well as an expected decline in inflation — interest rates fell, resulting in an equivalent rise in gilt prices"

UAL investment planning services MD Peter Anschutz said the Gilt fund had the highest net sales of any unit trust, equity or fixed interest over the year

Lenvest listing

(481) SHARON WOOD (232)

LENCO Investment Holdings (Lenvest), the pyramid holding company of Lenco Holdings (Lenco), issued its prelisting statement yesterday BDAY 29/7/92

The conglomerate has interests in the shoe, packaging and clothing sectors and became a public company on May 27. Lenvest has a 51,23% shareholding in Lenco.

Lenco shares may be exchanged for Lenvest shares in the ratio of 150 Lenvest shares for every 100 Lenco shares

Millions feared lost in burglary at JSE

STEPHANE BOTHMA

BURGLARS drilled open eight private safety deposit boxes at the JSE and made off with what sources believe could be several million rands in cash, as well as gold coins and documents

JSE executive president Roy Andersen confirmed the burglary, but said yesterday reports of large amounts of cash and securities being stolen were unfounded

"The items stolen were brokers' personal possessions and not securities or assets belonging to investors," Andersen said

The theft occurred over the weekend and was discovered on Monday morning when security guards found the main safe door — only accessible from the trading floor — open and eight private safety deposit boxes empty, police said yesterday

The amount of money involved had not yet been established, but police could not deny claims that it ran into millions

Police said they had not received a full list of the emptied boxes' contents and could not force owners to disclose items

Although eight boxes were forced open, two were empty at the time The burglars forced open the safe door and drilled open the safety deposit boxes. Several fingerprints were left

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Police are investigating the possibility that people working at the JSE may be responsible for the theft.

Syfrets fund leads field with R72-m inflow

232

STAR 29/7/92

By Stephen Cranston

The Syfrets Growth Fund registered a net inflow of R72,4 million for the quarter ended June 1992, representing 21 percent of the total inflow into general equity funds.

During the quarter the Syfrets Growth Fund was ahead of 21 other general equity funds.

Syfrets unit trusts marketing manager Kevin Hinton says the inflows are remarkable given the R627 million market value of the Syfrets Growth Fund.

The only other general equity fund to have registered a higher inflow — the Old Mutual Investors Fund — has a market value of R3,3 billion, more than five times that of the Syfrets Growth Fund.

"The Syfrets Growth Fund is pulling in proportionately more money than ever before," says Mr Hinton. "Its solid performance record is now paying dividends."

Mr Hinton also attributes the record inflows into the fund to the success of a range of unit trust-linked investment products launched in conjunction with UAL in November 1991

The Growth Fund and/or a spread of UAL unit trusts represent, in part, the underlying assets of these products.

Shares surge in late flurry

MERVYN HARRIS (232)

SHARE prices surged in a late burst of activity on Diagonal Street yesterday, to sweep all major JSE indices to a firmer close

BDAY 29/7/92

The rise came on the back of two-pronged buying cash flowing back into the market from profit-taking in gilts after the strong runup over the past few days, and short covering in futures which brought renewed activity to the share market

Dealers said the uptick correlated with the upward movement in bond rates and jolted the market out of the doldrums after a slow, lethargic morning session.

A slight rebound in Tokyo stocks and a rally in London helped the JSE edge higher in hesitant morning trade, prompting short covering in futures where the September all share and industrial contracts were trading at a large discount to spot

Finansbank futures trader Colin Greff said "While the short covering brought renewed confidence into the market, the recovery was only tentative as players await the outcome of the general strike"

The JSE overall index closed 20 points up at 3 366 as the industrial index gained 26 points to 4 129 and a steady gold price at just under $359 lifted the all gold index 11 points to 1 110 despite a firmer finrand keeping a check on share prices

In New York gold rose $1,15 to close at $359,15 after earlier it piercing the $360,00 level In London gold closed 70c higher at $358,60 The rise came on the back of a plunging dollar following a sharp fall in US consumer confidence in July But the dollar rallied after holding key support at DM1,4700 and gold fell back.

The metal's failure to breach $360 and a steady commercial rand at R2,7558 to the dollar left the rand gold price marginally firmer at R989,72

Could relief

■ GOING BUST The South African economy is in crisis; **Penelope Morgan** of *Finance Week* talks over the issues of personal insolvency:

Sowetan 30/7/92

CAN IT BECOME AN honourable way for someone who can no longer pay his debts?

For those who aren't too squeamish about the stigma attached to personal insolvency, technically known as sequestration, it can provide a welcome relief to the burden of debt

At best, the process and consequences are inconvenient and uncomfortable. Trustees report that, once the sequestration process is underway, most individuals feel relief rather than despair

As long as there have been no criminal offences involved, the process is bearable The payoff is that the insolvent's financial liabilities are wiped out

Like corporate liquidations, there certainly has been an increase over the past few months in the number of personal sequestrations The worst is probably still to come, and an avalanche of liquidations can be expected in the new year The level of interest rates, particularly the mortgage rate, is given by trustees as a major factor in pushing an individual into insolvency

Another reason currently prevalent is where a businessman has signed surety for a loan to his company When the company folds, the businessman's personal assets are then attached by creditors

INSOLVENCY

232

Insolvency can be either voluntary or forced by creditors But there must be at least R4 000 worth of assets in the estate before the Master of the Supreme Court will allow a sequestration

Crucial questions facing a would-be insolvent are whether it is possible to hide assets from creditors before sequestration and how soon after the event can the insolvent start establishing another estate

The insolvent is automatically allowed to retain all assets held in a pension fund as well as up to R10 000 worth of life assurance policies But on the matter of hiding assets, trustees are unanimous it is easy to do, jewellery and Bop bonds being favourites, but it is illegal

At present the penalty for hiding assets from a trustee is a maximum R1 000 fine or one year in prison, and of course a criminal record

An irritated attorney complains the level of the fine hasn't kept pace with inflation, but he warns that the insolvency legislation is currently under review Penalties might soon be higher

PROTECTING ASSETS

Putting assets into the potential insolvent's spouse's name is not a sure-fire method of protecting those assets from creditors

It is a matter of timing Robert Walters, MD of The Board of Executors trust arm, explains "It's a question of onus If goods were in the wife's name for two years or longer before the sequestration, the onus is on the trustee to prove they were transferred to her for the purpose of avoiding attachment.

"If the assets went to her less than two years before the sequestration, the onus shifts and the insolvent must prove the goods were not transferred to her to avoid creditors "

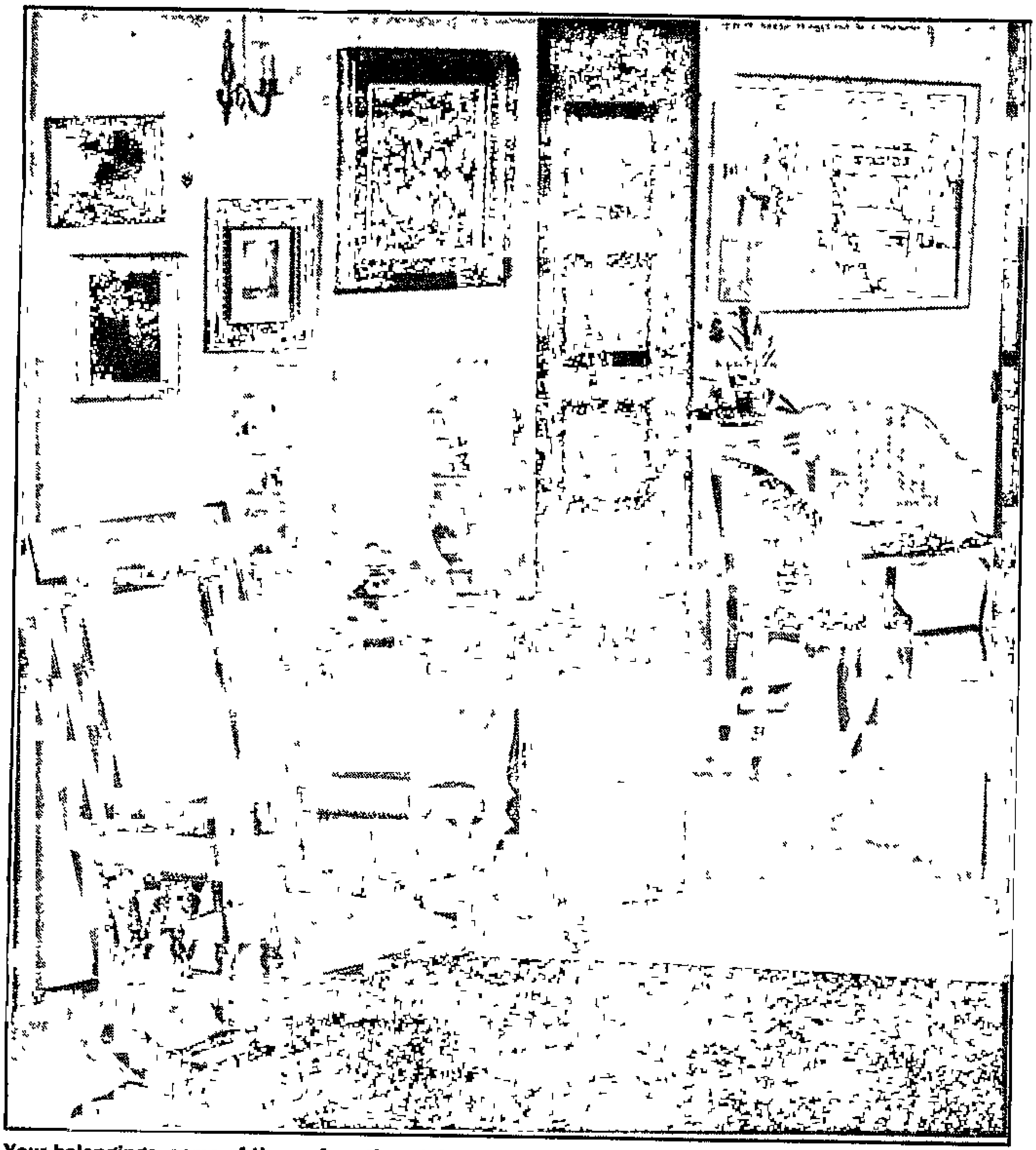
Metrust director Garth Foot points out it is much easier to prove assets belong to the wife in her own right if her earnings constitute a reasonable proportion of the household's finances Even so, most trustees will accept her sworn statement to the effect that the assets belong to her

In theory the liquidators are required to leave only a cupboard, bed and clothing for the insolvent, in fact, on insolvency the household furnishings are valued and the insolvent is given the option to buy back the assets In most cases this happens

Trustees point out there is plenty of scope for fiddling against credit card fraud • In the longer term unit trusts are a great investment

sequestration be a for the debtors?

Sowetan 30/7/92 232



Your belongings, some of them of sentimental value, could be up for grabs if you go insolvent.

"The worst is probably still to come, and an avalanche of liquidations can be expected. The level of interest rates, particularly the mortgage rate, is given as a major factor in pushing an individual into insolvency"

The red tape

INSOLVENCY
Insolvency (unable to pay one's debts) can be either voluntary or forced by creditors.

PROTECTING ASSETS
Putting assets into the potential insolvent's spouse's name is not a sure-fire method of protecting those assets from creditors.

CREDIT
It is possible for the insolvent to get credit by, for example, not divulging his insolvent status to the credit institution.

with the insolvent's household effects where for the purposes of the valuation junk furniture is substituted for quality items

During the sequestration process, which normally lasts 18 months or so, the insolvent must provide the trustee with details of monthly income and expenditure

If his income is significantly in excess of expenditure, he is required to contribute to the insolvent estate At this stage he may start accumulating a new estate but it would be at a low level because the Master may still require a contribution to the estate Foot notes that it usually goes better for an insolvent when he applies for rehabilitation if he has contributed to the insolvent estate during this period

Also, during the winding down of the estate and until rehabilitation, the insolvent may not be a director of a company or obtain credit Again, there are ways around these restrictions but there are penalties for doing so

It is possible for the insolvent to get credit by, for example not divulging his insolvent status to the credit institution Wesbank GM Robin Shales says that although the bank does not ask specifically whether the applicant is an insolvent, the fact he is will be picked up by the bank's routine computer credit check

The directorship restriction is often circumvented by an insolvent operating through a front, for example by the insolvent husband working through the name of his wife

Automatic rehabilitation comes five years after sequestration, ie at the confirmation of the first accounts at the end of the 18-month period But for a first-time insolvent where no criminal involvement has been found, rehabilitation may be granted on application only six months after the first accounts are confirmed

Even if criminal acts were detected the insolvent may apply for rehabilitation after two years

So you reckon that it might pay to go insolvent? Just remember that, whatever the legal technicalities, the stigma is not easily overcome

Saving for a better future

Sowetan 30/7/92

AN investment which has received a lot of attention over the past few years is the unit trust.

Over a million people invest in unit trusts and are enjoying high returns.

A unit trust puts together the money of many investors which is then used to buy shares in South Africa's top companies. The better the companies are managed and the more profits they make the higher the prices of the unit trust.

The profits of the companies are passed on the shares in the portfolio (in the form of dividends) and on cash held (interest). This is passed through to investors half-yearly and may be reinvested in the unit trust to help your savings grow even faster.

The second way profits are passed on is in the increase in the capital value of the units, the increase in the price ... sell your units at a price higher than that at which you bought them giving you a profit on your investment.

It is important to remember that in the same way ... prices move up, so they can and do, move down from time to time.

Ms Sherryl Oosthuizen, senior manager of Fedgro Unit Trust, says: "This is typical of the movement of shares and the stock exchange and is not necessarily a bad thing. Historically after prices have moved down, they have gone on to reach highs above those in the past.

"The longer term trend has thus been up. As long as you take a longer term view (we recommend five years as a minimum) the risk of losing money is minimised. Downward movements also present a buying opportunity as you can accumulate more units while prices are low and really score when they move up again," Oosthuizen said.

Unit trusts are suitable if you are saving for:

- A child's education
- A secure retirement and
- Your own home.

If you need more information on unit trusts you can write to Fedgrowth Management Company Limited, Client Services, PO Box 10143, Johannesburg, 2000, or phone on their toll free line 0800 111 114.

Downward spiral of coal stock gains pace

B/DAY 30/7/92 (232)

MATTHEW CURTIN

THE downward spiral of stock on the JSE's coal board gathered pace yesterday, with market leader Amcoal losing 300c to close at R93 Amcoal shares fell nearly 20% in the past month, losing R20 as bearish sentiment on export opportunities for SA producers gripped the market.

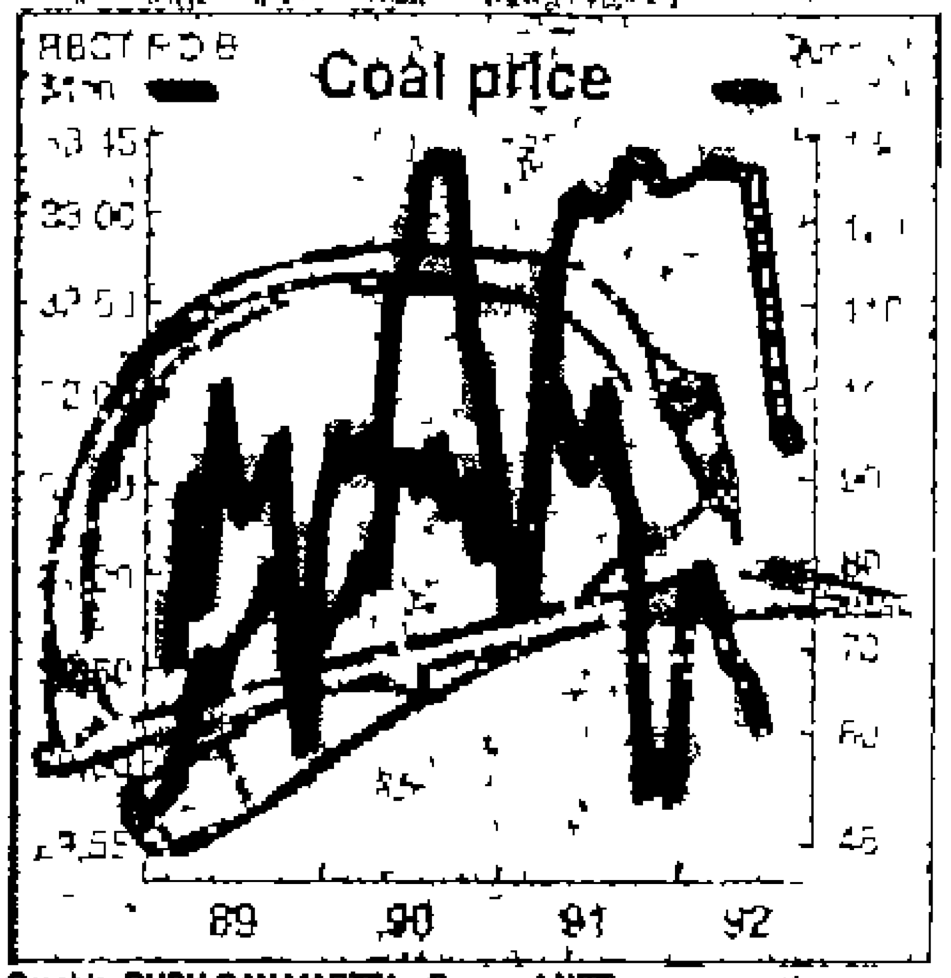
A leading analyst said yesterday it was important to note that the sector was thinly traded and often suffered from a lack of liquidity. Shares had overreacted to good news — such as the promise of an end to sanctions from early 1990 to late last year — and the current gloom. The JSE coal index fell nearly 5% or 144 points yesterday, closing at 2 875, its lowest level since March last year.

The analyst said one or two institutions had offloaded much of their holding in coal shares. Bearish sentiment was fuelled by a number of factors. An important concern was that European utilities were cutting back for fear of carbon taxes in favour of cleaner gas fuelled power stations.

At the same time, the prospect that SA exporters would win a much larger share of the international steam coal market with the lifting of trade embargoes was now fading as competition from low-cost, good-quality Indonesian and Latin American products increased. SA companies were also hit by static rand coal prices, as dollar prices weakened and the SA currency remained relatively strong.

He said producers most likely to weather poor conditions were those with low-cost Eskom contracts, such as Randcoal.

Smaller exporters, such as Kangra Coal, Duiker Exploration and Gold Fields coal, would depend on consolidating their hold on niche markets for high-quality low-ash (environmentally friendly) export coal.



Graphic: RUBY-GAY MARTIN Source I-NET

The weak export market could temper plans by some coal companies to build a second coal terminal capable of handling 10-million tons a year at Richards Bay. Portnet had commissioned a feasibility study for the project, and it was understood that Sasol was a key backer.

Portnet officials were not available for comment yesterday on the progress of plans for the "Red Terminal", but a Sasol spokesman said the state of the export market was not a matter for concern for the group at this stage.

He said that the new Syferfontein colliery, set up to supply Sasol 2 and Sasol 3, would have extra capacity at full production which could be exported. The mine was near full capacity, but the small amount of export quality coal already available was being fed to the petrochemical plants.

Retail share prices bear brunt of JSE meltdown

BIDAM 30/7/92 (232)

DUMA GQUBULE

RETAIL share prices have borne the full brunt of the recent meltdown on the JSE, with many registering declines double the average 10% fall in industrial share prices over the past two months.

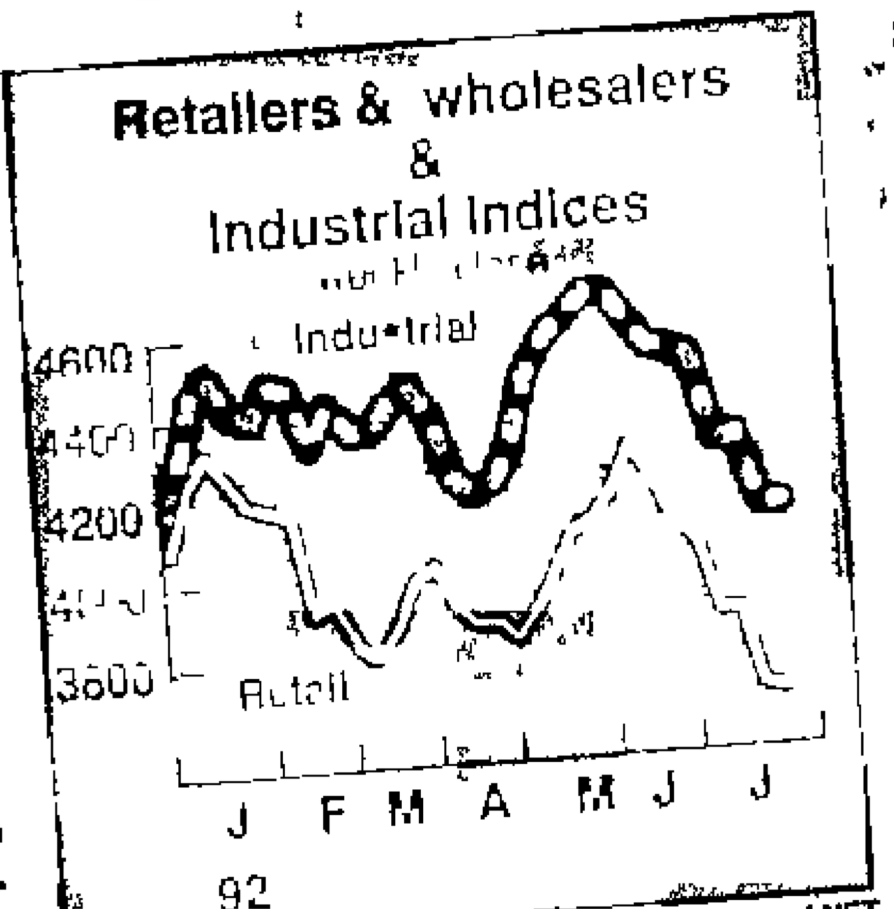
Erstwhile institutional favourite Wooltru, once regarded as the "bluest of blue chips", has plunged 27% to a new low of R53,50 from its 1992 high.

CNA Gallo has shed 30% to a new low of R21,25, Pepkor 20% to R11,25 and Pick 'n Pay 18% to R20,50. Showing relative strength are Edgars and Foschini, which have shown declines of 9% and 12% respectively.

Analysts said a reason for the sharp falls was that some retail shares had been on premium ratings to the rest of the market — trading at prices of around 20 times earnings — which made them more vulnerable.

George Huysamer analyst Helen van den Berg said the sector also had a tendency to outperform the industrial sector from mid-upswing to mid-downswing.

This cyclical trend explained why



Graphic: LEE EMERTON Source I-NET

the retail sector showed relative strength until the middle of last year. Now that the recession had deepened and economic recovery was delayed, the retail sector would take even longer to recover. The sector was unlikely to show any signs of recovery before the second quarter of 1993.

Other analysts agreed that the short term outlook for the sector was not good. Sanlam's Dries du Toit said "the bad news is not yet over".

Wooltru's problem, Van den Berg said, was the company's decision to go upmarket when trading conditions were deteriorating, and failing to take its market along. It also strained cash resources by pursuing an aggressive store expansion programme.

While targeting higher income groups had not been successful for Wooltru, groups at the lower end of the market were also feeling the pinch. There has probably been more people falling off the bottom end of the market — due to rising unemployment, which had stretched informal social security networks — than downtrading by consumers, she said.

Van den Berg said the retail companies that would do well were those, such as Pick 'n Pay and Clicks, which had strong balance sheets.

Another analyst said companies to look for were those which would go through 1992 without showing a significant decline in earnings.

These companies would benefit from a more favourable medium term outlook. Institutions were likely to increase their exposure to the sector again in the next six to 12 months.

from a reduction in the number of large building contracts since the middle of 1991.

Keeley said granite production last year had outstripped demand.

As a result, the group had increased its stockholding by 58% which, Keeley said, would place the company in a favourable costing position regarding future supply.

Rallies on world markets boost JSE

BIDAY 30/7/92. (232)

MERVYN HARRIS
and HILARY GUSH

BUOYED by strong rallies on Wall Street and in London, leading shares galloped ahead on Diagonal Street yesterday to lift the market out of its losing streak of the past month

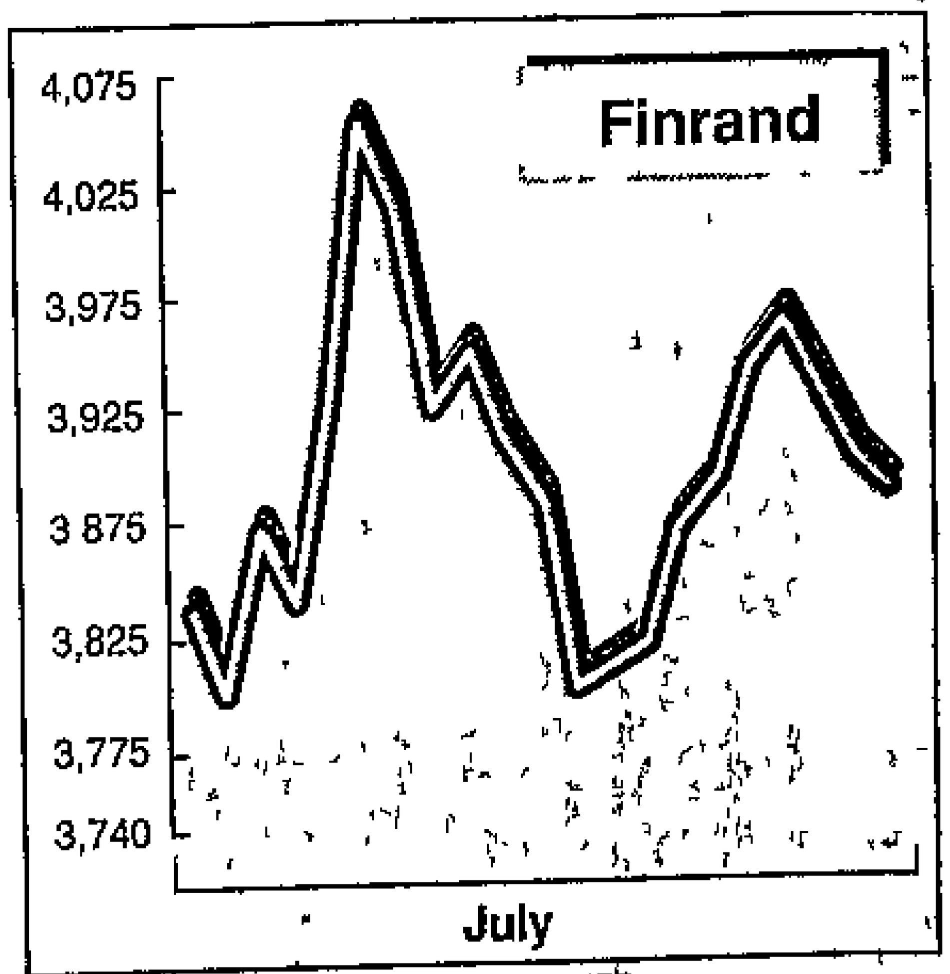
Equities shrugged off a continued recovery in the financial rand, which closed firmer for the third successive day at R3,88 against the dollar yesterday on brightening perceptions of the short-term political outlook

The share price uptrend came on follow-through buying from Tuesday's late rally, and swept the JSE overall index up 1,5% to 3 417, only its sixth rise in the 21 trading days so far this month

Dealers said the market was due for a correction after the sharp downturn, and prices could continue to firm in the short term But the recovery looked vulnerable as the market was plagued by uncertainty on the political and economic fronts

The industrial index surged 1,6% to 4 199 as participants ignored a fall in Tokyo stocks to their lowest level this year and took their cue from the rebound on Wall Street and London on the back of better-than-expected corporate earnings

Institutional buying was reported to be



Graphic RUBY-GAY MARTIN Source I-NET

selective and confined to blue chips across most sectors, with precious metal shares the laggards as the gold and platinum markets continued to cool off

Gold came under pressure during a volatile and extended London afternoon fixing session where it was set at a 12-day low of $356,20. Reuter reported speculation of big Middle East buying and selling orders as well as moves by US funds to extract themselves from an overheated market

☐ To Page 2

JSE

BIDAY 30/7/92. (232)

☐ From Page 1

Gold eased nearly $2 to a London close of $356,85 while platinum slipped $2,50 to a London afternoon setting of $372,50 as worries resurfaced that the tumbling Japanese stock market would sharply curtail demand by the world's biggest platinum importer

The financial rand's extended recovery was attributed to word from ANC president Nelson Mandela that next week's planned general strike would be peaceful

The foreign investment unit — an indicator of investor confidence — strengthened to finish at R3,88 yesterday after closing at R3,93 on Monday and R3,90 on Tuesday

Large foreign selling orders associated with profit-taking in the capital market last week had driven the finrand up to reach R3,96 by Friday's close

Dealers said yesterday there was bullish sentiment after Mandela's statement that the ANC was keen to resume negotiations when the government met its demands, but the market remained nervous ahead of the scheduled general strike

A last-ditch attempt by church leaders to realise a settlement had also boosted sentiment, they said

As trading volumes had been thin, every order had a marked impact on the unit's price Buying out of London had been keen at the R3,87 level, although there was very little demand out of continental Europe

Dealers said a lull in trade, as was seen yesterday, was common before a take-off in foreign exchange market activity There was, however, more downside than upside potential on the unit

Investors were sitting on the sidelines as they waited for direction on the planned strike early next week

Dealers expected the finrand to trade in a wide band of R3,82-R3,92 until the end of the week

Banking shares set to outperform industrials

SHARON WOOD (232)

BANKING sector shares will probably outperform industrial sector shares during the next few months, banking analysts say. BIDAY 31/7/92.

This may happen despite an 11,7% fall in the banking index since the beginning of July, in sympathy with the overall index's 7,8% slide during the same period.

Banking analysts expect poor June year-end results from industrial companies

Ed Hern Rudolph analyst Alan McConnachie says banking sector earnings will significantly outperform industrials But banking shares will still fall if industrial company shares drop.

The relative value of banking sector shares is good but investors should be selective, another analyst says.

Absa shares have taken a hammering recently, falling more sharply than the other major banks during the last month, down 16% to R8,15.

The analyst attributes this to expectations that earnings will underperform compared to the rest of the sector during the next few years because of the rationalisation process.

Analysts differ on when they expect SA's biggest bank to settle down to routine business, giving earnings one to three years to match the sector.

Absa offers fundamental value, while FNB offers very good value. Standard Bank remains overpriced despite a R5,50 drop to R62 during the past month.

Nedcor Bank, through the Perm, has interest margin problems as a result of the two drops in the prime overdraft rate recently and its large exposure to the mortgage market, he says.

The group has been caught in the crossfire between Absa and the other two major banks, he says.

He says the group's fundamentals offer value but its short-term earnings will probably underperform.

Martin & Co analyst Richard Jesse says the traditional building societies will do worse than the traditional banks because of the nature of their deposit books and the downtrend in interest rates.

This is already reflected in Nedbank's and Absa's lower price to earnings ratios of about eight, compared to Standard Bank's price to earnings ratio of 12,23 and FNB's of 9,95.

Trebled tax bill, higher interest costs hit Stocks

BDAY 31/7/92 (232)

PETER GALLI

A TREBLED tax bill and higher interest charges saw construction company Stocks & Stocks post a 22% drop in attributable profit to R18,085m in the year to end-April from R23,168m previously.

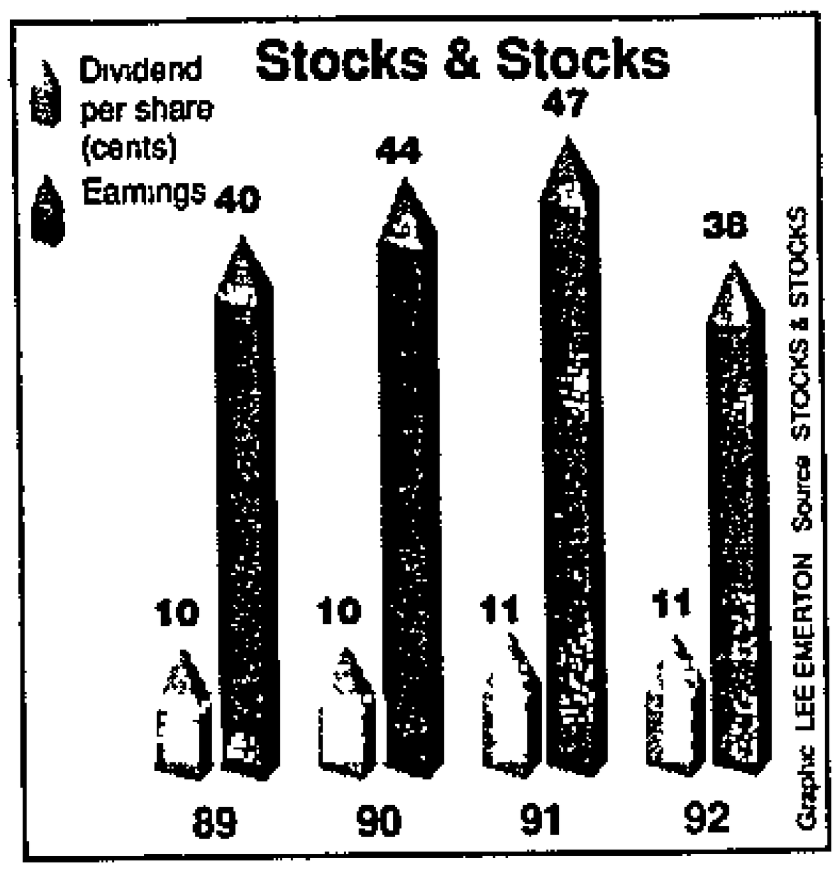
The tax bill more than trebled to R10,59m from R3,26m, as a result of the increased tax rate of 32% from 12% previously, and phasing in of new legislation on stock in trade and the reversal of timing differences at the year-end

Chairman Reg Edwards said in an interview yesterday the 7% rise in turnover to R1,44bn was "quite admirable", given present market conditions, particularly as this translated into a 19% improvement in operating income to R53,11m and a 20% rise in pre-tax profit to R33,12m — benefits of which were offset by the tax bill.

"Given inflation, our order book has shrunk by 8% to R1,1bn for the next year and will continue to do so until the economy is sorted out, but we are confident our results for the next six months will remain around these levels," he said

The company was quite "cash flush", having net cash of R97m at the year-end

This, with a dividend cover of 3,5, allowed the dividend to be maintained at 11c a share in spite of a 19% drop in earnings to 38c a share (47c a share), he said



However, the conversion of 3,5-million convertible notes last year diluted earnings a share for the year under review.

The company still had land holdings in township areas, but housing and township sales and development in these areas had virtually ceased and was "a negligable loss factor" in the results.

On the house construction side, Stocks Housing continued to perform well, contributing between 15% and 20% to total operating income. This division still built about 6 000 homes a year as a contractor for mining houses and the House of Delegates among others

"We are also doing a fair amount of work in Botswana in this regard, but are not involved in a land-holding situation We are continuing to follow our policy of reduced dependence on building construction and are looking at the opportunities offered in southern Africa," Edwards said

The roads construction division also continued "to perform soundly" and was still involved with the rehabilitation of the main Natal motorway and a portion of the Trans-Kalahari in Caprivi, amounting to about R100m together, he said

It had also won a R30m contract in Botswana, while a few others were in the pipeline awaiting tender acceptance.

The information technology division, Stocks Systems Technology, had reversed its previous loss-making position to break even and was expected to move into the black in the present year as it gained market share, Edwards said

"We are looking for new opportunities, particularly as some of our Sun International contracts wind down We believe that real future needs lie in the housing, education and medical fields as well as in the leisure arena," he said

The group had recently bought the Kruger Lodge, near the Kruger Park, and was also looking at two leisure developments in the Cape area for which it already held the land, but the actual development of these would depend on market demand

SHARE PRICES (232)

Taking a plunge

FM 3/7/92

The JSE's bellwether index — the Financial and Industrial index — continues to fall It has lost 12,6% since its high on June 4 And the All Gold index, which surged with the improvement in the dollar gold price, is being viewed with understandable scepticism Volumes traded on the market, minor flurries aside, reflect the same disinterest

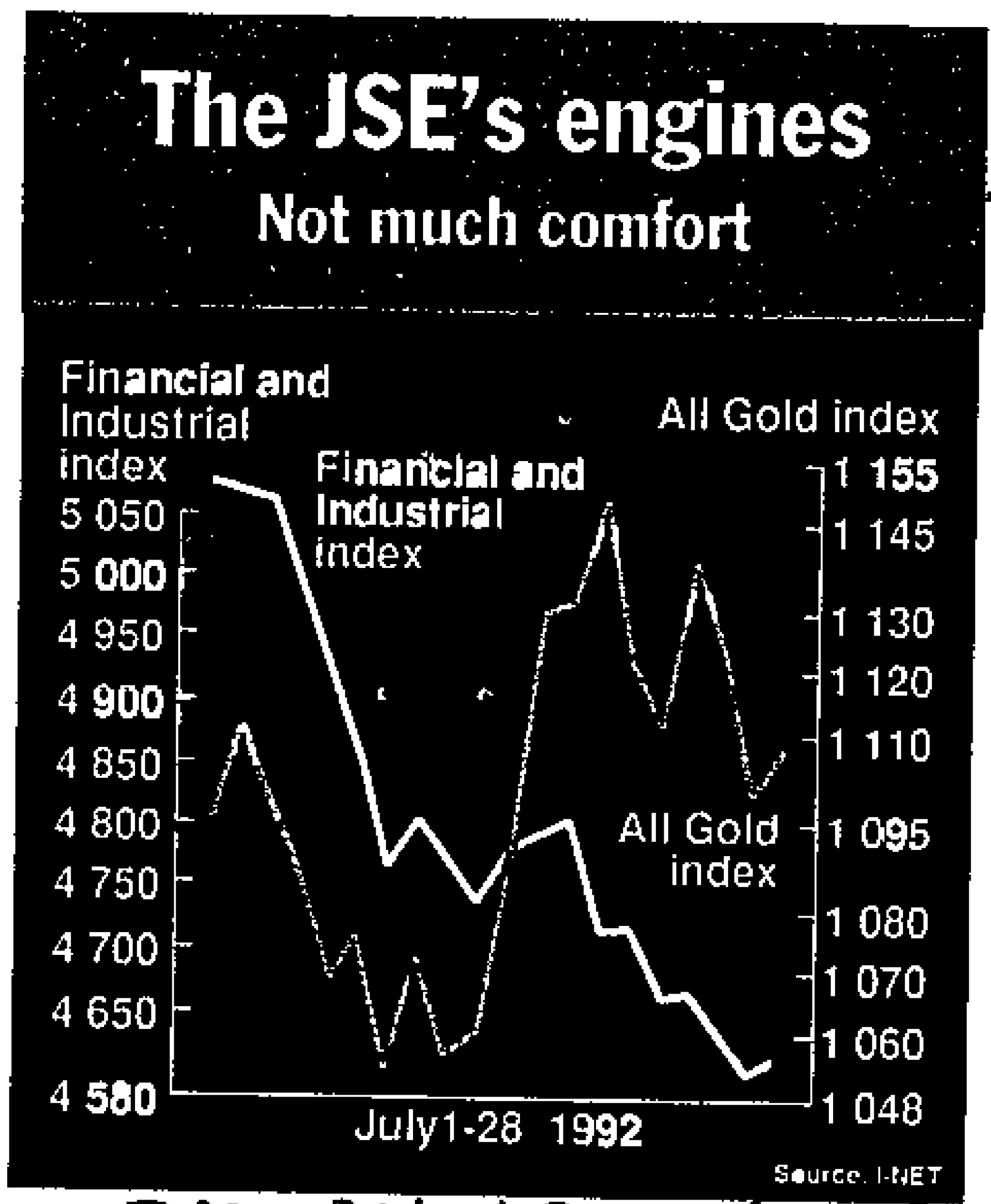
Analysts attribute the fall over the past month to the failure to resolve the political impasse The breakdown of Codesa, they say, means postponing the economic recov-

FM 3/7/92 (232)

ery until next year or perhaps even to 1994 Stockbroker Martin and Co's Richard Stuart says the endless sparring between political parties will result in a deepening of the recession and a consequence will be JSE-listed companies reporting financial figures worse than those expected previously That must affect the shares

"The economy is being turned into a ghost of its former self," says Stuart The easy part of the cost-cutting exercises has already been completed The new problem is that, as the recession lengthens, companies will be faced with the possibility that cutting off limbs will be the only way to maintain acceptable profitability

This coincides with severe international economic conditions Stuart notes that the German Bundesbank is determined to hold inflation down by restraining interest rates



FM 3/7/92 (232)

and these affect all members of the EC The US has lowered interest rates to the lowest possible levels without achieving a concomitant resurgence in the economy Japan continues to struggle since its long-lived economic bubble burst "We can't expect any succour from international sources," says Stuart.

In these circumstances, the market had to retreat Stuart emphasises, however, his view that the market will not fall much further "There is limited downside," he says

Technical analysis supports this view "The market is not responding to short-term oversold positions," says Frankel Max Pollak chartist Dee Campouroglou "The historical return, dividends excluded, for an investor who bought a representative sample of the Financial and Industrial index a year ago, would be an appreciation today of 1%" Campouroglou says the Industrial index, now at 4 100, could fall to 3 800, a total decline of about 20% But there is a roaring bull market in gilts

Though the outlook now is gloomy, Campouroglou says some indices show promise on a 12-month view Among these are mining financials which, she believes, will become the next engine of the exchange, property, property trusts, and investment trusts These are all approaching the end of a long bear market

David Gleason

BOND MARKET FM 31/7/92

Locking in

232

Funds with no place else to go continue to pour into gilts Since the breakdown of political negotiations in SA at the end of June and the uncertainty on world equity markets, the local bond market has been experiencing a bull run

Thursday saw a flurry of trading with 3 260 transactions, on the JSE, totalling R6,8bn This surpassed the previous record of R6,1bn on June 25, says JSE president Roy Andersen The rate on the benchmark Eskom 11% fell to 14,765% — the lowest level in five years

Volumes traded subsided to R2,4bn on Friday and R3,6bn on Monday And rates corrected marginally with the Eskom 11% trading at 14,7% late on Tuesday However sentiment remained bullish despite publication of inflation figures for June, a little higher than those for May (see P31)

FM 31/7/92 232

A gilts analyst says there are expectations that inflation is going to fall to 12% by year-end And institutions are, therefore, locking themselves into longer-term investments before rates fall further

A note of caution was struck by the bears, who pointed out that pressure may come from additional government borrowing With revenue way below target and expenditure running ahead of the pro rata budget for the year, the deficit will be well above the original estimate Another hazard is political developments in the weeks ahead Don't be surprised, said an analyst, to see the bull-run followed by a pull-back in a week or two ■

DANIA CORPORATION

FM 31/7/92.

Answers wanted

232

The provisional liquidation of a marketing and export coal company in the Pretoria Supreme Court could lead to a run on companies within the holding group, Dania Corporation Creditors stand to lose up to R200m, the *FM* understands.

This was the outcome of an urgent application on Tuesday by Transnet for the liquidation of Minesa Energy — a subsidiary of Dania — after its Spoornet division had allowed Minesa's R2m credit line to stretch to a massive R56m debt

At least two banks and two overseas companies are involved in financial disputes with either Dania (headed by Spanish businessman Jose Holgado) or one of its subsidiaries, of which there are about 16

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- Allied Bank — which is owed approximately R3m — last week obtained judgment against Dania Corporation,
- After Minesa Energy's provisional liquidation a Belgian company, Jackson Shipping & Coal, became one of its main creditors, and
- A R22m dispute between Boland Bank and another subsidiary, Dania Mining, is presently in arbitration

Two other subsidiaries, Bordex and Minesa Mining, are already in liquidation

Transnet MD Anton Moolman instructed an outside accountant, Steve Ochse, to investigate how Minesa Energy was allowed to exceed its credit

The disappearance of coal stockpiles pledged to Spoornet from the Lenjane rail siding in Natal is also under investigation The *FM* discovered that it is possible that the stockpiles were moved after the account number of another company dealing with Spoornet had been used to obtain the necessary authorisation The coal — mined at the Rustplaas and Buffalo Valley mines — disappeared two days after trucks loaded for Minesa Energy were stopped

Police are investigating a theft charge relating to the removal of 4 000 t coal from the Rustplaas mine itself The charge was laid at the Vryheid police station by a representative of a German company, Thyssen Carbometal Thyssen reportedly invested millions of dollars in Holgado's companies to secure mineral rights at Rustplaas

An initial application to liquidate Minesa Energy was postponed last week after GM Glyn Sproat said in a letter that the company was involved in claims of litigation which if successful could safeguard its creditors' interests But it was later felt that Minesa Energy would not be in a position to pay its debts — hence the provisional liquidation

It is now expected that creditors will insist on a meeting with Holgado Questions likely to be asked will focus on whether Minesa Energy traded in insolvent circumstances; the secrecy surrounding the removal of the coal stockpiles, and the alleged duplication of cessions of debt to Transnet and Allied.

Eddie Botha

Tax burden shackles Stocks

STAR 3/7/92.

(232)

By Sven Lunsche

Although property group Stocks & Stocks produced good operating results in the year to June, its bottom line was spoiled by a surge in tax payments.

A good performance by most of its divisions improved turnover by seven percent from R1,35 billion to R1,44 billion and boosted operating profits by 19 percent to R53,1 million (R44,6 million)

Despite a 17 percent rise in finance charges to R20 million, pre-tax profits increased 20 percent to R33,1 million (R27,6 million)

The effective tax rate paid rose from 12 to 32 percent, lifting payments by 225 percent from R3,3 million to R10,6 million

The increase was due to the phasing in of new legislation on stock in trade and the reversal of timing differences at the year-end.

Higher tax charges left attributable income 14 percent lower at R20 million (R23,4 million)

A higher number of shares in issue saw earnings per share fall even further by 19 percent to 38c (47c).

The total dividend for the year has been maintained at 11c

Analyst Robin Pegler says the group had a strong cash flow of R59 million during the year

This lifted net cash at year-end to R97 million

The order book, maintained at the previous year's level, shows that the tender portion is diminishing, thereby improving the quality of the work in hand

More profitable is the work generated by Stocks & Stocks itself, Mr Pegler says

This includes the development of hotel and leisure resorts and the hotels the group runs itself, such as the Centurion Lake in Verwoerburg.

While both the roads and civil divisions have satisfactory order books, Stocks & Stocks is also expecting more work in neighbouring countries such as Botswana, to which the group recently expanded its operations

Search for right investment option

STAR 1/8/92. (232)

FINANCE STAFF

A NUMBER of companies sell many investment options for the provision of medium to long-term financial needs

At the Star Investors' Club all-day seminar, to be held on Friday, August 28 and repeated the next day, a number of experts will be discussing the merits of a variety of these products

The more common options include retirement annuities, endowments and unit trusts Within these three broad categories, there are also a number of choices — and there are a number of different companies selling these types of business

Liquidity

A key to the success of such an investment is the ability to perform better than the inflation rate When considering which investment is appropriate, there are a number of factors These include.

□ **Past performance:** As it is impossible to predict how investment markets will perform in the future, the past performance of a similar investment should be taken into account.

It may be a useful guide to decide with which company to invest, but there are other factors which need to be considered when deciding on an appropriate type of investment It is also foolhardy to assume that past performance will continue into the future, as investment conditions could be very different.

□ **Risk profile:** The risk associated with an investment can be thought of as the probability that one's outlay will be recovered Certain investments offer no guarantees, which means that one may lose one's capital Others do offer guarantees, which usually means that one will receive as a minimum one's initial capital plus a small return.

□ **Liquidity:** Some investors may need quick access to their investments in times of financial need. If this is the case, a more accessible or "liquid" investment may be appropriate

□ **Tax position:** An investor in a high tax bracket may find some investments very attractive because of the favourable tax treatment.

□ **Term:** Some investments will cater for long-term needs, such as retirement, whereas others will be for shorter-term objectives, such as a new car or a trip overseas

Bearing this in mind, consider the three broad categories

1. Retirement annuities (RAs)

THE Star Investors' Club is to hold a seminar on medium to long-term investment needs at the end of this month.

Aim is to ensure you beat inflation

An RA provides for a specific and very important future need, that of supplementing income during retirement It is an investment with definite tax advantages for those in higher tax brackets, as the contributions may be deducted from taxable income, up to certain maximums

This means that RA investors paying marginal tax at 43 percent will have R43 out of every R100 invested in an RA paid by the Receiver In addition, no tax is levied on the funds in which you invest. On retirement, one-third of the RA proceeds can be taken as a lump sum At least the first R120 000 of lump sums from approved sources (other RAs, pension funds, etc) is tax-free, while lump sum proceeds in excess of R120 000 are taxed at the average rate (as opposed to the marginal rate) of the investor

There are different types of investment vehicles for RAs to cater for differing risk profiles The main types offered by life companies include.

Smoothed bonus — through which investment returns are averaged over the good and lean years, and guarantees are offered.

Performance profits — investment returns fluctuate with the returns on the underlying investment. The value of one's investment is less stable than under the smoothed bonus Guarantees are offered.

Equity portfolios — whereby investment performance is directly linked to a portfolio of shares on the JSE The investment has potential for very high returns, but is much more risky, especially as no guarantees are offered.

Returns on R100 invested monthly in a smoothed-bonus type RA at Old Mutual maturing on January 1 1991 are shown in Table 1

These returns assume that, because RA contributions are tax-deductible, a person paying 43 percent tax is only effectively paying a premium of R57, and similarly a person paying 30 percent tax is paying a premium of R70.

In addition, one-third of the maturity proceeds is taken as a non-taxable lump sum and the remainder is taken as an annuity which may be taxed at a lower rate (say 30 percent for the 43 percent taxpayer and 20 percent for the 30 percent taxpayer) These returns show that RA returns are well above inflation and are significantly better for people paying tax at a high marginal rate

2. Endowments

Endowments provide a vehicle for contractual savings for financial needs occurring 10 or more years into the future Endowments for less than 10 years are a poor investment, as they do not conform to the sixth schedule of the Income Tax Act and attract a lot of tax.

Returns on R100 invested monthly in a smoothed-bonus pure endowment (no life cover) at Old Mutual maturing on January 1 1991 are in Table 2

These returns are not as high as for RAs, but remember the additional flexibility one has with the maturity proceeds

Attractive

3. Unit trusts

As with an endowment, a unit trust can be used to fund a wide variety of financial needs It can be particularly attractive for a need occurring five to 10 years in the future, as an endowment is inappropriate for this period However, there are no guarantees offered on unit trusts

A unit trust is a relatively liquid investment, as part or all of the proceeds can be withdrawn at relatively short notice, with no penalty It also has tax advantages in that only the interest portion of the declared income distributions is taxable — and then only when one's total interest income is more than R2 000

Returns on unit trusts for R100 invested monthly in the Investors' Fund and disinvested on January 1 1991 are shown in Table 3

These returns assume that no tax is paid on the interest income received from the units

These are better returns than for endowments, but it must be remembered that no unit trust will offer a guarantee of investment return

TABLE 1

Term	Maturity proceeds	Annual after-tax rate of return	
15 years	R84 965	(43% tax) 22,5%	(30% tax) 21,1%
10 years	R34 271	(43% tax) 26,2%	(30% tax) 23,9%

TABLE 2

Term	Maturity after tax proceeds	Annual rate of return
15 years	R76 217	17,4%
10 years	R31 879	18,6%

TABLE 3

Term	Disinvestment Proceeds	Annual Rate of Return
15 Years	R183 243,94	27,3%
10 Years	R 44 965,18	24,9%

Unit trust switch parachute

STAR 1/8/92 (232)

CLEVER investors are doing it, so why aren't you? Probably because nobody told you you could, and you don't know how to

I'm referring, of course, to switching between different kinds of unit trusts.

Or more precisely, switching your unit trust investments from a general equity-fund into a fixed-income or gilt fund.

Surge

As the accompanying graph from Old Mutual illustrates, clever investors towards the end of June/beginning of July started moving their funds out of the general equity funds into its Income Fund

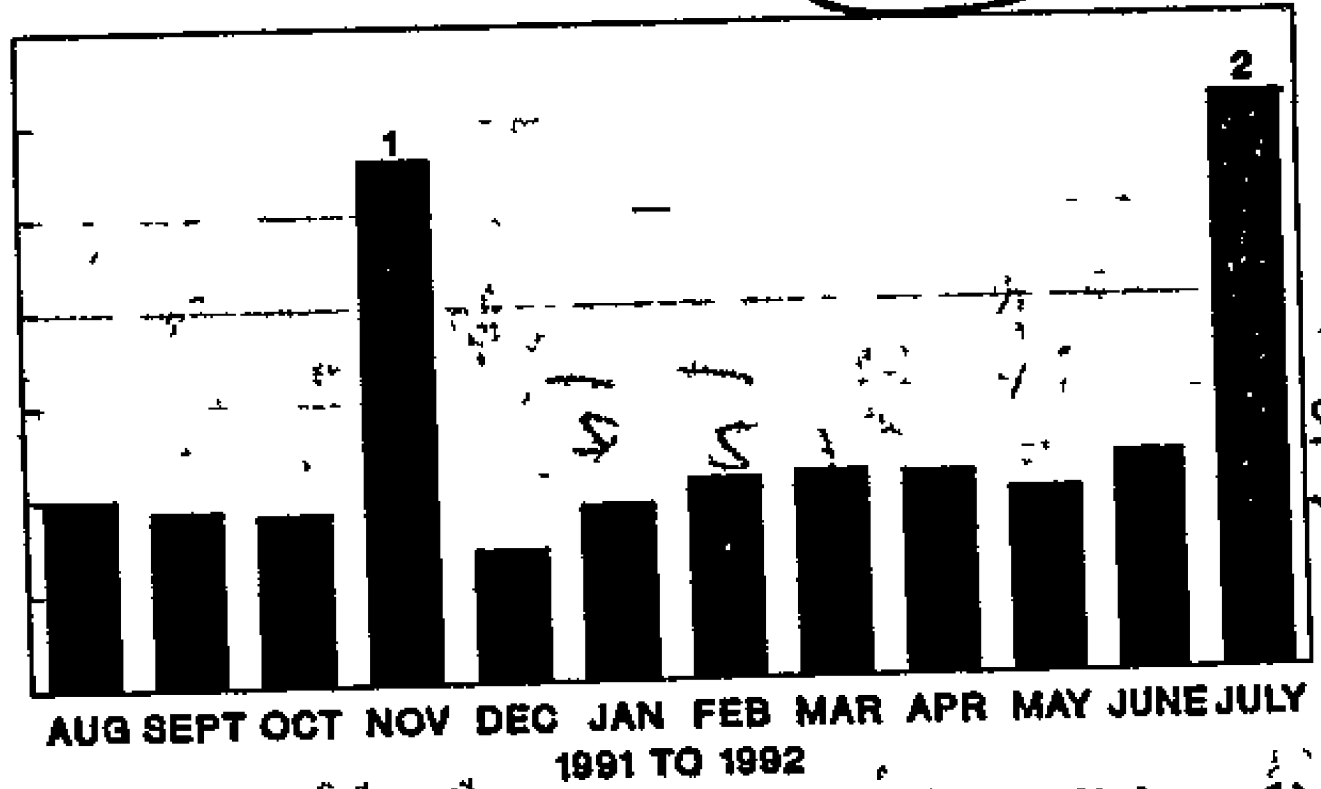
Last November the number of switches also increased dramatically, but this was mainly into Old Mutual's new Top Companies fund, launched towards the end of October

The huge surge in the number of switches in June/July indicates that prudent investors took the safe route out of equities into fixed-income and gilt funds, which are not affected by stock-market vagaries

Other unit trust companies reported that switching on a similar scale took place, especially among investors with large sums of money who obviously were expecting some kind of a correction in the stock market.

So far, these investors must be feeling very pleased with themselves. From its June peaks, the JSE-overall market has declined by 7 percent, from 3743 to yesterday afternoon's level of 3436

The trend is not limited to Old Mutual, figures released by the Association of Unit Trusts show. While the industry reported its largest inflow in history, the UAL Gilt Unit Trust attracted R109 million in the quarter to the end of June, the largest net inflow for any unit trust. "Smart money" was flowing into gilts well before the market started its current bout of weakness



Old Mutual unit trusts — number of switches: 1) Launch of Top Companies Fund; 2) Primarily switching to Income Fund.

MAGNUS HEYSTEK

The decision to get into gilts seems to be vindicated by the subsequent bull market in the capital market. These investors have made handsome capital gains, and if the bull market continues, the gilt and fixed-income funds are likely to outperform equity-based funds for the rest of the year.

It's interesting to note that the UAL Gilt unit trust, with an annualised average rate of return of 17,4 percent over a five-year period, is the fifth best-performing fund among all unit trusts.

It is not generally known that the gilt funds outperformed all other unit trusts over a one-year period UAL Gilt fund was best at 20,19 (repurchase to repurchase price) followed very closely by the Metboard Income fund (formerly known as the Corbank fund) with 20,16 percent.

This compares very favourably with an inflation rate of 15,4 percent over the same period

With interest rates at no stage over 19 percent for the 12-month period, investors who do not have an understanding of the gilt market will wonder how a performance of over 20 percent could be achieved.

These results are possible because the managers can make capital gains from falling interest rates It is not generally understood that capital gains can be made through falling interest rates. This is because gilts are quoted at interest rate levels rather than their capital value.

Simply put, when interest rates drop it means the price of the gilt (called bonds in the United States) has risen due to increased demand from investors

Says Alistair Colquhoun, UAL's investment chief "The scenario for falling interest rates was brought about by a decreasing growth rate in the money supply, improvement in the gold and foreign exchange reserves, improvements in the trade surplus and a declining producer price index This enhanced the perception that the inflation rate would fall in six months to a year

"When the major financial institutions dropped the housing bond rates, it was a pretty sure sign that the Bank rate was about to follow. Gilt prices are subject to market forces, and with the demand for gilts growing on the back of perceived under-performance by equities and the expected reduced inflation, prices rose, which resulted in a drop in interest rates"

Higher fee

The costs to switch from an equity-based fund into any other fund is done at the repurchase price.

Some funds charge a small fee for making the switch — anything between 0,5 and 2 percent

Domicile Act improves the legal status of women

BILLY PADDOCK

JUSTICE Minister Kobie Coetsee said yesterday the new Domicile Act had come into effect, marking a further step in government's commitment to "acknowledge the equal status of women in society". (237)

The Act, which was passed during the last session of Parliament, came into effect on August 1. It provides that every person older than 18, regardless of sex or marital status, can establish a domicile of their own choice. B|DAY 1/8/92

Formerly, all women who married took on the domicile of their husbands and had no choice in the matter. This had severe implications, especially for women separated from their husbands.

The domicile of any person unable to establish one of their own, such as dependent children, will be determined by the place with which that person is most clearly associated.

The Act also provides that a court will acquire jurisdiction in divorce proceedings if any of the parties ordinarily resides in the area of jurisdiction of that court and the person has been resident in the country for more than a year.

Coetsee said the measure emphasised government's view that individuals' happiness and salvation in life should be determined by their own merit and distinction.

"I trust that equality brought about by this initiative in respect of the legal status of women will also be emulated in the social and economic spheres of life," he said.

THE WEEK AHEAD by Simon Willson

Better gold valuations should bolster reserves

BIDAY 3/8/92

NOW THAT the end of the second quarter is past, gold and foreign exchange reserves should look a little healthier when the July level is released at the end of the week.

Reserves took a knock in June, when they dropped R200m, but the total stayed above the psychological R10bn mark at R10,2bn against May's R10,4bn End-quarter interest and dividend remittances were probably responsible for the dip, extending a pattern that also saw matching falls in total reserves at the end of the December and March quarters

July reserves could also be supported by a rise in the rand gold price valuation, which has fallen consistently for the past four months

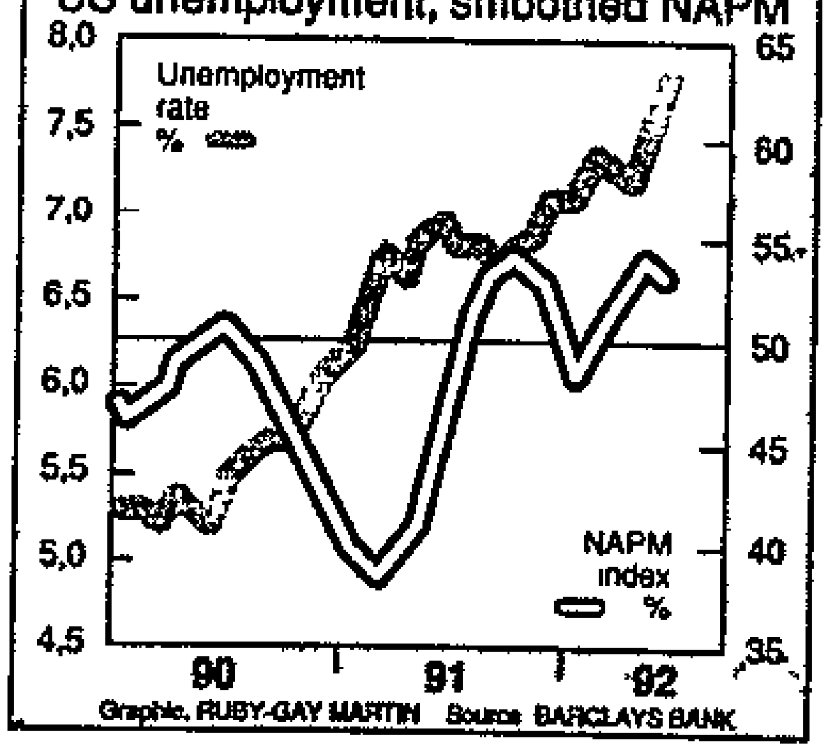
Concerted central bank dollar-buying in the third week of July dragged the commercial rand back from fresh 1992 dollar highs around R2,72 to its current R2,75-R2,77 range

But, at the same time, bullion continued to test $360, and this combination of a weaker rand and steady bullion should haul the Reserve Bank's gold price valuation for July back from the R856 low in June

Internationally, Western central

Dips: make mine a triple

US unemployment, smoothed NAPM



Graphic: RUBY-GAY MARTIN Source BARCLAYS BANK

banks' itchy trigger fingers could be tested again this week with the next spate of US economic indicators

There are several that could still depict weak US growth, increasing downward pressure on the dollar and probing the central banks' resolve to defend the DM1,45 level again

As the chart shows, the fear now is that US economic activity — represented here by the National Association of Purchasing Management (NAPM) survey — is about to make a third dip

The July NAPM is out later today, and is poised to trace a third dip to follow in sequence after the 1990-91 and 1991-92 slides on the chart

The NAPM survey, which measures activities such as orders, employment, production and deliveries in the manufacturing sector, is one of several US indicators that has begun to etch a triple dip recession

The NAPM line's "U" on the chart has become a "W" and threatens to become an "UM" as each rally stalls The index ducked to 52,8% in June from 56,3% in May

Tomorrow, the index of US leading indicators for June is released Its 0,6% uptick in May was a fifth consecutive monthly rise, but the index is thought to lead the real economy by about nine months

On Friday the July US employment report is published US discount rate was cut after the poor June report showed the jump in unemployment, shown on the chart, to 7,8% While the overall rate may be steady for July, there may be a turnaround in the 117 000 drop in non-farm recruitment for the month

The Bundesbank council meets again on Thursday after its summer break, but bank spokesmen have already ruled out any easing in credit conditions despite the fall in German inflation announced last week

MONEY MARKETS by Hilary Gush

Equities slump helps ease rates

BIDAY 3/8/92

ALTHOUGH the capital market has been the main beneficiary of the recent slump in equities, it has not been the sole heir to institutional funds looking for rosier returns Money market instruments have also found favour with organisations — resulting in a gradual decline in rates

The 90-day liquid BA rate continued to ease last week falling slightly to trade at 13,5% from 13,6% and 13,8% respectively at the end of the previous two weeks.

A softening of rates usually indicates an expected improvement in market liquidity. (232)

The money market shortage see-sawed to reach R4,319bn on Wednesday, prompting the Reserve Bank's Corporation for Public Deposits to offer twice to buy back R500m worth of gilts and semi-gilts

Liquidity should pick up this week as the month's government spending reaches the market.

The Treasury's decision not to roll over R3,5bn in RSA loans maturing at mid-month should also ease tight liquidity

Profit-taking by institutions and foreign gilt-selling saw rates on the capital market edge up over the week.

On Friday the yield on the bellwether Eskom 168 bond was up slightly at 14,70% from 14,59% at the of the week

The yield on government R150 stock followed a similar pattern, hardening to 14,83% towards the weekend after trading 10 points lower at 14,73% on Monday

Medium-dated gilts remained strong and rates stable, however, as few sellers came into the market

The move out of equities and into gilts which started in the first quarter has maintained its momentum despite a small recovery in the stock market last week

Planned mass action this week is likely to boost the capital market further

An expected easing of consumer inflation also bodes well for gilts, but yields on capital market instruments should stay around their current levels this week before resuming a downward trend

Ban on gold exports lifted

BIDAY 3/8/92

TAIPEI — Taiwan has lifted a 44-year-old ban on the export of gold in line with the end of the period of communist rebellion or state of emergency

Deputy Finance Minister Lee Chung-ying said the legal force of the period of communist rebellion ended on Friday During the period, Taiwan allowed the import of gold but forbade its export

Under the long-awaited liberalisation move, Taiwan banks could be allowed to operate private gold accounts for individuals seeking gold investment The move is expected to help the island become one of financial hubs in the Asian Pacific region, boost the gold market and pave the way for the futures market — Sapa-AFP

Call for Zimbabwe to review SA visa

HARARE — The Zimbabwean hotel industry has urged the government to urgently review visa requirements for South African visitors, Ziana news agency reports.

Calls to the same effect have also been made in parliament recently

Hotel and Restaurant Association of Zimbabwe (Haraz) president Graham Dickens estimates complete removal of current restrictions could result in 25% more tourists annually from SA, already Zimbabwe's largest single source of visitors

"We recommend, at very least, an urgent move by government to make acquisition of visas easier and cheaper for South Africans," said Dickens.

He said South Africans were complaining of experiencing delays and other problems in acquiring visasfrom the Zimbabwean mission in SA.

Visa sales currently total about Z$12m in foreign currency annually.

Dickens said if the number of visitors were to increase by 50 000 annually, and each spent at least Z$2 000, Zimbabwe would earn a further Z$100m.

"This is surely preferable to the lower figure earned from visa sales," he said.

"Haraz will therefore ask the relevant authorities to take urgent action, so as to enable the hospitality industry to maximise its earning capacity in the national interest." — Sapa.

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Share prices drift as JSE marks time

232

B/DAY 4/8/92

MERVYN HARRIS

A STAYAWAY by cautious JSE investors at the start of the general strike yesterday led to one of the quietest trading sessions dealers could recall for many years

Lack of interest led share prices to take the line of least resistance and drift lower, but the downturn on the gold board was accelerated in late afternoon trading by a fall in the gold price below support at $355

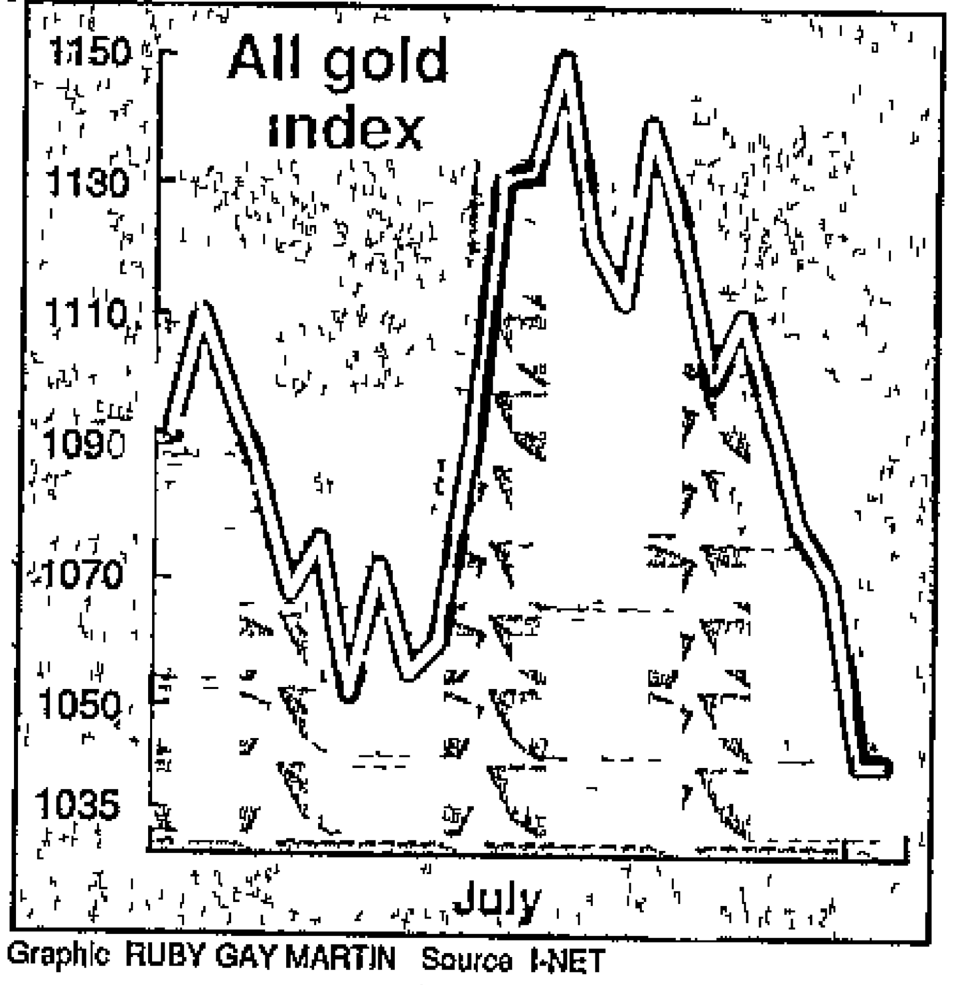
Gold eased nearly $4 to close at $354,05 in London as reports that violence was not widespread on the first day of the strike filtered through to bullion markets Precious metals rose on Friday on concern that the work stoppage could affect mines

Dealers on the JSE said the market got off to an exceptionally slow start

Bellwether De Beers was not traded before lunch, while associate Anglos was involved only in a foreign purchase of the shares before there was an uptick in turnover in the afternoon

The JSE overall index declined 22 points to 3 409 with losses outnumbering gains by 65 to 16 in the absence of buyers, who opted to remain on the sidelines

Only one blue chip industrial — Remb



Graphic RUBY GAY MARTIN Source I-NET

Beheer — defied the weaker trend as the industrial index declined 28 points to 4 215 No gold shares were firmer as the all gold index slipped back 28 points to 1 041

The finrand closed little changed at R3,86 to the dollar with analysts reporting that the stayaway had been largely discounted amid steady foreign demand for the investment unit

Record month for Safex as volumes soar

MERVYN HARRIS 232

SAFEX reports its best monthly volume figures in July on the back of extreme volatility in the JSE share market

Figures released by Safex show that daily volumes in July averaged more than 6 400 contracts with an underlying value of almost R250m to lift by about 35% the previous record month set in August 1990 on the invasion of Kuwait by Iraqi forces.

Open interest in the market swelled to more than 37 000 contracts worth R1,6bn. This compared with a year ago when the level was under 11 000 contracts.

The percentage of open interest contracts controlled by non-residents increased substantially after the Reserve Bank permitted foreigners to trade on Safex Non-residents now account for more than 13% of all open interest contracts

Futures on the three main JSE indices were by far the best performers Average daily volumes totalled about R214m, while Safex index futures trade volumes as a percentage of the share market rose from 70% a year ago to 200% last month.

Safex CE Stuart Rees said the growth was satisfying but that the market would truly come of age when it was five to 10 times the size of the underlying equity market in rand terms

He said volumes would continue to grow to this level but cautioned against over-optimism in the short term as there would be months when volumes declined

"The exchange is working flat out to introduce options on futures and deliverable gilt contracts Both developments should result in substantially higher volumes," he said

Firms fail under high debt burden

232

GERALD REILLY

COMPANY failures and sequestrations, as well as insolvencies of individuals and partnerships, were continuing at an alarming rate in an economy paralysed by a massive decline in consumer confidence and shrinking disposable incomes, economists said yesterday.

They were reacting to Central Statistical Service figures released yesterday which showed that in the first six months of the year 1 213 companies and close corporations were finally liquidated — 37,7% up on the same six months last year.

Compulsory liquidations from January to June increased by 42,3% and voluntary liquidations by 2,9%. Insolvencies of individuals and partnerships in the six months to May were 15,7% higher than for the corresponding period the previous year.

In the April to June quarter, liquidations increased by 15,6% to 557 from 482 in the same three months the year before However, compared with the January to March quarter, there was a decrease of 15,1%. In March to May insolvencies increased by 14,8% to 1 102 compared with March to May last year. Against the previous three months — December to February — there was a 25,5% increase

The economists said the major reasons for the statistics were inflated commodity prices, high interest rates, salary increases which failed to match inflation and rising unemployment

B/DAY 4/8/92.

They said political and economic uncertainty had bashed consumer confidence A further relaxation of interest rates could help to arrest the increasing numbers of businesses going under

□ To Page 2

Debt

B/DAY 4/8/92. (232)

□ From Page 1

Meanwhile, other CSS statistics released yesterday showed that 44 128 judgments for debt were recorded during May with an average amount of R5 104 a judgment Of the judgments, 40 292 were on individuals

The amount involved in judgments for money loaned was R108,6m and in March to May the number of summonses for debt increased by 2,9% to 272 396 compared with the same three months a year ago Civil judgments in the period increased by 7,3% to 141 774

PETER GALLI reports that Credit Guarantee senior economist Luke Doig said yesterday more than 2 500 liquidations could occur this year if figures for current and imminent closures were extrapolated

"As a result of this, we feel interest rates must be reduced further as this is central to helping embattled companies and people In short, the golden goose that used to lay golden eggs has been plucked and is all but featherless," he said

Threat of mass action boosts futures market

STAR 4/8/92

By Derek Tommey 232

The threat of mass action by the ANC gave the fledgling South African Futures Exchange (Safex) its busiest month ever

Chief executive Stuart Rees says that daily volumes in July averaged more than 6 400 contracts with an underlying value of almost R250 million

This is a 35 percent increase on the previous record month of August 1990 when Iraq invaded Kuwait

The burst of activity in the futures market appears to be mainly the result of local investment managers covering themselves in case the planned mass action led to a fall in share prices on the JSE

Investment managers feared the campaign might lead nervous investors to sell their shares and unit trusts on a large scale This could lead to a drop in share prices — and also in the value of their portfolios and possibly in some instances put their jobs on the line

But by moving into the futures market these managers aimed to make a profit should share prices fall It would also help offset any losses on their portfolios

At the same time, speculators were active in the futures market last month, taking advantage of its volatility to try to make profits by trading contracts

The growth in speculative interest appears to be reflected in the increased foreign investor interest in the futures market

In July, open interest in the market (the number of transactions outstanding) rose to more than 37 000 contracts worth R1,6 billion This compares with under 11 000 contracts open a year ago

Since the Reserve Bank gave its permission for foreigners to trade on the futures market, the open interest controlled by them has grown substantially, says Mr Rees, and it now accounts for about 13 percent

This renewed foreign interest in speculating in SA shares has also shown up recently on the equity market.

With a few rare exceptions, the weekly JSE share trading returns for several years have shown foreigners as net sellers But in the week ended July 17, they bought a total of R113,5 million worth of equities, while selling equities worth R61,5 million to be net buyers of R52,0 million worth of SA shares

In the week ended July 24, they bought even more shares — R126,1 million worth — but sold R118,6 million to end up as net buyers of only R7,6 million worth of shares

Trading in futures is mainly in the three main JSE indices But trading in futures has grown much faster than trading in equities listed on the JSE

The value of futures traded grew from 70 percent of equity market turnover last year to 200 percent last month

Mr Rees says the growth is satisfying, but that the market will come of age when it is five to 10 times the size of the underlying market in rand terms

Volumes will continue to grow and eventually reach these levels, but he cautions against over-optimism in the short term

"Safex is working flat out to introduce options-on-futures and deliverable gilt contracts Both developments should result in substantially higher volumes"

Investment managers say one reason for the rapid growth of the futures market is that the big financial institutions have become major participants

This has greatly increased the market's capacity and its usefulness to investment managers

However, in their bid to offset a drop in share prices on the value of their portfolios, they are not confining their efforts to the futures market only

They have switched fairly heavily into the gilts market, and those who moved first are showing a five percent capital appreciation on their investment there

Govt privatisation 'not stalled'

(232) GERALD REILLY (232)

PRETORIA — Government's privatisation policy had not stalled and a number of state-owned enterprises were being commercially restructured to determine which were "privatisable", a spokesman for the Policy Unit for Public Enterprises and Privatisation said yesterday

Responding to criticism that the process had slowed to a snail's pace, he said the policy of commercialisation, privatisation and deregulation was intact.

The process entailed a close evaluation of the readiness of likely candidates before Cabinet gave the go-ahead for privatisation This took time and only three state-owned enterprises had so far been privatised, if the contracting out of services by central and local goverments were excluded These were Sasol, Iscor and the National Sorghum Breweries

Iscor was sold for R3,6bn, most of which was used for socio-economic infrastructural development, and the breweries for R43m, which went into a revolving fund for the establishment of bursaries for black students No other state enterprise, with the exception of Abakor, was ready for privatisation, he said. B/DAY 5/8/92

State-owned enterprises currently being restructured on a commercial basis, but not yet privatised, were the SA Post Office, Telkom and Transnet, including SAA which was already competing in a deregulated market, the spokesman said

Others being prepared for commercialisation included Foskor, Alexkor, Eskom, the state's forestry interests, state airports, air traffic control and Denel

The spokesman said Eskom was not regarded as a suitable candidate for privatisation at this stage.

Births and deaths figured out ...

237

ARG 7/8/92

PRETORIA — A total of 86 060 deaths was reported among blacks in South Africa during 1990 — the lowest number since 1978, according to a report issued by the Central Statistical Service this week

Of this total, almost 50 000 were men and about 36 000 women, with about 14 percent (12 000) of the total infants under the age of one year

It was also reported that a total of 68 754 white babies were born in 1990 against 71 202 coloured and 19 521 Asian babies There were no figures for black births

Diseases of the circulatory system caused 12 000 (12,8 percent) deaths, infectious and parasitic diseases 9 500 (11), respiratory 7 000 (8), and cancer 26 000 (30) deaths Aids claimed 68 victims and cot deaths 81

Transvaal reported the highest black death rate for 1990 at 37 percent, followed by the self-governing territories (23,6), the Cape (16), Natal (12,6) and the Orange Free State (10,7)

The report of white, coloured and Asian deaths registered in South Africa in 1990 totalled 62 598, of which 33 500 (53,5 percent) were whites, 24 800 coloureds (39,7) and 4 200 (6,7) Asians

Deaths of babies under the age of one year were whites, 597, coloureds, 3049 and Asians, 214

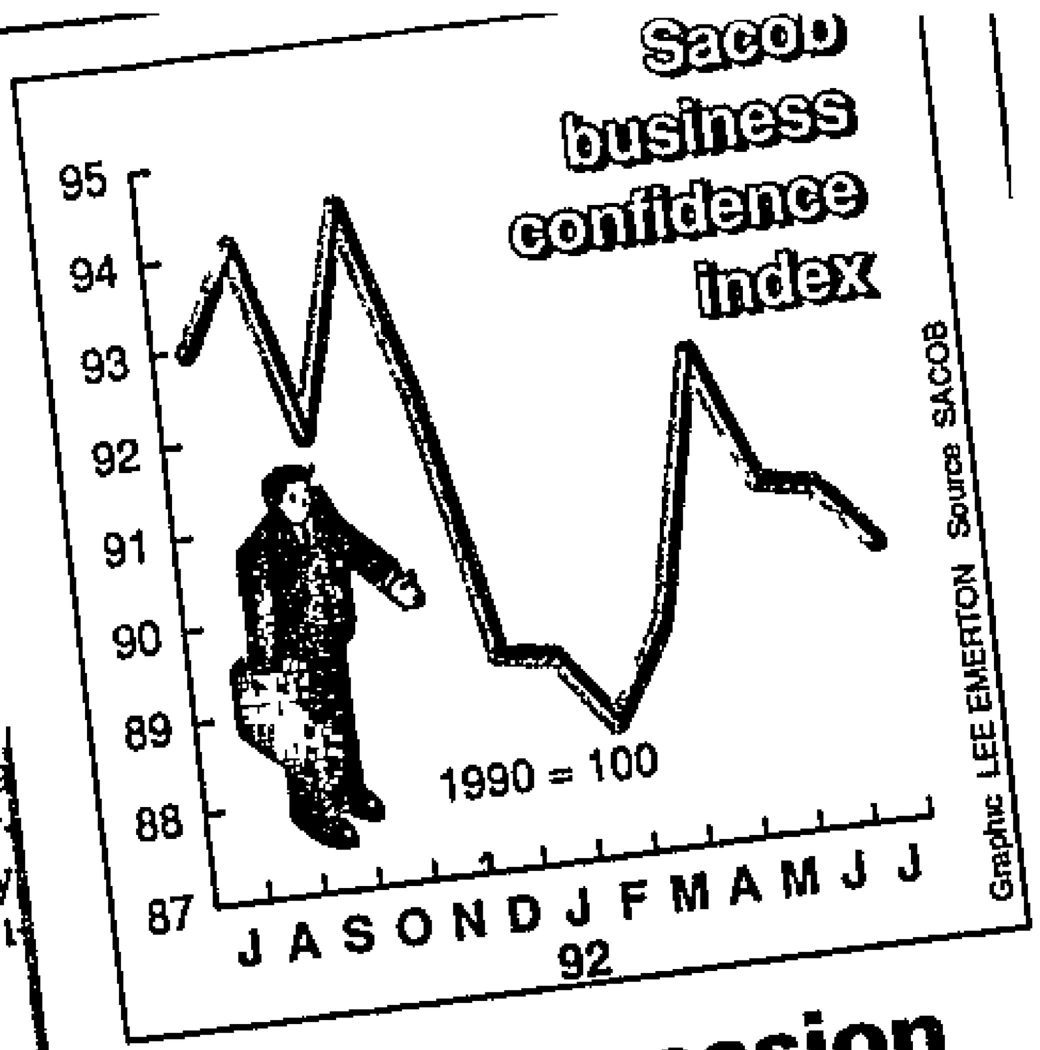
Accidents, poisoning and violence claimed 3 741 white, 4 007 coloured and 614 Asian lives

A significant number of the deaths had occurred due to cancer Whites 6 090 (18,2), coloureds 3 083 (12,4), and Asians, 356 (8,4)

The report said the 1990 rate of natural increase (the number of live births minus all deaths per 1 000 of the population) for whites showed slight increases for whites from the previous year of 0,1 percent and for Asians of 0,6 percent, while coloured births were down 1,2 per cent

There were 305 white, 1378 coloured and 137 Asian babies stillborn Two white, 23 coloured and three Asian maternal deaths occurred

The average age of white women who gave birth was 27,2 years, while for coloureds it was 26,6 and for Asians 26,1 — Sapa.



Strike, recession knock confidence

232

HILARY GUSH

THE political logjam continued to erode business confidence in July, the SA Chamber of Business (Sacob) said yesterday.

The business confidence index (BCI) — a short-term barometer of business confidence — dropped 0,7 of a percentage point in July to 90,1 on the back of deterioration in eight of its 13 sub-indices.

Sacob chief economist Ben van Rensburg said the already fragile business mood was "hammered again" by the events leading up to the mass stayaway and by further evidence of a deepening recession.

BDAY 7/8/92.

He cautioned that if the economy contin-

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Confidence

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ued to be used as a political battleground, irreparable damage would be done to its growth potential.

Fixed investment spending — already at its lowest level in 21 years — would continue to decline unless there was clear political progress coupled with sound economic policies.

Van Rensburg said mass action could further erode SA's job creation capacity and spur moves to capital-intensive production, exacerbating already chronic unemployment.

Insufficient consumer spending power prevented an economic upswing based on enhanced domestic demand. He said the upturn would have to be led by exports, but the prospects of this were "hampered by the ambivalence of the signals" emanating from the world's major economies.

"A lack of political progress remains the most important obstacle to renewed economic growth ... against the backdrop of political and economic uncertainty, the single biggest boost to business confidence will come as soon as the major political parties return to the path of reconciliation and negotiation."

● Picture. Page 3

THE JSE

Breaking with the past

(232) FM 7/8/92

Structural change is inevitable — but sound management should avert chaos

Ever since the JSE opened for business 105 years ago on a dusty street in what was then the world's newest and toughest mining camp, stockbrokers have been careful to regulate their membership and to exercise diligent control over a most unusual cartel. Over the years, they persuaded politicians to provide them with a legally enforceable monopoly — and the fixed fees they charge are protected by parliamentary fiat They created a comfortable and exclusive club

Not for much longer.

The ties which bind the JSE to its past are about to be broken A series of radical changes to its structure are in the pipeline It is unlikely they can be deferred for long The best members of the JSE can hope for is that they will be evolutionary

One thing is certain the changes which are now inescapable will be difficult to manage They will destroy tradition, remove privilege and enforce competition In short, they will cause some pain. Those brokers who survive will have to display uncommon ingenuity and deftness

"We are resolved," says executive president Roy Andersen, who has been in the job only three months, "that the JSE will be successful and that its success will be measured by a dynamic exchange, one which meets in every respect the requirements of the financial community of a changing country"

Given the inherent inertia of an institution which has displayed, over the years, an uncanny ability to sidestep change, does Andersen have the will, the muscle and the constancy of purpose to transform it?

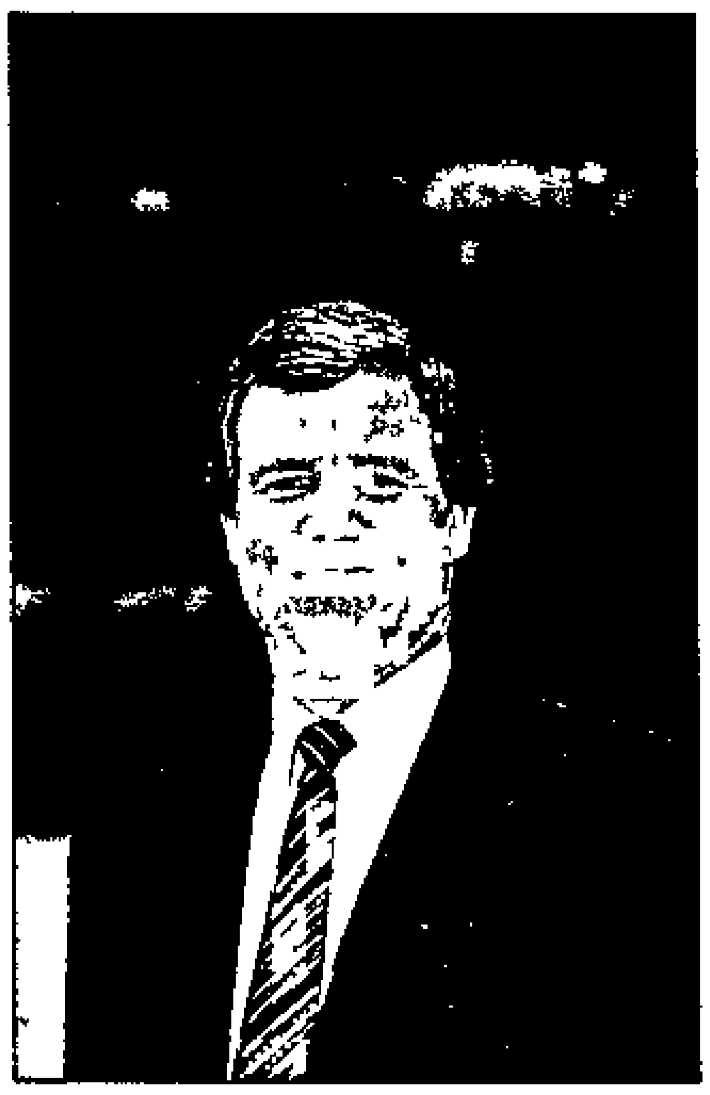
He has started well enough A workshop to examine the gross illiquidity of the JSE was thrown open to a wide range of participants, many of them from outside the JSE They didn't miss the opportunity to express strongly held views in a public forum The occasion rapidly became a theatre for vigorous and frank exchanges This appalled some of the JSE's more conservative members

Andersen acknowledges the criticism but is unrepentant "The JSE," he says, "has to take careful account of the opinions of its users and its members and we have to be completely open in our approaches to them"

At the same time, the JSE's governing body, its main committee, has been sufficiently emboldened to appoint what has become known as the Katz Committee to examine the JSE within its environment and to recommend the necessary changes to ensure the exchange meets the needs of its users

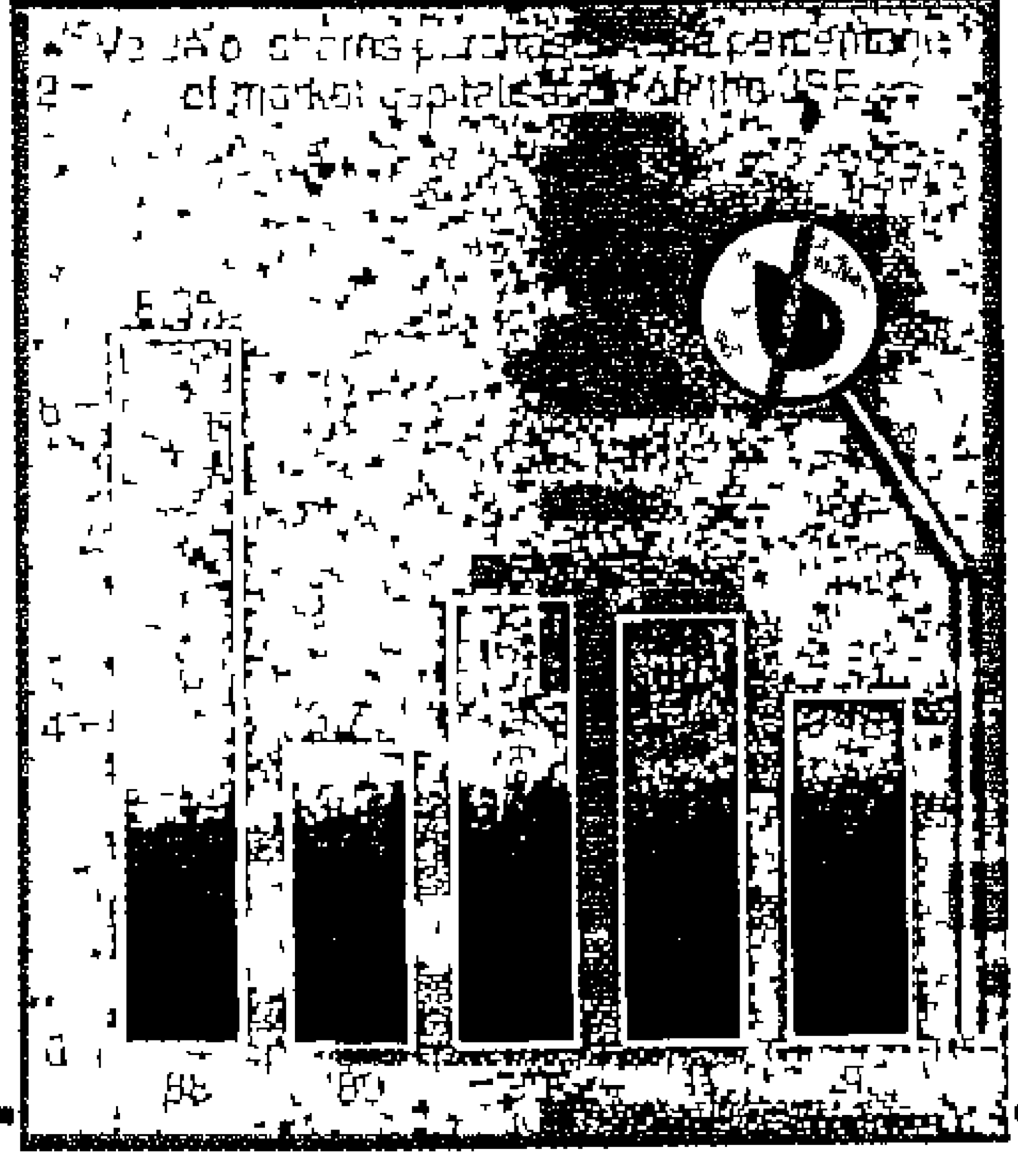
The revolutions which have swept financial sectors elsewhere, the demand for increasing deregulation and the free-enterprise tenet that exclusive protections have no place in society — these too cannot be ignored

To address them, the ubiquitous Professor Michael Katz, noted for his expertise in company and tax law, was appointed committee chairman. Other members include Deputy Registrar of Financial Institutions Gad Ariovic and use is being made of two external consultants, Ernst & Young's Claire Herbst and an Australian expert in securities market law, Professor Robert Austin Four members of the JSE main committee, including chairman Humphrey Borkum and both vice-chairmen, make up the numbers Andersen is in the key role of convenor



Andersen

Katz



JSE liquidity

No wonder brokers are hurting

The JSE has long been under attack for its rigid adherence to the principle of fixed commissions "There simply is no place for a fixed fee structure," says Liberty Life executive director Roy McAlpine "It was inappropriate yesterday and it is beyond the bounds of possibility for tomorrow The JSE is one of the few remaining institutions in SA which continues to enjoy the privileges of a cartel and is statutorily protected"

The enforced introduction of negotiated commissions in the UK was the spark that led to the Big Bang Brokers demanded and were allowed to trade as principals, not merely as agents — the so-called dual capacity trading system

That meant, they argued, that most firms would be inadequately capitalised It followed that corporate membership would be an essential corollary and it led to the stampede in which many London brokerages were taken over by the banks or acquired banks as significant partners

Will the same happen here? Not if JSE vice-chairman Paul Ferguson can help it "I accept there has to be change," he says, "but it must be orderly and it must be achieved in a way which avoids the worst excesses of London's Big Bang"

McAlpine says it is a fallacy that the introduction of negotiated commissions automatically means it has to drag dual capacity trading with it "There is no connection, but I would welcome a dual capacity market with some provisos," he says

Those provisos, in the context of SA, include McAlpine's anxiety that the JSE should remain independent "I would not like to see a situation develop where the banks take effective control of the exchange," he says McAlpine's view is that the structure of SA's financial sector is already heavily skewed in favour of the large institutions; if the JSE loses its independence, it will increase this polarisation dangerously

Southern Life executive director Shams Pather echoes the sentiment "We wouldn't want to buy into a brokerage," he says "What worries us is that we may have no alternative in the long run"

Andersen, reluctant to anticipate the recommendations of the Katz Committee, says the impact of negotiated commissions, in some form, is easily quantifiable

He is not sure, though, about dual capacity and he tends to support McAlpine's view that it is not axiomatic that the introduction of negotiated commissions automatically presages the arrival of principal trading.

However, he is adamant that even if dual capacity trading, and its corollary of opening the doors to corporate membership are brought to the JSE, there will be adequate room for independent broking firms "They have a lot to offer," he says

Firstly, they can provide confidentiality An institution which holds a position in a corporate JSE member will run the risk in its trading of being identified as seller or buyer when large lines of a particular stock associated with it are moved No such extrapolation is possible if an independent broker is used

Secondly, an unattached broking firm can offer institutions access to its own lines of stock which might not be available to a corporate member

Lastly, Andersen believes some independent brokers would continue to provide powerful research services for which institutions will be prepared to pay, whether they are linked with corporate members or not

Pather is anxious that the JSE should introduce screen-based trading to replace the present open-outcry floor. "I can't understand the resistance to it," he says The gilts market converted with few problems and the net effect was to improve liquidity. "The equity market will be a lot more price-transparent with screen trading and there'll be less opportunity for manipulation "

The single most intractable problem facing the JSE, however, has nothing to do with the institution's governance It is the matter of illiquidity (see *Leaders* June 5) This, measured by turnover expressed as a percentage of the market's overall capitalisation, lies at the heart of the JSE's miserable performance by world standards

Last year, according to the JSE's annual report, shares worth a paltry 4,3% of the market capitalisation were traded on the floor That compares with Taiwan's 350% and Zurich's 240% Tokyo, Osaka, London and New York all performed significantly better

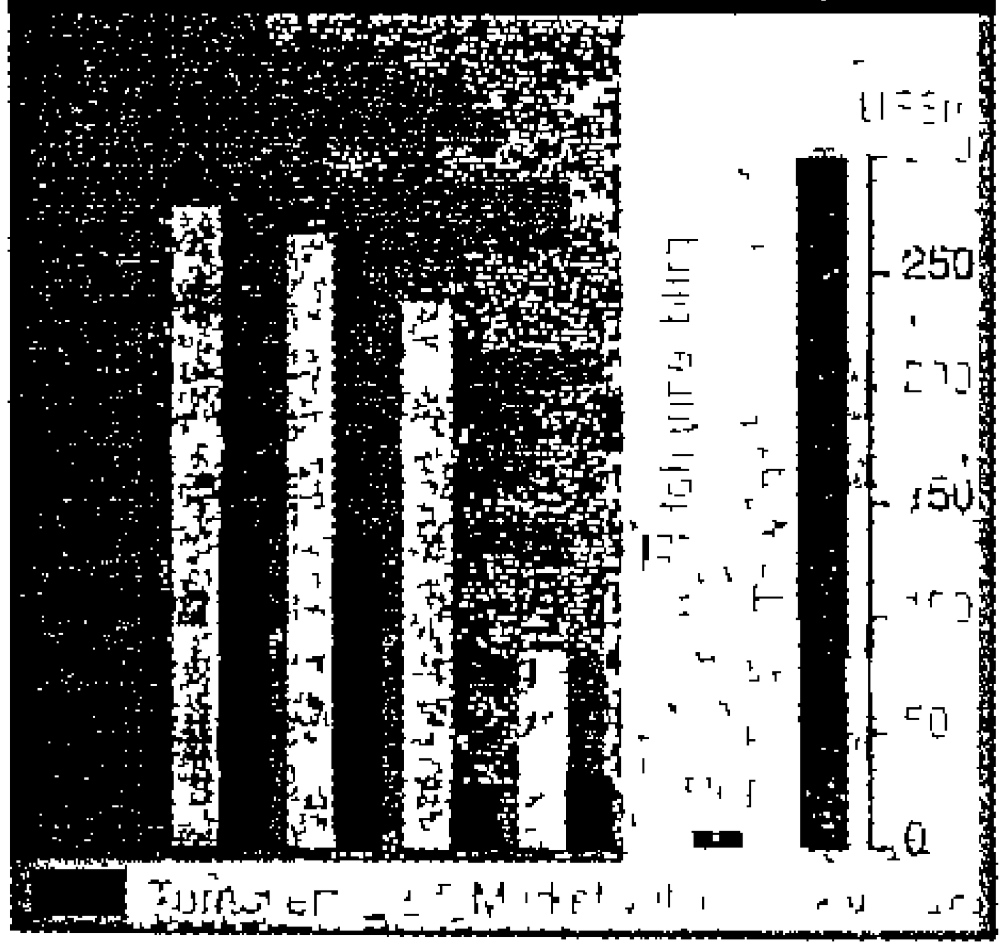
Why? The answer lies in SA's draconian exchange control regulations As long as they exist, SA institutions will be prevented from investing abroad and SA's savings and pensions will continue to swill around in an artificial greenhouse

Temperatures (prices) will keep on rising

The mass action campaign necessitated changes to our production schedule, so some sections of the *FM* do not appear in their usual places this week. We apologise for any inconvenience this may cause.

World stock markets

By comparison the JSE is abysmal



disproportionately, stock will continue to be hoarded, with less of it being available — and the JSE will continue to record lower volume turnover figures

Money, of course, is a shy commodity. It flows to where it feels welcome and will be treated well. Given SA's record of political instability and violence, it is hardly a country which appears attractive to international investors And it is an integral part of a continent whose record over the past four decades has been anything but inspiring

If capital is unwilling to flow into SA, it is

Continue →

eager to flow out Under these circumstances, the chances of exchange control being lifted are nil As long as there's no reasonable outlet for the country's bottled-up savings, the same shares, bonds and properties will be husbanded and hoarded

One of the Katz Committee's briefs is to come up with a solution Delivering workable answers will be a tall order But there are many possibilities One is the establishment of a regional stock exchange which will embrace east, central and southern Africa, probably centred on SA as the powerhouse

Andersen, who appears enthusiastic about the idea, says the countries which would be involved include Kenya, Zambia (which now has an embryonic exchange), Zimbabwe, Namibia, Botswana and Indian Ocean entrepôt state Mauritius

A conference to consider the modalities of such an enterprise is to be held in SA early next year Andersen says that if the idea is to get off the ground, it will involve some modifications to exchange controls in SA and other countries

These are not the only issues which will be considered by Katz and his committee "The whole pivot of the investigation," says Katz, "is to establish precisely the role of the JSE in the financial and economic life of the new SA "

Included in the committee's brief are such issues as the mobilisation of savings and the way these can be applied in financing new and growing enterprises, how small investors can be encouraged to return to the market as a valid means of saving, and the international competitiveness of the JSE "Matters relating to the tax regime will be important "

He declines to be drawn further on the committee's work "I can't prejudge issues It is vital that the committee should be objective and I intend to ensure it is Every interested party will be given adequate opportunity to present views "

The *FM* welcomes the JSE's new spirit of adventurousness and acceptance of the need for change The members of the JSE have been guaranteed consultation before radical shifts in policy and operation are adopted That means the recommendations of the Katz Committee, whatever they are, can be rejected by the institution

When the matter is put to members, they should weigh the choices carefully it is one thing to be a vibrant, vital part of a dynamic economy and quite another to be the dinosaur, condemned to a slow oblivion

Change will be accompanied by pain There will be "rationalisations " People will lose their jobs or have to find new avenues within the exchange Some firms will die and others will be swallowed None of these should deter the JSE and its members from accepting the challenges of the change they can no longer postpone

David Gleason

No. 2242 7 Augustus 1992

WET OP STANDAARDE, 1982

REGULASIES BETREFFENDE DIE BETALING VAN HEFFING EN DIE UITREIKING VAN VERKOOPS-PERMITTE TEN OPSIGTE VAN VERPLIGTE SPESIFIKASIES WYSIGING

Daar word kragtens artikel 36 van die Wet op Standaarde, 1982 (Wet No 30 van 1982), bekendgemaak dat die Adjunkminister van Handel en Nywerheid, handelende namens en in opdrag van die Minister van Finansies en van Handel en Nywerheid, die regulasies gepubliseer by Goewermentskennisgewing No. R. 999 van 3 Mei 1985 hierby wysig soos in die Bylae uiteengesit.

BYLAE

1 Skrap regulasie 2 2 (a) en vervang dit deur die volgende·

(a) aan die Raad 'n juiste opgawe, in die vorm in Bylae 1 voorgeskryf, verstrek van die totale hoeveelheid van enige kommoditeit wat hy vervaardig of ingevoer het

Met dien verstande dat die Raad ook van enigeen van wie daar op redelike gronde vermoed word dat hy 'n heffingspligtige is, kan vereis om sodanige opgawe in te dien.

Met dien verstande voorts dat die Raad van enigeen van wie daar op redelike gronde vermoed word dat hy namens 'n heffingspligtige optree of dat hy op enige wyse hoegenaamd by die vervaardiging of invoer van 'n kommoditeit betrokke is, kan verlang om die inligting betreffende die herkoms, hoeveelheid en bestemming van sodanige kommoditeit waaroor hy beskik, aan die Raad te openbaar, en

2 Skrap regulasie 5 (1) (a) en vervang dit deur die volgende

(a) ingevolge regulasie 2 2 (a) versuim om 'n opgawe te verstrek, of doelbewus 'n valse vervaardiging- of invoerhoeveelheid verstrek, of in gebreke bly om verlangde inligting met betrekking tot 'n kommoditeit aan die Raad te openbaar; of

No. 2242 7 August 1992

STANDARDS ACT, 1982

REGULATIONS RELATING TO THE PAYMENT OF LEVY AND THE ISSUE OF SALES PERMITS IN REGARD TO · COMPULSORY SPECIFICATIONS. AMENDMENT

It is made known under section 36 of the Standards Act, 1982 (Act No. 30 of 1982), that the Deputy Minister of Trade and Industry, acting on behalf of and on assignment by the Minister of Finance and of Trade and Industry, hereby amends the regulations published by Government Notice No R 999 of 3 May 1985 in the manner set out in the Schedule

SCHEDULE

1. Delete regulation 2 2 (a) and substitute the following.

(a) submit to the Council an accurate return in the form prescribed in Schedule 1 of the total quantity of any commodity manufactured or imported by him

Provided that the Council may also require any person who is reasonably suspected to be a levy payer to submit such return

Provided further that the Council may require any person who is reasonably suspected to be acting on behalf of a levy payer or to be involved in any manner whatsoever in the manufacture or importation of a commodity to disclose to the Council any information that is available to him in regard to the origin, quantity and destination of such commodity; and

2. Delete regulation 5 (1) (a) and substitute the following:

(a) In terms of regulation 2 2. (a) fails to submit a return, or deliberately furnishes an incorrect manufacturing or importation quantity, or fails to disclose required information to the Council, or

ALGEMENE KENNISGEWINGS

KENNISGEWING 685 VAN 1992

RAAD OP FINANSIËLE DIENSTE

DIE JOHANNESBURGSE EFFEKTEBEURS

KENNISGEWING BETREFFENDE WYSIGING VAN REELS

1 Ingevolge artikel 12 (6) van die Wet op Beheer van Effektebeurse, 1985 (Wet 1 van 1985), word hierby bekendgemaak dat die Johannesburgse Effektebeurs by die Registrateur van Effektebeurse aansoek gedoen het om goedkeuring om wysigings aan sy reels aan te bring, soos uiteengesit in die Bylae hiervan.

2 Ingevolge artikel 12 (7) van genoemde Wet word alle belanghebbendes (uitgesonderd lede van die Effektebeurs) wat beswaar het teen die voorgestelde wysigings, hierby versoek om hul besware binne 'n tydperk van 30 dae vanaf die datum van hierdie kennisgewing by die Registrateur van Effektebeurse, Privaat Sak X238, Pretoria, 0001, in te dien

GENERAL NOTICES

NOTICE 685 OF 1992 232

FINANCIAL SERVICES BOARD

THE JOHANNESBURG STOCK EXCHANGE

NOTICE REGARDING AMENDMENT OF RULES

1 In terms of section 12 (6) of the Stock Exchanges Control Act, 1985 (Act 1 of 1985), it is hereby notified that the Johannesburg Stock Exchange has applied to the Registrar of Stock Exchanges for approval to make amendment to its rules, as set forth in the Schedule hereto

2 In terms of section 12 (7) of the said Act all interested persons (other than members of the Stock Exchange) who have any objections to the proposed amendments are hereby called upon to lodge their objections with the Registrar of Stock Exchanges, Private Bag X238, Pretoria, 0001, within a period of 30 days from the date of this notice

SCHEDULE

(232)

General explanatory notes

1. Words in square brackets ([ ]) indicate omissions from existing rules
2. Words underlined with solid line (——) indicate insertions in existing rules

PROPOSED AMENDMENTS TO THE RULES OF THE JOHANNESBURG STOCK EXCHANGE

1. PROPOSED AMENDMENT OF RULE 4.80

Subscriptions, fees and charges·

"4 80

[4 80 1 An entrance fee of R5 000 shall be paid to the JSE by a member other than a corporate member; provided that where the applicant is a junior member or an authorised clerk with at least three years' continuous service immediately or to his election as a member or is a person who for a period of five years immediately prior to his election as a member has been continuously employed by a broking firm, the entrance fee shall be two-thirds of the above amount

4 80 2 A broking firm making application for the admission of any clerk shall, if the Committee decides to examine such clerk, pay a fee of R25 In the event of the clerk failing to satisfy the Committee in regard to his knowledge of the rules a further fee of R25 shall be paid prior to each appearance before the Committee for re-examination

4 80 3 With effect from the commencement of the 1987 JSE year every member shall pay to the JSE the following membership subscription—

4.80.3 1 A broking member (other than a corporate member and a member of a corporate member)—

R2 000 per annum,

A corporate member—

R2 000 per annum multiplied by the number of its broking members,

A branch member—

R2 000 per annum,

An associate member—

R2 000 per annum,

An honorary life member—

Nil

4 80 3 2 Every other non-broking member including a member authorised clerk or a member unauthorised clerk—R500 per annum Provided that the Committee may determine from time to time that due to special circumstances any specified non-broking member may pay a smaller annual subscription A non-broking member who falls within this category and is over the age of 60 years shall not be required to pay a membership subscription

4 80 4 A broking firm shall pay an annual licence fee of R5 000 for admission to the equity trading floor and shall, in addition, if it is a gilt broking firm pay an annual trading licence of R5 000 for admission to the gilt trading floor The Committee may from time to time change the amount of the licence fee payable]

4 80 [5]1 4 80 [5]1 1 A broking firm shall pay to the JSE a turnover subscription as determined by the Committee from time to time in respect of all dealings in gilts

4 80 [5]1 2 A broking firm shall not pay the turnover subscription in respect of a purchase executed on its behalf by another broking firm

4 80 [5]1 3 Where a Johannesburg broking firm executes a transaction on behalf of a country broking firm, the latter shall refund to the former a portion of the turnover subscription paid in respect of the transaction proportional to the percentage of brokerage shared

4 80 [5]1 4 No turnover subscription shall be payable by the counterparty broker on a put-through transaction

4 80 [6]2 A broking firm which uses the services of the Data Processing Department shall pay to the JSE such fees and charges for clearing and other services as may be prescribed by the Committee from time to time

4 80 [7]3	4 80 [7]3 1	The Committee may determine from time to time the procedure to be adopted with regard to the calculation and payment of subscriptions, fees and charges referred to in 4 80.[5]1 and 4.80.[6]2
	4 80 [7]3 2	A new member shall pay a subscription from and including the month in which he is elected [A portion of the subscription referred to in 4 80 3 shall be paid upon his election]
	4 80.[7]3.3	A member who ceases to be a member shall not be refunded any portion of the subscription paid [in terms of 4 80.3.]
4 80 [8]4	[4 80 8.1	A broking firm shall pay an annual subscription of R180 in respect of each junior member, each member authorised clerk and each authorised clerk employed by it, and R96 in respect of each member unauthorised clerk and each unauthorised clerk employed by it]
	4 80.[8 2]4 1	A subscription in respect of a new junior member or clerk shall be payable for the period calculated from the month in which he is appointed to the end of the JSE year.
	4 80 [8 3]4.2	Should a member cease to be a member or should a broking firm cease to employ a junior member or a clerk the subscription paid shall be refunded in respect of the junior member or clerk for the period from the first of the month following the date on which he ceased to be a member or it ceased to employ the junior member or clerk to the date up to which the subscription has been paid In the case of a defaulter such refund shall be paid to and form part of his Stock Exchange Estate.
4 80 [9]5		If through any change in status or otherwise, any increased subscription is payable in respect of any member, junior member or clerk, such increased subscription shall apply with effect from the date on which the change took place
4 80 [10]6		The Committee may, in addition to the subscriptions, fees and charges prescribed by these rules, from time to time impose upon every broking firm a levy which shall be paid to the JSE or any of its funds on such conditions as the Committee may decide.
4 80 [11]7		Any subscription, licence or other fee, charge, contribution or levy to be paid or which may be imposed in terms of these rules, [except for the subscription payable in terms of 4 80 7,] shall be paid as determined by the Committee from time to time and any member failing to make such payment when due shall, unless the same be paid within one month after written demand has been by the Committee, cease to be a member. The membership subscriptions [payable in terms of 4.80 3 and 4 80.8] and the licence fee [payable in terms of 4 80 4] shall be paid annually in advance during March and shall be in respect of each JSE year "

Note: Rules 4 80 1, 4 80 2, 4 80.3, 4 80 4 and 4 80 8.1 are replaced by new directive AK

2. PROPOSED AMENDMENT OF RULE 5.300

Managed Accounts·

"5 300 5 Where a broking firm has received the approval of the Committee to operate managed accounts in terms of 5 290 but does not retain any of the securities arising from such operation, the provisions [of 5 300 4] relating to the verification of securities by the auditor shall not apply The statements [referred to in 5 300 4] shall contain a note to the effect that on the date to which the statements relate no securities were held by the broking firm on behalf of the client in respect of the existing managed account arrangement "

Note: Subrule 5 300 4 is replaced by new Directives DA 3.1 and 3.2.

3. PROPOSED AMENDMENT OF RULE 14.110.3

Monies and securities lodged with TOCH·

"14 110 3 All rights in respect of these monies shall vest in TOCH absolutely and the client's/TOCH participant's rights in respect of such monies shall be limited to the right to receive payment of an amount equal to the balance after discharge of all obligations owed by the client/TOCH participant to TOCH or the broking firm. All rights in respect of the monies are in addition ceded to TOCH as security for any indebtedness to TOCH by the client/TOCH participant arising out of either traded option transactions or transactions effected by or on behalf of the client/TOCH participant on the JSE ".

20 July 1992

(7 Augustus 1992)/(7 August 1992)

FM 7/8/92 (232)

SERVGRO FM 7/8/92 (232)

Sifting the assets

Servgro's listing p e of 12,1 on the 500c issue price is a significant discount to the current 16,3 p e of its largest profit contributor, Interleisure, providing investors with an incentive to take paper in the top company

Potential shareholders in Servgro, set for listing on August 7, need to examine its underlying operations in taking a view on the group, given it is essentially a holding company Servgro, comprising the leisure and service activities of Federale Volksbeleggings, holds what remains of the conglomerate after operations such as SA Druggists and Fedfood were stripped out

Leisure and entertainment group Interleisure, held 40% by Servgro, though consolidated in the accounts, has increased EPS consistently since listing in 1987, in line with resurging demand for the big screen, despite the emergence of private television operator M-Net However, recession has depressed attendences Cinema contributed 53% of Interleisure's pre-tax profit to June 1991 and the number of screens is to rise to 392 in the next few years from 212 now

Interleisure, which operates the Ster-Kinekor outlets, would gain from growth in disposable incomes in the middle to lower black market Servgro's share (after deducting minorities) of Interleisure's attributable earnings to June 1991 was about R16m — roughly 38% of Servgro's earnings to March 1992 Little change is expected in Interleisure's 1992 results

Risk management and insurance broking business Price Forbes is Servgro's second biggest profit contributor, though the contribution from the 47%-held unlisted group is difficult to ascertain

Third largest contributor is Teljoy, owned 48% and equity accounted by Servgro The television rental company's equity contribution to Servgro's 1992 earnings was roughly R8,5m, based on Teljoy's earnings of R17,7m, indicating Price Forbes's contribution exceeded R8,5m

Servgro's three largest contributors accounted for at least 78% of 1992 earnings, indicating Servgro's reliance on these three operations and reflecting the weaker performances elsewhere Other interests include stakes in food group Fedics, car rental group Avis, parking garage operation Interpark and a 22% holding in publishing company Naspers

There seems little reason for Price Forbes to underperform while servicing the needs of Sankorp, Teljoy chairman Theo Rutstein is budgeting for growth in installations

Servgro CE Peet van der Walt says management is investigating two possible expansion areas One involves the probable privatisation of State airports, providing an opportunity to manage airports He declines to name the second

Analysts expect the share to rise to R6 soon after listing, to reflect more accurately the value of the assets, giving a forward p e of 13,2 Servgro offers shareholders the opportunity to hold a diverse range of service operations with a strong leisure component in a single portfolio — while Van der Walt notes Servgro gives investors an entry into unlisted Fedics, Avis, Price Forbes and Naspers

William Gilfillan

THE JSE FM 7/8/92

New ombudsman

232

Nobody can say JSE president Roy Andersen isn't having a baptism of fire Four months into his new seat in Diagonal Street, he has had to contend with the continuing sensitivities surrounding last year's Old Mutual debacle, the suspension of J J Bosman, the failure of the Andrew Forbes brokerage and theft from eight of the exchange's safety deposit boxes

All of these — relating to surveillance, inspection or security — reinforce public scepticism about the security of brokers

Now Andersen is trying to allay investors' fears by appointing a new director of surveillance Candidates are being drawn from the accountancy profession and are being screened and selected with the co-operation of the Institute of Chartered Accountants

The JSE's 15-strong inspectorate department will fall under the director's control So will the responsibility for implementing hi-tech techniques within the BDA, the centralised accounting system that all member firms will soon use The new technology involves the automatic interrogation of the mainframe computer system by microprocessors — an instant policing system into dealing anomalies

Andersen says the new director will also be the JSE's ombudsman, with powers to investigate any complaints that relate to dealing and accounting He will have sweeping powers enabling him to delve deeply

"We are a self-regulating institution," says Andersen "We have to police ourselves to the satisfaction of our users and be seen to be doing that There is really no alternative to an open policy "

Andersen says the JSE has nothing to hide Determined to protect investors, he is putting in place mechanisms that should give people more confidence in the market

But the appointment of a director of surveillance will have much more substance if the incumbent is granted direct access to the registrar of financial institutions If he considers it necessary, in extreme cases, he should have the inalienable right to bypass the JSE committee and Andersen

That would strengthen the JSE's desire to be seen as an institution whose bond is its word *David Gleason*

Cutting the sweat in unit-trust switching

STAR 8/8/92

6

FOOTSTEPS TO FORTUNE

232

RICHARD Cluver

MY RECENT illustration of the dramatic capital growth increases which are possible if one brings a little intelligent management to bear upon one's unit trust investments, have aroused considerable public interest

However, as many readers have commented, it is all very well, with hindsight, to set out the kind of profits one might have made had one been able to determine when the market was reaching a bottom and when it was peaking But can you do it in reality?

Consider the top chart composite graph and let me recap the statistics for the various strategies published previously All assumed that one had R100 a month to invest

Rand cost averaging: Between January 1982 and the present, at R100 a month, you would have invested R13 000, which would now be worth R33 988 That is a 161,5 percent increase

Averaging at the bottom: You invest R100 a month in the bank on 31-day call and buy every time the index line cuts below the average line Start saving again once the index line cuts above the average line

Such a strategy would by now have won you a 188,43 percent capital gain This strategy is, in other words, 16,72 percent more efficient than rand cost averaging

Buying only at the bottom: You save the monthly R100 in a call account and make lump sum buys at the precise moment when the the market reaches the bottom of each cycle The result would have been a 235,5 percent capital gain That is, in other words, 45,9 percent more efficient than rand cost averaging

Buying only at the bottom and switching out at the top: Funds are accumulated in between times The result would be a remarkable 585,5 percent capital gain. It would, in other words, be 263 percent more efficient than rand cost averaging

So much for the strategies But can one put them into practice?

Certainly it is easy to go in for the least attractive of the strategies — rand cost averaging It is, furthermore, easy to buy only below a moving average line, but to be able to construct the Fourier smoothed line I have illustrated in the top chart, you would need a fairly costly outlay in computer software

In my own ShareFinder 2 Plus, its Market Master enhancement which, so far as I am aware is the only computer program offering this facility

Conventional market wisdom is to construct a simple moving average like the one in the second graph I would suggest something like a 32-day average or, since in this case we have been using monthly data, an eight-month moving average

To create one for yourself, you record the price of your unit trust every day for 32 days (or every month for eight months) and then you calculate the average of all those numbers On the 32nd day you add the latest price, subtract the very first price you recorded and again calculate an average It is pocket calculator stuff that anyone can do

When the graph of the price cuts down through the moving average you sell and when it cuts upward, you buy To do it properly, however, you would be wise to calculate an exponential moving average which turns rather more quickly and, accordingly, signals rather earlier than a standard moving average when it is time for you to make a move That is still within the realm of possiblity for readers who own personal computers equipped with a standard spreadsheet program

Technical analysis lore suggests that the figure for the conservative investor to use, that is if you do not want to be rushing off every other day to switch your units, is a 150-day moving average Under actual test, a 150-day average achieved a 178,39 percent increase, which is 10,49 percent more efficient than rand cost averaging

I have tested it over shorter periods using daily rather than the monthly data that I used in this series and a much shorter moving average and there is no doubt that one can significantly improve upon this 10,49 percent margin

The problem is that it could at times lead to 13 or 14 transactions a year and that would certainly bring you into a confrontation with the Receiver of Revenue.

A 32-day (eight-month) exponential moving average would have resulted in 13 transactions over the past 10½ years, which might also have been too frequent for the Receiver to have regarded this as a legitimate strategy simply to protect the value of your invested capital

Ideally, what one needs is an indicator of market direction change that is far more sensitive and which avoids the irritating whip-saw movements which bedevil moving averages, sometimes taking the user in and out of the market within a few days at an effective trading loss

One of the best I have been able to find for this purpose is the Kurtosis indicator, an instrument which we will examine next week

Land earmarked in Western Cape for Chinese immigrants

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PATRICK FARRELL
Weekend Argus Reporter ARG 8/8/92

LINKS are being forged between South Africa and Hong Kong to welcome immigrants who plan to leave the colony before it reverts to mainland rule in 1997

Land near Somerset West and elsewhere in the Western Cape is being considered for housing, and a R120 million development is planned on a 20 ha site near Pretoria, with 200 to 300 houses, a clubhouse, restaurants and shops.

A second phase of the development will cost another R120 million.

The site will be developed by the Seeff Organisation in conjunction with the Standard Authorised Group of Hong Kong.

The development will be aimed at Chinese immigrants, but to avoid a "feeling of isolation" the local market will also be targeted

Commercial director of Seeff Mr Errol Diamond said the group was looking at land in the Western Cape for the immigrants, but these plans were still in the their infancy

A facilitator, Mr Rico Li, a director of Standard Authorised, had been appointed to handle their business in Hong Kong, said Mr Diamond

Mr Li was introducing would-be Chinese immigrants and investors to South African properties and products

Mr Li had already helped 10 Chinese families to immigrate, and they had bought houses in South Africa, mainly in the Transvaal

Mr Li is in Cape Town until the end of the month negotiating with South African banks in order to open a branch in Hong Kong, said Mr Diamond

"Obviously such a move would improve Mr Li's efficiency and make it easier for immigrants to arrange their financial affairs in this country and in particular to receive investment advice on our foreign exchange regulations," said Mr Diamond

Mr Li said that while some people in Hong Kong were scared of the impending Chinese takeover later this decade, others were investing money in the colony

"Before this year Chinese people had a negative impression of South Africa, but with the swing in attitude we are seeing more people applying for immigration"

Last year 210 families applied to immigrate and this year the number is expected to be 800

The South African consulate requires that successful immigrants transfer an average of R300 000 to this country

"Immigrants are mostly professional people who would like to start their own businesses here," said Mr Li

"They are hard-working and creative and can give this country something"

More in debt

ONE in every two summonses issued against businesses and individuals goes to judgment, says business and credit information supplier ITC. (232)

"Previously debtors on receipt of a summons used to react very quickly to meet their commitments. Now individuals are receiving summonses, but are unable to meet the demands," says ITC's David Rosin

The value of judgments against individuals for the first five months of this year was R1,334-billion compared with R881-million for 1991 — an increase of 33% The value of judgments against businesses rose to R174,271-million (R127,659-m) — an average increase of 20%.

ST Times (Buss) 9/8/92

Deportation of IFP man leaves many questions

CPress 9/8/92 (236)

By MONWABISI NOMADOLO

MYSTERY surrounds the sudden deportation of high-ranking Inkatha official Bruce Anderson.

This week the government refused point blank to explain the action.

ANC spokesman Carl Niehaus said Anderson was suspected of being involved in violence.

He said it was the public's right to know why the government had acted "in such a drastic fashion against a leading member of the IFP".

Reports meanwhile claimed Anderson was involved in arms smuggling for Inkatha.

Police could not confirm that he was arrested for arms possession shortly before he was deported.

Police spokeswoman Capt Ida van Zweel said Anderson entered SA with a passport on July 9 around 8.55 am and left on July 23.

"He was in possession of a temporary permit to stay in the country until July 30," Van Zweel said.

Newspaper reports claimed Anderson – former chairman of Inkatha's Hillbrow branch – was arrested on his return from the US where he met rightwing organisations bent on arming Inkatha.

Home Affairs spokesman Thomas Dreyer confirmed that Anderson was deported to the UK on July 17, but refused to state the reasons.

He said the department was unable to respond to speculation that Anderson was involved in arms smuggling for Inkatha.

A spokesman from the State President's office, Casper Venter, said the office had no knowledge of the deportation

Gilt options burn investors' fingers

S/Times (Buss) 9/8/92

(232)

DIAGONAL STREET by Julie Walker

THE Financial Services Board (FSB) has warned the public not to deal with gilt option brokers who are not members of the JSE or of the Bond Market Association (BMA)

The warning comes after reports of investors losing money through the purchase of gilt options that banked on a rise in interest rates. But capital market rates have fallen sharply in the past few weeks.

The problem regarding non-member brokers stems from the tardiness of the FSB in granting a licence to the BMA.

When the licence is granted, dealers in instruments, such as gilt options, listed by BMA will have to be members.

The BMA's Graham Lund says the operation of non-members is a matter for the FSB The FSB says it cannot act because gilt option traders operate in an informal market in unlisted financial instruments.

FSB spokesman Stiaan Hyman says that when the BMA is licensed, the board will be able to send inspectors to investigate dealers who are non-members of the authorised bodies and trade in the same securities that are unlisted now Until then, FSB's hands are tied It recommends caveat emptor and dealing only through BMA members.

This attitude poses the question. What does the FSB have to do that is more important than protecting the public?

As gilt rates fell again this week in the best bull run for several years, I received several calls from clients of Paul Rigden, an independent options trader, who say they have lost money

Rates have fallen by about 120 points since Mr Rigden told his clients in a newsletter dated June 8 that in the next four months, rates would rise to between 19,36% and 19,74%, with 19,55% "the probable terminus on or before October 1"

He said this potential 580-point rise in only four months represented the biggest gilt option opportunity in 6½ years. If one did not own a put option one had better do so immediately

A postscript to the newsletter told clients that rates had already risen then retreated.

"When the rate breaks 16,21%, expect the really exciting rise to begin. first stop 17,4% within three weeks of the break, and much much more to follow!"

Mr Rigden was right about the really exciting movement — but the direction of the shift in rates was out. Instead of rising to 17,4%, rates have fallen to below 14,6%

His newsletter said: "I am prepared to recommend one-month, six weeks, two-month and four-month options now Prices range from R1 650 for the cheapest one-month option to R10 500 for the most expensive and best nine-month option and promise payouts between R30 000 and R122 000 if successful."

Mr Rigden's advertisement mentions his talent to spot interest-rate movements.

He is not a member of the BMA or of the JSE, the other body entitled to trade in listed securities.

Another independent options trader, David Bullard of the Johannesburg Options Market, says he was asked by the BMA to undertake not to trade with members of the public or to advertise.

His clients are institutions who understand the gilt market.

● Mr Rigden was unavailable to comment, but his partner Taff Edmunds says Mr Rigden has nothing to say to me.

CHRIS MURRAY Key to the future is improved exports

From glass to wire rope

S/Times (Buss) 9/8/92

HAGGIE chief executive Chris Murray is pleased with his move from safety glass to steel safety cables.

"After 20 years with Pilkington it was time for a change," says Mr Murray, who has been with Haggie for 15 months

He is the first to give credit to the staff and management at Haggie for turning in a fine performance in the six months to June.

Turnover and earnings were up 4%, enabling a maintained dividend of 47c Domestic sales volume fell, but exports grew by a quarter to 19% of sales

Mr Murray says: "We are particularly pleased with our export performance The key now is to export a higher proportion of product with a large value-added component on which we can earn a greater margin."

Haggie is synonymous with steel ropes used in mining.

"We are important to the mines, which account for 20% of our turnover About 14% comes from gold mines and the rest from platinum and coal operations.

"In cost cutting, mines tended to reduce their on-shelf stock to only one spare rope, or even none, opting for a just-in-time ordering system. But eventually, the demand position is restored"

A rope in a mine shaft lasts between 18 months and two years. Safety standards are stringently adhered to under the scrutiny of the Government Mining Engineer

Haggie's importance to the mining industry is one reason why Mr Murray does not believe there will be a change in shareholders. Amic and Malbak each have 36% of Haggie Although Malbak is dubbed the consumer division of the greater Sanlam empire, a larger shareholding by Amic might be seen to prejudice non-Anglo American mines.

Malbak's Grant Thomas is Haggie's chairman

About 12 years ago, Haggie diversified into copper-based products and engineering supplies.

The current tack is to make products allied to the core businesses, such as fittings used with copper piping. The buyer of pipes also buys the fittings and Haggie sees a marketing opportunity

Another example is rivet guns

Mr Murray says: "We sell lots of rivets, so we might as well sell the guns too It has been a good decision"

The biggest project of the moment involves a R100-million investment in the manufacture of steel cord for the tyre industry The business is worth R60-million a year and could double as steel-belt radials succeed cross-ply

MONEY MARKETS by Hilary Gush

Rates dip boosts capital market

THERE was more activity on the streets and rugby fields last week than in the dealing rooms as major players stayed on the sidelines and took a "wait-and-see attitude" to the two-day general strike

On Wednesday distracted dealers changed the focus of their attention from mass rallies to rugby while rates on the money market took a back seat

The capital market was, however, more capitivating By mid-week bullish sentiment had driven rates down to eight-year lows Expectations of falling inflation and an upturn in economic activity further fuelled gilts buying

The yield on Eskom's bellwether E168 bond plummeted to 14,34% towards the weekend from 14,72% on Monday The yield on government R150 followed a similar trend, falling 43 points over the week from 14,87% to 14,44%

Buoyed by positive political perceptions the bull run is expected to continue

Feeling in the market is that the yield differential on R150 and E168 stock will narrow substantially over the year, with yields possibly converging

While the Eskom bond used to be the benchmark stock — the most traded semi-gilt — the government R150 has, since the beginning of the year, taken the lead in terms of tradeability The E168, however, remains the bellwether bond

The reason for the initially lower tradeability of RSA 150s was that the Reserve Bank was not involved in the secondary market This has since changed and an option market in government stock has developed (232)

August government spending saw liquidity in the money market pick up towards the end of the week with the shortage at R2,77bn from more than R5bn last month

Speculation of a further Bank rate cut in September eased money market rates By Friday the 90-day liquid BA rate was down at 13,4% from 13,5% the week before

Bolstered by expectations of a Bank rate cut money market rates are expected to fall by at least one percentage point in the next few months

The average rate on the Bank's weekly tender for three-month Treasury bills was down 13 points to 13,21% from the previous week's 13,34% Demand for the short-term paper was good due to improved liquidity in the market The Bank attracted bids of R960m for the R150m offered in six-month TBs, with the rate on these also down from 12,55% to 12,43%

Afcom lifts earnings and raises dividend

STAR 11/8/92

(232)

By Stephen Cranston

Despite difficult trading in the major markets served by industrial closures group Afcom, attributable income in the year to June rose 28 percent to R7,5 million and earnings per share by 23 percent to 21,7c.

The dividend has been raised by 24 percent to 8,7c.

Markets that proved difficult included the furniture, shoe, automotive, agricultural, mining, general packaging, stationery and government sectors.

Afcom has the exclusive manufacturing and distribution rights for Sellotape, Signode, Senco, Paslode and Rapid.

It improved its market share in the fastening, packaging closures, steel, polypropylene and polyester strapping, adhesive tape and stationery markets — all considered to be mature markets.

Turnover was flat, increasing by 12 percent to R120 million, but the operating margin improved from 11,4 percent to 13 percent.

MD Alan Salomon says expense controls, improved manufacturing efficiency and tight asset management led to the improved margin.

Afcom had the benefit of a full year's earnings from Signode Steel and Plastic Strapping. Its products were integrated into the Afcom operations during the year.

Afcom was a positive cash generator during the year and gearing fell from 19,2 percent to 5,5 percent.

Interest paid rose five percent because of the additional debentures in issue for the full accounting period, compared with nine months in the previous period.

The tax rate rose from 34 percent to 38 percent because of the reduction in exempt income — particularly decentralisation grants — but is expected to stay well below the corporate tax rate thanks to export incentives and allowances.

Afcom is looking at an acquisition in the current year to enable it to continue growing.

Domicile Act improves the legal status of women

BILLY PADDOCK

JUSTICE Minister Kobie Coetsee said yesterday the new Domicile Act had come into effect, marking a further step in government's commitment to "acknowledge the equal status of women in society". (238)

The Act, which was passed during the last session of Parliament, came into effect on August 1. It provides that every person older than 18, regardless of sex or marital status, can establish a domicile of their own choice

BDAY 11/8/92

Formerly, all women who married took on the domicile of their husbands and had no choice in the matter This had severe implications, especially for women separated from their husbands.

The domicile of any person unable to establish one of their own, such as dependent children, will be determined by the place with which that person is most clearly associated.

The Act also provides that a court will acquire jurisdiction in divorce proceedings if any of the parties ordinarily resides in the area of jurisdiction of that court and the person has been resident in the country for more than a year.

Coetsee said the measure emphasised government's view that individuals' happiness and salvation in life should be determined by their own merit and distinction

"I trust that equality brought about by this initiative in respect of the legal status of women will also be emulated in the social and economic spheres of life," he said.

JSE delists Barbrook, suspends Haib's shares

BDAY 12/8/92 (232)

JONO WATERS

TWO shares on the mining board yesterday came under the scrunity of the JSE committee, with trading in Haib copper mine shares suspended and Barbrook gold mine being delisted.

JSE GM Richard Connellan said the financial position of Haib did not look "very good". Haib shares last traded on the JSE on August 6 at 3c.

Connellan said they could not contact the new owners and found this "totally unsatisfactory".

"The financial affairs of Haib are almost unknown and it is our responsibility to find out what is going on," he said.

Glenn Laing sold Revere Resources' 80% stake in Haib last month to Pretoria-based Mega Holdings for R550 000 cash, after he failed to raise the money to get the venture off the ground Revere made a loss of R497 000 on the sale of Haib

Mega, which the business practices committee was investigating in terms of the Harmful Business Practice Act, is owned by Corné Kooiman and Louis Mienie.

Kooiman could not be contacted for comment yesterday.

Connellan said that under the Stock Exchange Control Act a meeting would have to be convened within 30 days, when the directors of Haib would be given the chance to present their case.

It would then be decided if the company should be relisted, terminated or the suspension continued, he said.

Meanwhile, Barbrook was delisted at the close of business yesterday The shares last traded at 4c in January when it was put into liquidation

The mine was put up for sale by tender in May and an outcome is expected soon. Among the mine's assets are a number of townhouses and mine supplies worth R1,9m.

An analyst said the mine could fetch several million rand as it could be asset-stripped. Market sources said an offer of over R20m had been put in.

Barbrook was commissioned by Rand Mines in June 1989 at a cost of R126m with proven ore reserves of 250 000 tons at an average in situ grade of 6,8g/t.

The mine started production in the first quarter of 1990 and operated until the end of the year, when it was placed on a care-and-maintenance basis.

Share values plummet by R1-bn in one day

'Bloodbath' on the JSE

STAR 13/8/92

232

By Magnus Heystek

The Johannesburg Stock Exchange suffered one of its worst one-day losses since the Great Crash of 1987 when the market dropped by nearly 3 percent yesterday, wiping off nearly R1 billion in share values.

The shock news of a possible substantial cut in its final dividend from diamond giant De Beers reverberated throughout the market, and the Overall Index dropped by 100 points to close at 3309.

The share price of De Beers itself dropped by more than R10, to close at R62,50, as investors dumped the shares on to the market in scenes described by some brokers as a "bloodbath"

More than 500 000 De Beers shares were traded, with a total value of more than R33 million, in 89 deals

Overseas investors, in particular, were heavy sellers, and support from local institutions could not prevent the share price from dropping sharply

Dragged

De Beers lost more than R700 million in its market capitalisation within hours of trading yesterday

The industrial market was also dragged down by the shock news concerning De Beers, and dropped by 110 points to 4159, taking its decline since its peak in June to nearly 12 percent.

De Beers is the largest company on the Johannesburg Stock Exchange and is by far the most favoured stock of pension funds, life assurance companies and unit trust companies

The sharp drop in its value will affect the performance of unit trust funds in particular, all of which have large holdings in De Beers

The outlook for the stock market has now turned decidedly gloomy and further falls are expected in the next couple of weeks

Analysts are particularly perturbed about the implications of the warning given by De Beers concerning the outlook for the world economy

OAU welcomes SA as exhibitor at fair

BDAY 13/8/92 (230)

PETER DELMAR

THE Organisation of African Unity (OAU) leadership has approved for the first time SA participation in an African trade fair next month alongside 31 of its member states

Safto marketing executive Ann Matthews said yesterday the OAU secretariat had agreed to let SA exhibitors take part in the Regional Export Fair in Bulawayo next month About 31 of the OAU's 50 member states would exhibit next door at the four-yearly All Africa Fair Only SA and Zimbabwean exhibitors will take part in the export fair

Matthews described the SA participation as a major breakthrough, saying it had important implications for future trade with Africa.

She said she raised the question of SA taking part with an OAU representative at the Zimbabwe International Trade Fair, which was also held in Bulawayo.

Her inquiry was then referred to the OAU secretariat, which replied that SA would be welcome

Fifteen SA companies had signed up for next month's fair, while other applications had to be declined because of lack of space

Matthews said that unlike other trade shows in Africa, the Bulawayo fair included SA companies which had the capacity to do business with virtually the whole of the continent

Participants included Transnet's international trading division Transtrade and the Council for Scientific and Industrial Research

Other SA industries which would be represented included manufacturing, food, engineering and the construction sector

Matthews said it was particularly fortunate that approval for SA's participation had been secured because this year's fair was being held in neighbouring Zimbabwe, a fact which made it logistically easier for SA companies to take part

Other attractions were Zimbabwe's relatively good infrastructure and the fact that English was an official language.

"If we had not got the green light in time, we would have had to wait another four years to take part. By being there, exhibitors will be able to hit 31 birds with one stone," Matthews said

Talk about mothers for child survival

STAR 13/8/92.

237

IN the time it takes to read this article, one woman — somewhere in the world — will have died because she is pregnant and has not been given the care to which she is entitled

Lesotho government advisor on Health and WHO representative Dr Sichilindi Siwale says the WHO's aim of "health for all by the year 2000" does not imply an absence of illness.

"What it means is that we have in place a system where no-one dies without being in contact with a health system," says Dr Siwale This means accessibility and equity in the health system.

And, as medical organisations scurry to improve the health of children an important element has been virtually ignored the mother

World Health Organisation programme manager for Maternal and Child Health and Family Planning Dr Mark Belsey spoke at a Community Health Association of South Africa (Chasa) conference in Johannesburg recently

He says it is impossible to talk about child survival without talking about women The health status of women and children is transmitted from one generation to the next

During the last decade, says Dr Belsey, the health of children has in many respects improved remarkably Immunisation had increased to 80 percent up to October 1991.

But, in the same period the number of anaemic women has not changed, nor has the number of children born underweight

Of the 13 million children who died in 1990, one-third died within the new-born period

This, says Dr Belsey, can be attributed to the health and nutritional status of their mothers in pregnancy and before.

Despite inroads made by medical organisations, about 60 percent of women in the Asian sub-continent are anaemic — between 40 and 49 percent of women in Africa are anaemic

Weight

The low birth weight rate is often looked at as a child's problem but "it is really a problem with the mother", he says

Recent research suggests that the impact of low birth weights on adult health could include hypertension, cardiovascular diseases and non-insulin diabetes

The implications for children with low birth weights include a much higher rate of deaths from diarrhoea and a relative risk of deaths — up to three times higher — from respiratory diseases, according to studies done in Brazil

Long-term studies in India indicate that for every 10 kg of weight under the ideal during childhood, the individual will have 10 percent less output as an adult

If all children were breastfed, there would be 1,5 million more living and healthy children a year

Despite active programmes to encourage breastfeeding, Dr Belsey says it is a myth that mothers in the developing world breastfeed

In Nigeria, less than one percent of mothers breastfeed their offspring up to the age of a year; about 50 percent of the mothers breastfeed and give their children water while the rest breastfeed along with a supplement

Although they are all breastfeeding, very few are doing so correctly

There is also a dire need for women to have a choice in contraception The high rate of unplanned pregnancies — about 100 million worldwide a year — highlights this need, says Geneva-based Dr Belsey

Abortion causes at least one quarter of all maternal deaths in world hospitals

For every 100 births in the Soviet Union, there are 100 abortions, in Africa there are between 15 and 29 abortions for every 100 births Of the abortions in 1990, there were 32,3 million unsafe abortions and 28 million safe abortions There were also a further 40 million unplanned births during that year

For every 140 abortions performed in Africa, one woman died — compared to the one death in 1 500 in north America

The WHO representative says there are systems available which would meet the needs of mother and child Indications are that it would cost about \$2 (about R6) per capita a year.

"It is a question of political will and the sharing of power with communities and families," says Dr Belsey

Stop the roller coaster — we want to get off

W/Mail 14/8-20/8/92. (232)

Investors are in a tizz over this week's market fall. Is the roller-coaster ride at an end, or is there worse to come?

REG RUMNEY *reports*

RIPPLES from the worldwide recession flowed through an already nervous Johannesburg Stock Exchange this week — turning into a flood of selling

Investors were asking themselves whether the market had come to the end of the roller-coaster ride which started with the breakdown of negotiations at Codesa and the mass action campaign, or whether there was still worse to come

On Thursday morning the market, as measured by the JSE's overall index, had fallen around two percent, after falling about three percent on Wednesday. Buyers were to be found at the new lower levels to which share prices had dropped, and there was some hope the market would return to some sort of health

Before the fall, the market had started to recover in line with hopes for a return to negotiations.

Triggered by a pessimistic forecast about second-half results from diamond giant De Beers, the sell-off looked likely to be exacerbated further by a fall in platinum and gold prices

What must be remembered is that such falls are driven by sentiment. So what would drive the market up again? Perhaps better news on a political settlement — though in times of market nervousness, bad news is received more enthusiastically than good and the long view is forsaken as investors bolt for cover.

The background to the fall is that while Wall Street remains resilient, the London Stock Exchange isn't doing well and Tokyo, whose sudden fall triggered the 1987 crash, is still in free fall. The major economies in the West are still in recession, or emerging rather shakily from it Hence the demand for diamonds — a luxury purchase — has fallen, along with the outlook for De Beers

De Beers, whose market capitalisation accounts for between eight and nine percent of the value of the shares on the JSE, is a bellwether stock in South Africa Its fall must mean a knock to the JSE.

It wasn't just that De Beers' profits were far below some expectations, but that De Beers itself appeared to have misread the market

De Beers' bottomline profits fell 26 percent in the six months to end June Combined attributable earnings fell to \$0,87 per De Beers/Centenary linked unit from \$1,17 in the six months to end June 1991. On top of this, directors warned the poor results meant the final dividend could be cut. This was too much for overseas analysts, who felt a De Beers roadshow in Europe in June had pulled the wool over their eyes about De Beers' prospects for the second half of the year.

The share price drop of three percent on Wednesday was the largest one-day fall since October 1987. It wiped R1-billion off share values and raised fears of a repeat of the October 1987 crash.

The fall was not as large as the first big one-day drop of the 1987 crash, which was around a 12 percent drop, but it came at the end of a steady decline in share prices.

According to Frankel Kruger Vinderine economist Mike Brown, by mid-week the market had declined around 15 percent since the end of May.

Gold and platinum also fell this week. The price of an ounce of platinum on the New York Metals Exchange (Nymex) for October delivery fell to \$354,30 from \$367,70.

Following platinum, the price of an ounce of gold fell to \$348,15 at the afternoon fix in London on Wednesday, compared to \$350,35 at the previous afternoon fix. And on Thursday morning, gold fell further to be fixed at \$339,25 an ounce.

IFP man linked to gun running

W/Mail 14/-20/8/92

236

By EDDIE KOCH

A SELF-CONFESSED arms smuggler has implicated Bruce Anderson, the white Inkatha official deported from South Africa last month, in a racket that involved smuggling AK47 rifles out of Mozambique into South Africa

The gun-runner says Anderson acquired about 40 AK47 rifles and "a few anti-personnel mines" from contacts in Mozambique and then arranged, through a middleman in Swaziland, for the consignment to be dropped off at a shop in kwaMashu township near Durban

The Weekly Mail's source claims to have personally supervised arrangements for Anderson's cargo of weapons to be transported from Mozambique to Natal

The Department of Home Affairs has refused to comment on the reasons for Anderson's sudden deportation to England last month Inkatha declines to say why their official was booted out of the country And British officials remain tight-lipped about Anderson's expulsion

Asked if the Inkatha official's expulsion was linked to gun-running, Home Affairs' Chris Pretorius said: "We do not give reasons, as you know, for people being deported"

But sources close to Mozambican intelligence this week confirmed that Anderson had close ties with Renamo rebels in Mozambique and has long been suspected of involvement in the movement of weapons from that country into South Africa.

Anderson also visited Washington last year where he made contact with a number of rightwing movements and inquired about the possibility of purchasing weapons

Mozambican intelligence sources added that President Joaquim Chissano discussed the issue of arms smuggling between the two countries with President FW de Klerk when the two leaders met at the opening of the new Polana Hotel in Maputo last month

"De Klerk said he would take action against anyone who was supporting Renamo from South African soil if concrete details were supplied to him," a leading Frelimo member told *The Weekly Mail*

British diplomats, who ask not to be named, say they are also certain that the expulsion was related to the Inkatha official's involvement in gun-running

Anderson was the chairman of Inkatha's Sandton branch and a delegate for the Zulu movement at Codesa. He also served on an interim dispute resolution committee in Alexandra township

He came to South Africa in 1981 after being convicted of fraud in Zimbabwe where he lived for a number of years Anderson became a confidante of Renamo leader Alfonso Dhlakama as well as Ndabaningi Sithole, Zimbabwe's rebel nationalist leader

He was also a member of Britain's neo-fascist National Front before he emigrated to Rhodesia in the late 1970s

Anderson was declared a persona non grata on July 17 this year and was given a one-way ticket to England on that day It is believed he will be attending a reunion meeting for members of the Rhodesian special forces in London this weekend

Falling gold price adds to market gloom

(232)

STAR 14/8/92

By Magnus Heystek

The slide in prices on the JSE continued yesterday as further bad news in the form a sharply lower gold price depressed sentiment and sent investors hurrying for cover

Gold was fixed at $337,30 yesterday afternoon, compared with $346,80 on Wednesday

In the space of four trading days platinum has fallen by over six percent to $351,75, silver by 3,5 percent to $3,81 and gold by over three percent to $337

Gold's decline was precipitated by the sharp drop in the platinum price on Wednesday when Japanese investors sold the metal on fears that demand would dwindle as the Japanese economy was showing no sign of improvement

On the JSE, the overall index shed 54 points to bring its decline to 191 points since the beginning of the week

Industrials also come under severe pressure and closed down 52 points after Wednesday's 110-point drop

It closed at 3997 yesterday in what could be a major downward break of the 4 000 level

The gold board was especially weak, shedding almost five percent of its value to 937

News of the sharp drop in economic activity in the second quarter of the year, which shows that gross domestic product (GDP) declined by 2,6 percent on an annualised basis, added to the gloom

Despite a brave face being put on by brokers, analysts fear a prolonged bear market

De Beers again occupied centre stage yesterday The share at one stage dropped to below R60, but some support later propped the share up somewhat It closed at R61,50

According to one broker, Cape-based financial institutions had been buyers of De Beers prior to its interim results

"They were buying De Beers at R80 last week and now they don't want to touch it at R60, " he said

The sharp drop in De Beers, in particular, is causing havoc with the investment performance of financial institutions, especially unit trusts

With De Beers having the largest market capitalisation on the JSE, it forms the largest single shareholding of most portfolios

While the portfolios of pension, provident and other funds are able to hide the extent of their declines from the public eye, unit trust are not so lucky

The decline in the value of general equity funds has been greater than the decline in the overall market, mainly because of the heavy shareholding in De Beers

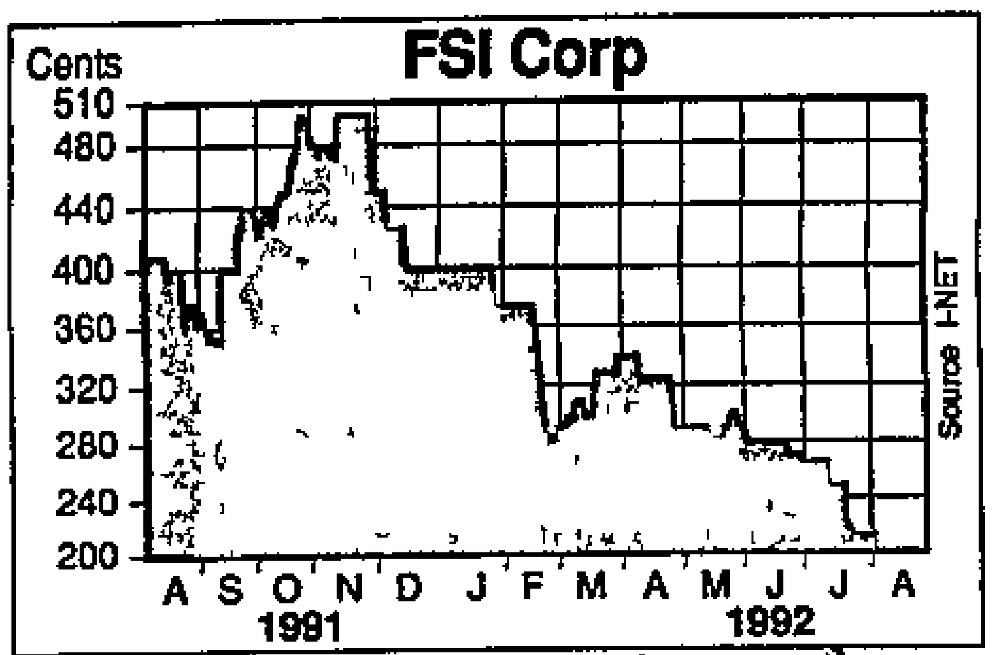
FSI CORP FM 14/8/92 232

Tracing the funds flow

Activities: *Holding company for W & A Investment, an investment holding company with subsidiaries in manufacture and distribution of industrial and consumer products*
Control: *FSI Group 64,5%*
Chairman: *J Liebesman*
Capital structure: *40,4m ords Market capitalisation R87m*
Share market: *Price 215c Yields 16,3% on dividend, 26% on earnings, p e ratio, 4,6, cover, 1,57 12-month high, 500c, low, 215c Trading volume last quarter, 329 000 shares*

Year to Dec 31	'88	'89	'90	'91
ST debt (Rm)	82	131	96	198
LT debt (Rm)	439	510	1 126	1 061
Debt equity ratio	0,34	0,58	1,10	1,29
Shareholders' interest	0,61	0,54	0,36	0,34
Int & leasing cover	3,42	2,9	2,04	1,56
Return on cap (%)	17	16	11	10
Turnover (Rbn)	2,4	2,5	3,2	3,2
Pre-int profit (Rm)	318	345	358	330
Pre-int margin (%)	11,8	12,4	9,7	8,8
Earnings (c)	151	153	128	55
Dividends (c)	30	35	35	35
Net worth (c)	553	646	312	143

FS Group — with a market capitalisation of about R96m after the slide in the share price — controls underlying assets with consolidated turnover of R3,2bn The pyramid structure has four levels. W&A Investment Corp is 71%-owned by Waicor, which is 76,6%-owned by FSI Corp, itself 64,5%-



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FM 14/8/92 232

FSI's Liebesman
activity is down

owned by FS Group Apart from debt servicing commitments, the top companies' accounts reflect a consolidation of the operating assets held in W&A (*Companies* June 19)

Servicing needs of the top companies are not well-understood, with analysts speculating pressure in this area is the reason for W&A's dividend cover having narrowed significantly Jeff Liebesman, chairman of all four entities, denies this, adding that all servicing commitments in the top three companies derive from "A" series convertible debentures and preferred ordinary shares The holding companies are mostly conduits, through which the pref ord dividends and "A" conv debentures' interest flows

Liebesman says dividends from the ords in all four entities serve no function in servicing debt in the top companies Instead, they end up with the shareholders after flowing through the various companies

W&A has 18,8m pref ords, 26,5m "A" conv debentures and 6,2m "B" conv debentures in issue Waicor holds the pref ords and "A" conv debentures Minorities hold the "B" conv debentures

The 72c/share annual W&A pref ord dividend is declared to Waicor, where, in turn, it is paid through to FSI Corp, which holds all 46,7m Waicor pref ords in issue The R13,5m pref ord dividend received from Waicor is insufficient to service the pref ord div of R15m paid by FSI Corp, though Liebesman says "deal fees and income from fixed assets" earned and owned by FSI Corp make up the R1,5m shortfall

W&A has 26,5m "A" conv debentures in issue, all held by Waicor Interest on these, at 2% below prime, came to R32,4m in 1992 Waicor paid all of it to FSI Corp which holds all of the 65,7m issued Waicor "A" convertible debentures The R32,4m covers FSI Corp's debt interest commitments, which come to R32,5m Cash flow may be adequate to meet holding company commitments, but it's tight, though Liebesman contends this was the intention at the time of the restructure

W&A's share price has almost halved in the past month, reflecting concerns that the group is exposed in downswings, especially with its high gearing Liebesman confirms activity is down, predicting EPS will fall roughly 25% this year with the dividend probably cut in line with this If so, the share may well offer value with the yield at 16,3% but there could be a long wait before sentiment improves *William Gilfillan*

BUSINESS

Turn behemoths into boutiques

W/Mail 14/8/-20/8/92

232

A new report pinpoints three big groups which are ready for 'unbundling', an idea whose time has come.

By **REG RUMNEY**

THERE has been much talk of "unbundling" conglomerates since Finance Minister Derek Keys floated the idea while he still headed Gencor Now a report by McGregor's Online pinpoints three big conglomerates with obvious potential for this: Anglo American, Barlows and SA Breweries.

"Unbundling" essentially means the dismantling of a conglomerate. The McGregor's Online report says the three big groups are ripe for dismantling and provides detailed statistical information about their subsidiaries and associates.

Excluded are groups which, in the opinion of McGregor's Online:

- Have recently undergone restructuring which is likely to delay a decision to unbundle. "Gencor is perhaps an exception as the planning which went into its recent reconstruction included a great deal of unbundling."
- Are relatively young groupings.
- Fall outside the scope of a report on a subject as vast as unbundling.

Why should South Africa's big groups unbundle? It is a world trend to break down a conglomerate into relatively small, autonomous units, notes McGregor's Online's Simon McGregor.

International futurologist and author Alvin Toffler "refers to 'an economy built of boutiques rather than behemoths'," says McGregor. "From a management point of view, it's a far more efficient way of a running a company than the top-down system. That's where the trend started."

Unbundling means different things to different people, notes the McGregor's Online report. For management, unbundling will in essence mean replacing a "top-down" system of management with a small "head-office" operation functioning with many independent units These units would be either companies or divisions

For investors, unbundling will add value by eliminating the cost of multi-tiered control and will unlock value by reappraising undervalued assets It will also focus attention on core business.

For the state, unbundling may mean increasing competition by making conglomerates divest themselves of operations in particular sectors deemed to be non-competitive, either by incentives or by coercion.

Unbundling will reverse the trend of conglomeration over the past 40 years under the Verwoerdian ideology of apartheid, which led to corporate bureaucracy and declining domestic competition.

"The Mouton Commission in 1977 found that there were three or less producers responsible for more than 75 percent of the production in over 70 percent of South African industries," says the report. "Since then there has been considerably more concentration, resulting in serious lack of competition

"South Africans are world leaders in mining techniques, mining management, oil-from-coal technology, etc — but they lag when it comes to the dynamics of corporate structure

"Big is beautiful for many reasons, but big can become counter-productive when its control becomes many-tiered"

How can the conglomerates be unbundled? Anti-trust laws are being considered by the African National Congress, notes the report. Particularly if these laws are introduced retroactively — which may be necessary because of over-concentration in the economy — they will have a profound effect on South African companies.

Since conglomeration was exacerbated by bars on local companies investing abroad, it would be inappropriate to penalise them, says the report. Instead of coercive measures, the report advocates encouraging conglomerates to divest themselves of subsidiaries which infringe anti-trust laws.

"They should be exempt from any Marketable Securities Tax — a significantly inhibiting factor — and, above all, they should be allowed to invest all or a portion of the proceeds flowing from such sales abroad"

A mechanism would have to be devised to minimise the effect of this on the balance of payments, coupled perhaps with an incentive scheme to encourage foreign investment in South Africa, says the report.

Finally, there are a number of arguments for voluntary unbundling

Voluntary unbundling can al... be anticipated to pre-empt legislation says the report. "While manag... on its own is a fringe science, management with product knowledge ... a proprietary stake has a defi... advantage.

"Coupled with this, one can ... that if conglomerates were to div... themselves of down-the-line subsidiaries — selling ideally to owner managers — the competition th... created would enable them to bu... their requirements from more efficient and cheaper markets"

Puzzle over expulsion

Sowetan 14/8/92

■ Rumours that immigrant is involved in arms smuggling:

By Victor Tsuai

THE deportation of the former Inkatha Freedom Party member, Mr Bruce Anderson, deepened further yesterday when the Department of Internal Affairs insisted it would not reveal reasons behind its action

Further inquiries by the *Sowetan* and the African National Congress as to why the authorities would not disclose reasons in the interests of the public met with a firm "No" from the department's spokesman, Mr Thomas Dreyer

According to ANC spokesman Mr Carl Niehaus at first Anderson was perceived to be welcome by the Department of Internal Affairs.

Niehaus said: "Now that he is seen not to be welcome, they see fit to cover up for him We believe that Andersen was involved in activities that are highly embarrassing

(236)

Anderson was deported from the country on July 17 after being declared persona non grata He was a senior member of the IFP and one of its representatives at Codesa.

Sowetan has been reliably informed that Andersen's deportation could have been as a result of "criminal activities" possibly linked to arms smuggling.

STAR 14/8/92. 232

Gold price dip adds to JSE gloom

14/8/92.

By Magnus Heystek

The slide in stock market prices on the Johannesburg Stock Exchange continued yesterday as further bad news in the form of a sharply lower gold price depressed sentiment and sent investors hurrying for cover

Gold was fixed at $337,30 an ounce yesterday afternoon compared with $346,80 on Wednesday afternoon

News of the sharp drop in economic activity in the second quarter of the year, which shows that the gross domestic product declined by 2,6 percent on an annualised basis, further added to the gloom

Overall the JSE dropped by another 54 points yesterday to bring its decline to 154 points since the beginning of the week

Industrials also came under severe pressure and closed down another 52 points after Wednesday's 110-point drop

● Report — Page 15

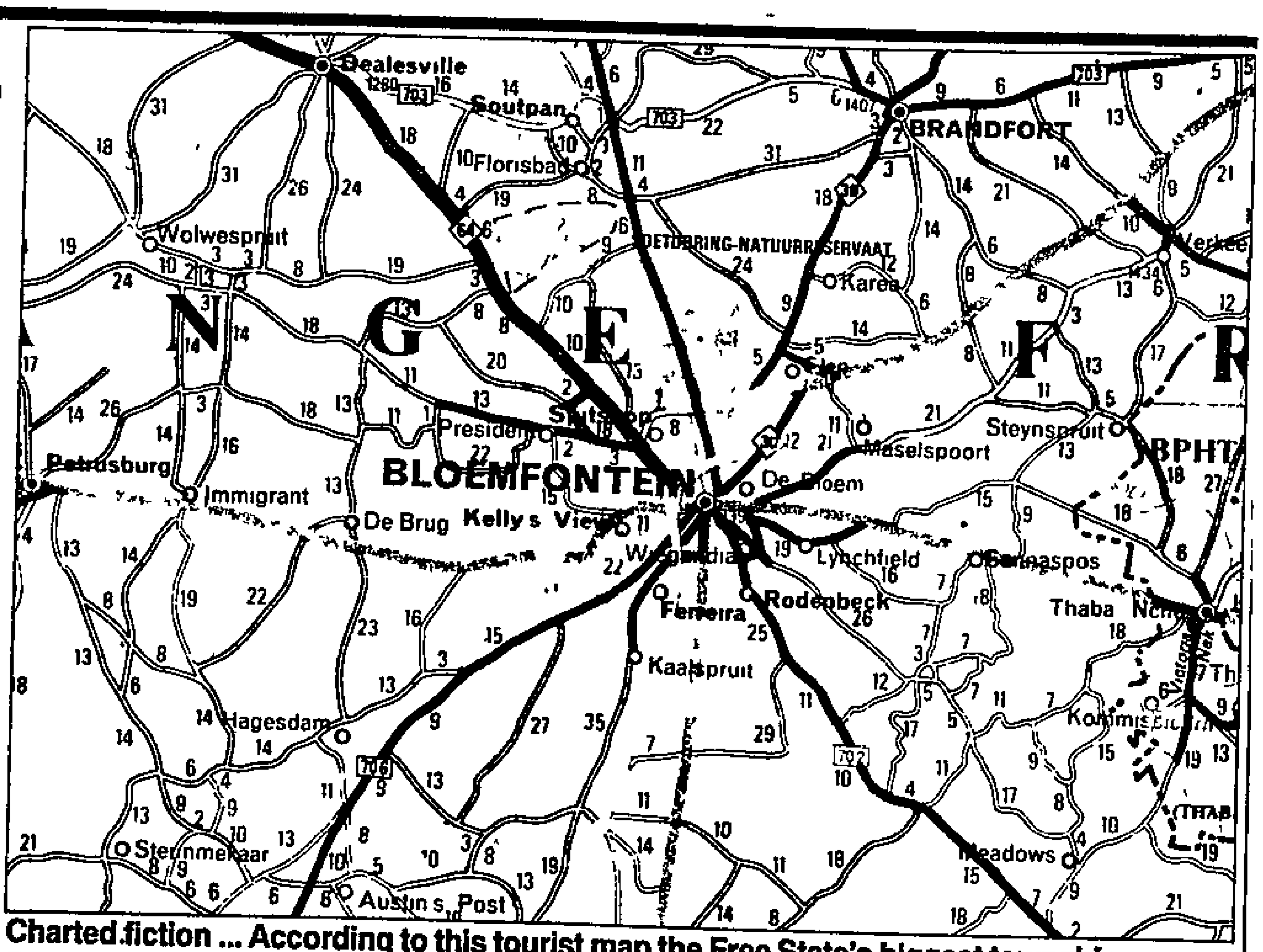
Looking for the new SA? Don't bother with the maps

(235)

W/Mail 14/8-20/8/92

Apartheid lives on in South Africa's maps and atlases. If you want to locate some of the country's largest residential areas, you'll have to consult other sources.

By **ARTHUR GOLDSTUCK**



Charted fiction ... According to this tourist map the Free State's biggest township, Botshabelo, doesn't exist

SOUTH AFRICA's political landscape may be changing, but travellers still carry with them the road maps of apartheid.

The Free State's biggest black township, Botshabelo, has a population of 180 152, but you won't find it on tourist maps.

The nearest major city, Bloemfontein, is a standard feature, with a population of 272 000 But although the largest percentage of this figure comprises people who live in Bloemfontein's neighbouring townships, these are rarely featured on most maps.

In contrast, tiny towns like Bethulie (7 429 people), Edenburg (5 950) and Trompsburg (4 350) have always been featured.

Middelburg, a Transvaal town with approximately 40 000 people, is justifiably included on every map But its neighbouring black township, Mhluzi, with about 75 000 people, can be found only on street guides or specialist maps The tourist won't know that it exists.

The maps of the "old" South Africa are rife with such examples With the possible exception of Soweto, black areas were not deemed worthy of being acknowledged on tourist maps, let alone in school atlases.

Says Brian Ford, production director of Map Studios, one of the country's largest suppliers of street and touring maps: "We're actively working towards more inclusive maps In the past, maps did not show areas where one didn't want tourists to go, because they were not regarded as safe

"Obviously, that is changing with the 'new' South Africa There is also a great demand from the point of view of delivery services."

On tourist-oriented maps, says Ford, only major centres like Soweto or Mdantsane (in the eastern Cape) are shown. "In the future, a high percentage of the black population is going to comprise tourists and we're going to have to cater for them," he adds.

The Automobile Association, which most white South Africans identify with helping them get from point A to point B, does not believe such steps are necessary.

"Our maps are specifically designed to take people to touring areas — there is not a lot of interest in going to the townships," says Ben Matthee, general manager of publications at the AA "Although our membership has been open to all South Africans since 1966, people of colour are a very small minority "

The AA gets copyright authority from the Government Printer to base their maps on information from official maps It then produces maps to its own specifications The determining factor in the depiction of cities and towns, says Matthee, is population.

"Where there is a mass of population, that is reflected by means of a built-up area outline. There's no question of discrimination, in fact, we've even removed names of an offensive nature."

On large-scale maps, such as the AA's southern Transvaal map (1:100 000), Matthee's statements hold true. The map even shows townships like Boipatong and Bekkersdal.

Maps of lesser scale avoid townships altogether. The eastern Transvaal map (1 500 000) shows even the tiniest railway siding in white areas, but there is barely a township to be found Middelburg's Mhluzi township is among the most glaring omissions

Matthee explains that such townships fall within the municipal boundaries of the nearby town He does not believe such omissions are a problem, "since blacks prefer someone to give them directions in the form of landmarks and streets, rather than to use maps".

He adds that showing all black townships would be discriminatory "We don't want to be seen specifically to be drawing attention to black townships, and saying don't go here or there "

But a consequence of this approach is that road maps remain a highly graphic reflection of the classical apartheid era.

Black "feeder locations" which dwarf their neighbouring white towns in population remain unrecognised and as far as most travellers are concerned, these locations simply do not exist. It takes a specialist map like that of the Development Bank of South Africa to reveal that such places even have names.

AMIC FM 14/8/92 (232)

In the trough

The prediction of a modest increase in earnings over 1992, by Anglo American Industrial Corp's previous chairman Graham Boustred in March, has come off the rails Interim results announced by Anglo's industrial arm reveal a 15% decline in EPS over the same period last year, down to 281c from 333c for first-half 1991

New chairman Leslie Boyd says he expects a similar percentage fall for the second half, which means Amic is on course to produce full-year EPS of around 620c compared with 1991's 731c However, the dividend has been held at 110c, achieved at the expense of cover which has fallen from three times last year to 2,6

Amic is positioned in iron, steel and engineering (Scaw, Highveld and now Columbus), explosives and chemicals (AECI), mining and construction equipment (Boart), pulp and paper (Mondi), sugar and food (Tongaat-Hulett), electronics and electrical engineering (Ventron and Control Logic) freight and travel (Rennies), motor assembly and distribution (Samcor/McCarthy and, soon, Prefhold), and building and construction (LTA)

FALLING STAR

Six months to	Jun 30 '91	Dec 31 '91	Jun 30 '92
Turnover (Rbn)	3,12	3 34	3 28
Operating income (Rm)	211	223	170
Attributable (Rm)	182	219	160
Earnings (c)	333	398	281
Dividends (c)	110	240	110

This makes it widely diversified As such, it is susceptible to all the vagaries of the SA and international economies and 1992 has been an especially difficult year on both fronts Boyd says he is not disappointed with the results in the light of arduous trading conditions "We experienced problems in all sectors," he says, adding that most of the companies in the Amic stable had reduced demand for their products in the local market Compounding this were lower prices in export markets

FM 14/8/92 (232)

The companies most affected by the downturn were Highveld and Mondi Both are significant contributors to Amic's equity earnings, over 1991 Mondi's contribution was 12,7% and Highveld's 12,3%

The most important project on Amic's books is the Columbus stainless steel joint venture it is developing with Samancor Boyd says the respective boards have approved in principle the project's capital expenditure estimated at R2,5bn in 1992 money The approval is subject to the finalisation of firm tenders The matter of how best to fund the project is now receiving consideration and Boyd says an announcement will be made in the next few months

He expects construction on the Columbus project to begin early next year and continue through 1994, with commissioning beginning in 1995 Meanwhile, he confirms discussions are being held with government on applying Section 37E of the Income Tax Act to the project Section 37E bestows certain tax advantages on beneficiators of local raw materials (*Economy* April 10)

Amic's stock is priced at R75, down from a 12-month high of R92 It is trading on a p e of 10,1, against a sector average of 13,1 Considering the miserable state of the economy and practically zero prospects for a recovery before 1993, the share is fairly priced However, Amic is well-positioned to take full advantage of the upturn and this is probably a good time to accumulate the counter

David Gleason

JSE falls further as gold slides

PETER GALLI and HILARY GUSH

PLUNGING precious metal prices took their toll on JSE gold and platinum counters as the all gold index tripled its Wednesday losses, falling 43 points to close at 937 points

BDAY 14/8/92

While other counters continued to reflect heavy losses yesterday, these were not as severe as Wednesday's

A dealer said that after pushing the market lower by "panic selling", institutional and private buyers were now placing buy orders at these levels

(232)

The overall index continued its downward spiral, closing 54 points lower at 3 155 with the industrial index following closely, losing 52 points to 3 997

A market commentator said attention had moved away from De Beers to other blue chip industrials as some investors continued to panic and lightened their portfolios "However, in late trade yesterday we saw a number of buying orders that had been cancelled on Wednesday renewed as some buyers were nibbling at blue chips at these levels," he said.

Bearish market sentiment and falling precious metal prices assisted the mining financials' 75-point drop to 3 455

"The market has been really tough lately and while it appears to have steadied at these lower levels, major political or economic news is needed to stimulate it"

In London, gold closed at $338,40, $7,40

□ To Page 2

JSE

BDAY 14/8/92 (232)

□ From Page 1

down on Wednesday's close

The platinum index lost 30 points to 4 305 on the back of a $16 fall in the platinum price to $351,75 at the afternoon fix.

On the SA Futures Exchange, volume yesterday more than doubled from Wednesday s 9 513 to 20 000 contracts 'due to the phenomenal volatility in the marketplace' MD Stuart Rees said

An institution led bull run on the capital market yesterday brought rates down to lows last seen in March 1984

The yield on the bellwether Eskom 168 bond slipped to finish at 14,13% yesterday from Wednesday s 14 30% close. The yield on government R150 stock — the bench mark gilt — ebbed 21 points to end the session at 14,23% from a previous 14,44%

Dealers said as the performance of equities was poor, institutions were 'piling into gilts" and that market was bearing the fruits of the equity market's demise

Active trade in Transnet Elfi stock saw the TB12 bond gain 11% in five trading days. From R89 75 a week ago, it closed yesterday at R99,75 Over the same period the all-share index fell 6,5%

● See Page 7

New appointments at JSE

NEIL CARTER, financial director of Time Holdings, has been appointed director: operations of the Johannesburg Stock Exchange. A Scottish CA who holds an LLB and MBA, Carter will be responsible for the day-to-day running of the JSE. (232)

Coopers Theron Du Toit senior partner Rob Barrow has been appointed director: inspectorate and surveillance.

Barrow is a former chairman of the Accounting Practices Committee of the SA Institute of Chartered Accountants (SAICA).

W/Mail 14/8-20/8/92

Frenetic activity 'out of step with global trends'

BDAY 14/8/92. (232)

THE frenetic level of merger and acquisition (M & A) activity last year has put SA out of step with global developments and once again reflects the country's international isolation, says Ernst & Young Corporate Advisory Services MD Claire Herbst

She was speculating on the reasons for the high level of M & A activity, which saw R12bn change hands despite the worst recession since Second World War; political turmoil, and a marked decrease in M & A activity during the past two years in the major world economies of the US and Europe

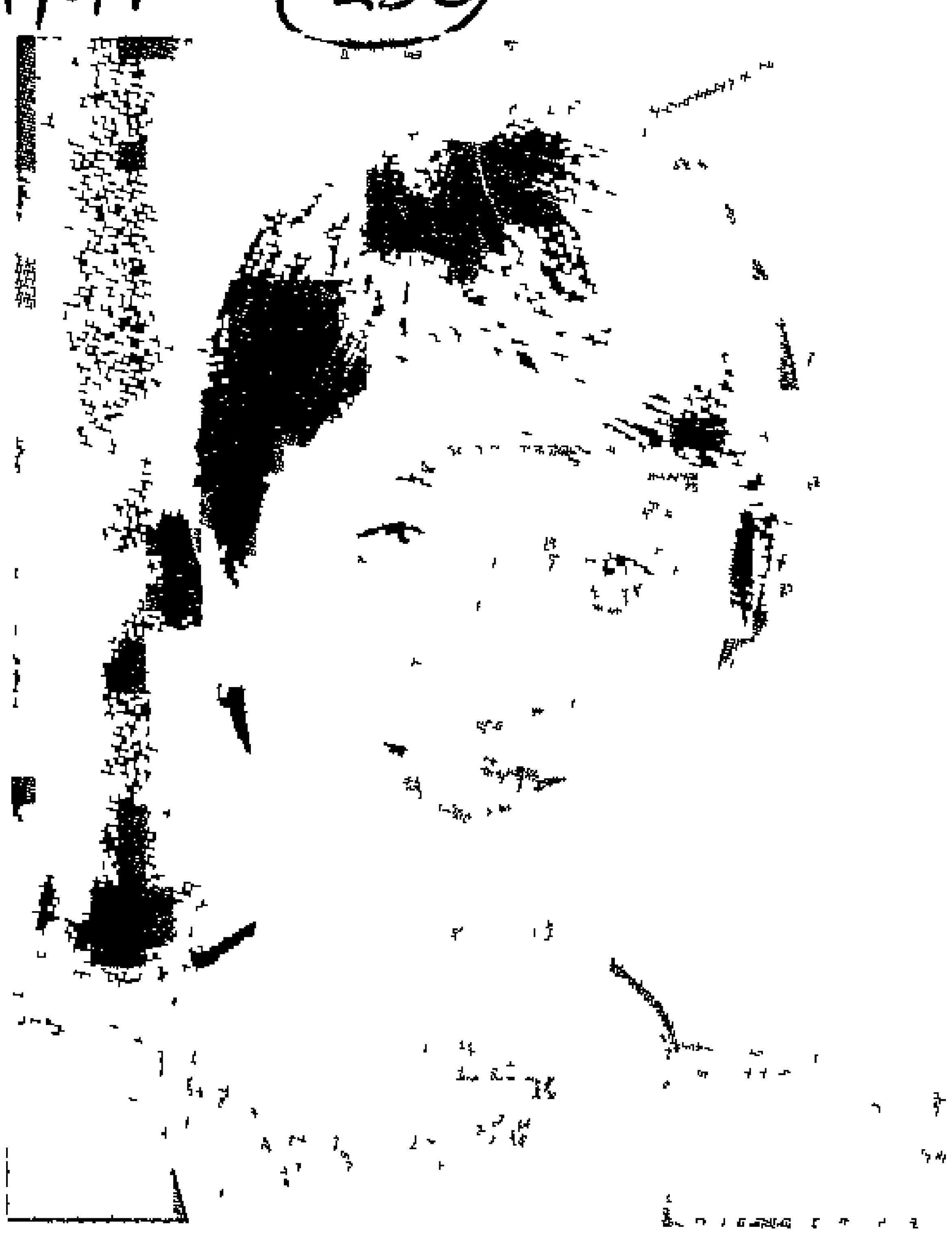
"The concentration of buying power in our major conglomerates and financial institutions is also, no doubt, a factor They have the financial muscle to undertake strategic investments, even in these very poor economic times.

"Much activity, for example, is coming from the refocusing of our major groups, which are rationalising their underperforming or nonstrategic subsidiaries in a far more ruthless manner than in earlier years."

She pointed to Sankorp's reshuffling of Federale Volksbeleggings and effective disposal of Tradegro, including Metcash and Checkers, plus Barlow Rand's disposal of Middelburg Steel & Alloys

Surprisingly

"On the other side of the coin, SA Breweries somewhat surprisingly took a controlling interest in the Plate Glass group, an acquisition which is difficult to reconcile with their previously defined mission of focusing on fast-moving mass consumer markets," Herbst said.



CLAIRE HERBST

Further rationalisation in the financial services industry were also a feature of recent takeover activity. These involved the ABSA-/Bankorp merger, the reshuffling of Standard Bank's shareholding and the Liberty group's significant offshore activities

Many SA companies had once again started to internationalise.

"After our long period of international isolation, it is perhaps inevitable that 18% of all publicly recorded transactions last year involved SA companies establishing a foothold abroad.

"This trend is likely to accelerate in the year ahead as local companies seek to catch up with global developments and expand their foreign markets"

The buying out of minority shareholders in companies where share prices were underpeforming was another trend likely to continue in the year ahead

"This is regrettable, but an inevitable consequence of an illiquid stockmarket where a listing remains relatively unattractive for second-tier companies which are effectively unable to use such listings to raise new capital at a cost below that of an unlisted company," Herbst said

Unlike in previous years when management buyouts were largely driven by foreign disinvestment, an interesting feature last year was that such transactions were dominated by local management buying from local shareholders

Corporate foreign disinvestment continued, although most major transactions went unreported Royal Corporation managed to bag two of these, the SA Preserving Company and, more recently, Donald Cook.

Inward investment was hampered by lack of progress on the political front and the unacceptably high level of violence Very little such investment was publicly announced and several deals close to conclusion were postponed

"It is difficult to predict when this situation is likely to reverse, as SA is undoubtedly perceived to be an extremely high-risk investment Meaningful inward investment is unlikely to materialise until we not only have our own house in order, but have experienced some period of stability"

Herbst said acquisition prices remained bullish in line with the JSE index On average, a 14% premium was paid over and above the JSE price, indicating that the "greenhouse" effect was as prevalent in the market for corporate takeovers as it was on the JSE

"This is no doubt attributable to the shortage of good acquisition opportunities in our concentrated economy, and to exchange-control restrictions"

Precipitate

The economic and political uncertainties facing SA made it difficult to predict trends for the year ahead However, these uncertainties could precipitate certain transactions

For example

- Large conglomerates might voluntarily start "unbundling" on their own terms, rather than being forced to do so by anti-trust legislation,
- Offshore transactions would probably continue to escalate ahead of uncertainties regarding the future of the financial rand and exchange control, and
- Control of family-held companies might change as their shareholders sought to realise a portion of their assets and diversify their risks

Herbst said "No doubt we can also look to some increase in foreign inward investment as soon as meaningful political progress is made"

Recession takes toll on buyouts

BIDAY 14/8/92. (232)

THE global merger and acquisition (M & A) market is currently suffering its worst decline in living memory, according to Richard Mead, head of Ernst & Young international M & A network.

"The 1980s saw year after year of new records being set in the number of transactions being recorded, in the monetary volume of M & A transactions and in the size of individual deals.

"But these were also years of excesses. Prices rose to unsustainable levels, encouraged by the willingness of bankers and junk bond investors to accept highly leveraged structures which later proved to be imprudent and, in some cases, catastrophic."

By the end of 1989, it was clear that the bull market in acquisitions, at least in the English speaking markets of the US, Canada, the UK and Australia, was at an end.

Economic recession forced companies to focus on managing themselves rather than on making adventurous acquisitions The junk bond markets collapsed and banks proved reluctant to provide the necessary funding

Continental European markets proved more resilient, largely because they were less mature and had not experienced the excesses prevailing elsewhere, Mead says

Advantage

"Many of their companies took advantage of the lack of Anglo-Saxon buyers to make cross border acquisitions Swedish companies were the dominant buyers in early 1990, although they disappeared from the markets when the extent of their country's own economic problems became apparent.

"French buyers have shown considerably more staying power and remain among the most aggressive, active both domestically and internationally"

The current overall position lacks the frenetic activity of the 1980s but is more stable M & A activity is far from dead in English speaking countries.

"In the short term at least, a number of opportunities have been created by businesses going into bankruptcy, with their viable parts being sold. Other reconstruction and reorganisation work to combat the effects of recession has also resulted in selloffs.

"On the whole, however, buyers have remained cautious and have been able to dictate terms, a situation wholly alien during the 1980s Acquisitions now tend to be strategic rather than opportunistic"

Mead says the cycle will turn, although perhaps not for a year or two

"Once health is restored to ailing Western economies, many companies will feel that the only way to achieve better-than-average growth will be through acquisitions."

HAIB FM 14/8/92

In the dark

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Haib shares were suspended this week amid confusion over the company's future and legal action by former MD Glenn Laing over money owed by new controlling shareholder, Mega Holdings JSE Listings GM Richard Connellan says Haib shares were suspended "in an attempt to flush whoever controls the company out of the woodwork"

"Since the change of control, we have been unable to contact the directors," he says "We would like to know what is going on because we have been led to believe there are no directors of Haib now" Connellan says the JSE will hold a meeting within 30 days to determine the future of Haib and assess whether the suspension should be lifted or continued, or the listing terminated

Revere Resources, which formerly controlled Haib, sold its 80% stake for R550 000 at the end of June to Mega Holdings Revere Resources MD Glenn Laing says he has instituted legal action for the winding-up of Mega, because of non-payment of R30 000 due on July 13 and R170 000 on August 6

"Sale of the shares was approved at a Revere Resources shareholders' meeting on July 31 On the same day at the Haib AGM, the Revere-appointed directors stood down and the Mega Holdings nominees were appointed to the board We delivered the Haib shares to Mega's attorneys on August 6 to be held in trust," Laing says

FM 14/8/92 232

Mega MD Corné Kooiman could not be reached for comment and neither could Geoff Parker who is, or should be, the new Haib MD When Haib's takeover was announced, it was also revealed Mega's operations were being investigated by the Business Practices Committee in terms of the Harmful Business Practices Act

Mega bought the mineral rights to Haib for R550 000 from Springbok-based mining entrepreneur George Swanson who, on Tuesday, declined to comment on whether he had been paid, saying he was trying to contact Parker to find out what was going on "I'm in the dark," says Swanson So are the rest of us

Brendan Ryan

Melody of the unchained: Africa's fight for redress

SOUTH 15/6 - 19/8/92. (230)

African countries have launched a campaign, based on international law, to try to win compensation for the 'rape' of the continent during the slave trade

THE American civil rights leader in Goree Island, Senegal held the chains aloft, gripped the dead weight of an iron ball in his hands and demanded redress for Africa for the crimes of slavery

One-time presidential hopeful Rev Jesse Jackson has thrown his weight behind a campaign to win Western reparation for Africa, saying three centuries of slave trading stripped the continent of its ablest workers and hobbled development.

"For the pillage and rape of Africa there must be some reparation," Jackson told reporters recently on Goree Island, the tragic slave port off Africa's west coast which has become a place of pilgrimage for the black diaspora.

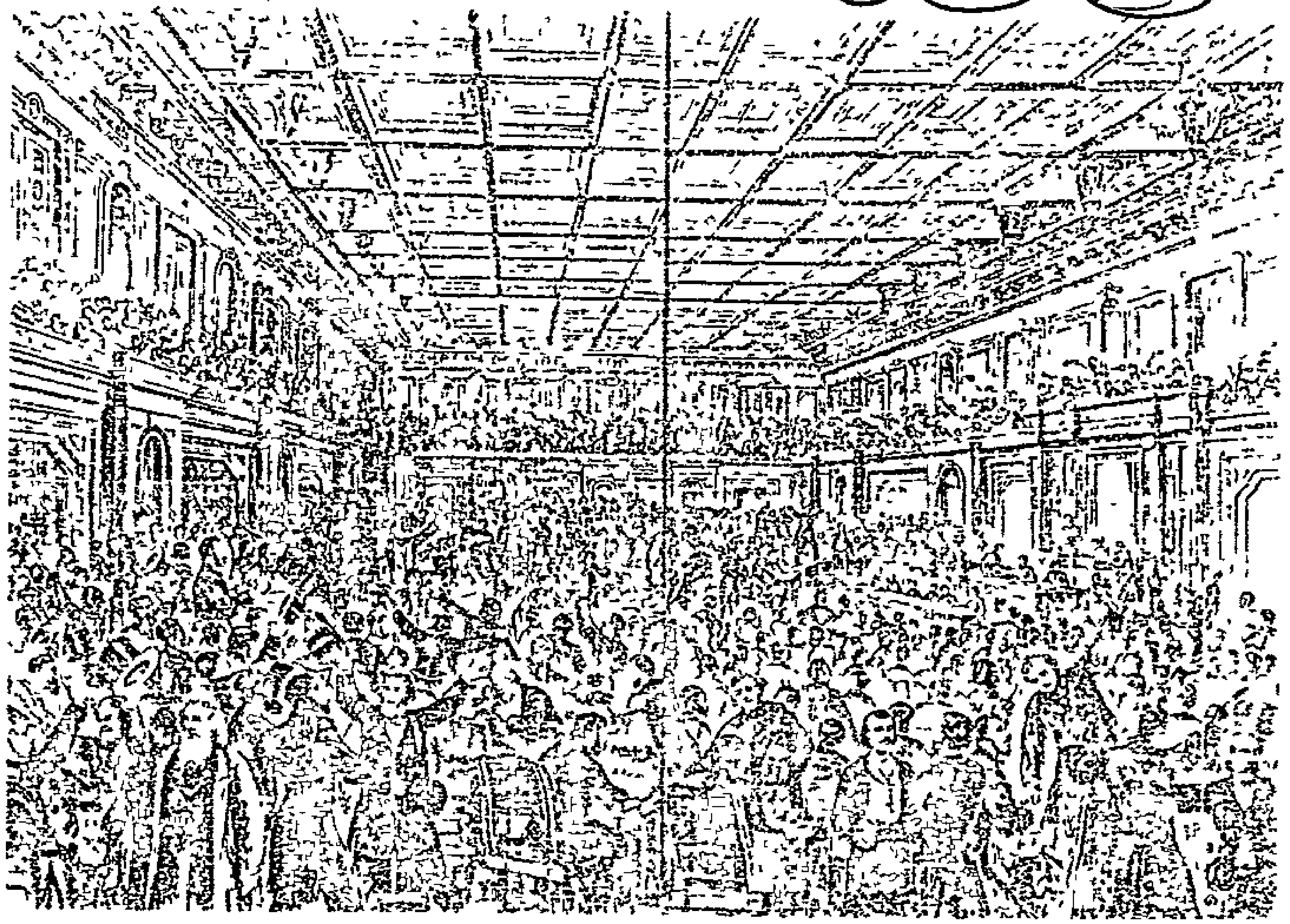
The European and American continents "have a moral obligation to contribute to reparations for the damage caused"

But critics say the Nigerian idea, which won approval at the recent annual Organisation of African Unity (OAU) summit in Senegal, is impractical and ill-conceived.

"The problem of slavery is more complicated than they make out," says Senegalese historian and journalist Mr Jerome Carlos — himself descended from slaves

"The time for blaming others is over Africa must help herself," Carlos says

Nigerian newspaper magnate Mr Mko Abiola began the campaign two years ago, basing it on international law He cites precedents like German reparation to Israel for Hitler's crimes against the Jews and Iraqi compensation for Kuwait after the Gulf War



FREE THE SLAVES: Members of the US House of Representatives come to their feet when the amendment to abolish slavery is announced in 1865

SOUTH 15/8 - 19/8/92

The idea was given a high profile at the OAU summit, where a group to study the idea was inaugurated during the opening ceremony

Jackson wants a comprehensive plan of aid, trade, long-term loans and debt leniency such as the West is offering Poland and Russia

Just as the US Marshall Plan helped rebuild Europe after World War II, Jackson says well-placed aid could create African markets which would benefit the West.

OAU secretary-general Mr Salim Ahmed Salim said reparations would be a dignified way to write off Africa's crippling debt of $275 billion (about R759 billion)

"This is not simply an issue of money," he told reporters at the summit "We are talking in terms of moral responsibility."

But many Africans, and black people elsewhere, dismiss the plan as a pipe-dream or a cynical political exercise to win votes or cash.

Objections focus on the role of Arabs and Africans themselves in the slave trade.

Figures are controversial and hard to pin down Most historians reckon about 13 million Africans were sold into Arab slavery from the seventh century, against 15 to 20 million shipped across the Atlantic from the 16th to 19th centuries.

Speakers at the OAU summit tended to deflect the Arab issue

Argument about the African role becomes more bitter

Entire African kingdoms like Benin's Abomey empire based their wealth on the slave trade, making war on their neighbours to grab captives for the Western market

Human rights groups like Amnesty International say slavery still thrives in at least one African country, Mauritania, although the government has outlawed it three times

"There will always be collaborators," Abiola said. "That does not mean that justice should not be done"

Jackson said the African role should be put in perspective.

"Those who owned the ships, who did the bargaining, who processed slavery, who built European and North American civilisations on the slave trade, were of course not Africans," Jackson said

But critics raise other objections Should reparation not be paid to descendants of slaves in America's black ghettoes or the West Indian slums, rather than those who stayed in Africa? Who will pay? Western taxpayers, some of whom are black?

Most supporters agree compensation should extend to the black diaspora, although there are few concrete ideas of how it could work. "Every African was enslaved," said Abiola "Some were enslaved outside Africa, some in Africa by colonialism"

Carlos fears that the campaign, far from benefiting black people, may alienate the West and stir up bitter historical divisions between Africans

"There has been a sort of mythical unity among all Africans until now I'm afraid initiatives like this will divide us They open wounds," Carlos said

— Sapa-Reuter

SABC urges fund raiser to join JSE

S/Times (Buss) 16/8/92 (232)

By CHERILYN IRETON

GAMES Africa, the new company that will raise funds for the Ithuba Trust, is being encouraged by the SABC to go for a JSE listing

A source close to Games Africa said a listing would give the company an image of public accountability

This follows criticism of Ithuba's past fund-raising activities.

However, it will be at least three years before the company satisfies the profit history needed for a JSE flotation

The JSE's three-year rule can be waived in exceptional circumstances But this is unlikely to happen before the R12-million in loan capital used to set up Games Africa has been repaid.

Central to Games Africa's initial success is an agreement with the SABC which gives it free air time for the promotion of its games and scratch card competition

The SABC has in the past been criticised by welfare bodies for its arrangements with Ithuba

The SABC did not respond to questions put to it by Business Times this week.

The first of Games Africa's activities will be a weekly 30-minute game show which will be launched on TV1 this month

Games Africa has put up R3-million from its initial capital to part fund the production costs of the 52 programmes The SABC will pay for the rest.

The R12-million used to finance Games Africa came from six groups of investors — including black businessmen, an Israeli company, management, Ellerine Holdings, UAL Merchant Bank and stockbroker Simpson McKie

Rewards

The company is unashamedly profit oriented and believes these investors should, in time, receive fair reward for risking their money

Games Africa believes it can generate turnover of R100-million in its first year

Half of the money will be used for prizes and 15% (or R15-million if the forecasts are correct) will go to Games Africa

Some 30% (or R30-million) will end up in the Ithuba Trust and ultimately go to charity and welfare organisations

From its income of R15-million Games Africa will fund marketing and administration costs

The shareholders of Games Africa include a consortium of black businessmen, called Vela International, headed by Gibson Thula

A quarter of the capital came from Kardan, an investment company quoted on the Israeli Stock Exchange The company's SA representative, Eytan Rechter, says the R3-million which Kardan has invested, was brought in through the commercial rand.

He expects it will be at least three years before Kardan receives a "fair" return on its investment.

Mr Rechter came under the spotlight this year when former Finance Minister Barend Du Plessis allegedly intervened to help him and associate Shalom Shpilman smooth out foreign-exchange difficulties

Games Africa management will ultimately become the third-largest shareholder with an effective stake of 20,1%

A company called Games Management Holdings borrowed R2,4-million, at the prime overdraft rate to take up its stake

These shares will eventually be passed to management through an incentive scheme

Judges

Games Africa managing director John Pittman, an American who has been brought to SA on a two-year contract, says "We have gone to great lengths to ensure that the security and integrity of our games are above reproach"

The company's marketing director is Ithuba founder Gareth Pyne-James Mr Pyne-James has been criticised in the past for his R17 000-a-month Ithuba salary, a claimed inability to administer, and for a failed fund-raising scheme Mr Pyne-James says the scheme failed after he had cut his ties with it.

At Games Africa he will is a salaried employee in charge of marketing He will also be answerable to the directors He has no shares in the company

Moves to ensure that the funds raised for Ithuba are correctly allocated include the appointment of a panel of judges comprising Miss Justice Leonora van den Heever, Mr Justice B de V Pickard and Mr Justice P Tebbutt. Syfrets Trust and Coopers Theron du Toit will be custodians

More blows for beaten economy

S/Times (BUSS) 16/8/92

By CIARAN RYAN and JOHN CAVILL

(232)

SOUTH Africa's battered economy reeled under a series of body blows this week as precious-metal prices and the stock market tumbled

Gold plummeted to a low of $334 an ounce on Friday, pushing about 10 marginal gold mines employing 80 000 workers deeper into the red

The catalyst for the fall was a warning by De Beers that it might have to cut its final dividend because of the depressed state of world economies

JSE analysts say Anglo American and De Beers chairman Julian Ogilvie Thompson's warning of a possible dividend cut was a factor contributing to gold's fall

"Prices had gone too high and the De Beers issue was the catalyst to bring us back to more realistic prices," says Adrian Finch of stockbroker Frankel, Max Pollak, Vinderine Inc

The share price of De Beers, the largest company on the JSE in terms of market capitalisation, fell 20% this week to 6 050c, leading blue chips following suit.

The JSE overall index shed 7% to 3 140, wiping R36-billion off market capitalisation The index has dropped 16% since the Boipatong slayings in June.

The finrand depreciated 3,7% during the week, spurred largely by the De Beers warning

Jobs

Drought and lower consumer spending caused a 2,6% decline in gross domestic product for the three months to June in what is acknowledged as the longest recession since the Second World War Economists say the recession has lasted longer than the Great Depression of the early 1930s

The number of workers to lose their jobs in the current recession is officially estimated at 400 000 Other estimates are a million About 200 companies are being liquidated a month, the highest since 1986

Car sales for the year have been revised sharply downwards to 182 500, the worst since 1977 Sales are expected to fall further as a result of labour shortages caused by the Numsa strike of 80 000 members.

Another 70 000 Numsa workers may be called on to strike after a ballot this month

Putting a brave face on the uproar caused by the possible De Beers dividend cut, Mr Ogilvie Thompson opened the R1,1-billion Venetia diamond mine in the Far Northern Transvaal on Friday He expressed confidence in the future of the diamond industry

Mr Ogilvie Thompson denies he misled analysts on a world tour this year when he indicated the dividend would not be reduced

Although De Beers indicated in late June that it believed the diamond industry had favourable long-term prospects, conditions changed dramatically in July

Mr Ogilvie Thompson said "Since then we've had the precipitous plunge of the Nikkei"

The drought has also brought large numbers of new diamonds to the market from Angola A river has run dry, exposing alluvial diamonds

"Diggers are now estimated to be around 50 000 and increasing by 500 a day"

Analysts say the correction in the stock market was overdue

"There is scope for a further drop in prices, but we do not expect a meltdown," says Liberty Asset Management director Sidney Place

"However, the recovery in the market will be slower in view of the weakness in the SA and world economies"

Analysts say the fall in gold and JSE share prices reflects growing concern over the potential for recovery in the world economy But they expect gold and platinum to rally in the short term as American traders who sold short in the futures markets take their profit and cover their positions after the free fall

"There'll be a short covering rally because the American funds have been selling like crazy," says Ted Arnold of US investment house Merrill Lynch

"But after that gold could go anywhere. The technical picture on the charts looks dreadful and the US funds can be expected to sell on any rally

"At the same time, the Australian producers, who helped prick the bubble when they sold gold forward while the Australian dollar fell to its low against the US unit, are waiting in the wings Some South African mines, which missed the boat by not selling forward above $355 an ounce are likely to be there too"

Cocktail

London brokers say a cocktail of factors led to gold's weak performance

- Nervousness about gold's failure to break through $360 and platinum's inability to hold above $390
- The fall in the Japanese stock market to six-year lows, prompting fears about platinum (and diamond) jewellery sales there They accounted for nearly 32% of world offtake
- A decline of the influential indicator of inflationary trends, the US Commodity Research Bureau index, which sank to its lowest since 1986
- Easing of political tensions

□ To Page 3

Body blows

□ From Page 1

in SA which preceded the ANC's mass action, ending worries about gold and platinum supply (232)

- The drop in the Australian dollar which generated producer selling to lock into a gold price of A$480

Rhona O'Connell, of Williams de Broe Chaplin, estimated that Japanese offtake of platinum for jewellery could be 15% down this year, adding nearly 190 000oz to a possible surplus of 150 000oz forecast previously S/Times

But Neil Carson, marketing director at Johnson Matthey, the leading fabricator and sales agents for Rustenburg Platinum, says the group still believes that rising demand for autocatlysts — up 60% to 800 000oz this year — will lift platinum to $400 by the year-end (BUSS)

Most of the blame for the dramatic price change is laid on the US commodity funds which chased both metals up in buying futures contracts and dumped them 16/8/92

In addition, August is a thin month for industrial buying

3m refugees to flood PWV?

CT 17/8/92

236

Own Correspondent

JOHANNESBURG — Drought in the Northern Transvaal could force between one and three million people to move to the PWV area this year, according to the Development Bank of SA (DBSA).

The homelands of Gazankulu, Lebowa and Venda are already under pressure from jobless labourers and from thousands of refugees pouring in from drought-ravaged Mozambique

Farmers with no crops to harvest are dismissing workers Most farmers are seeking alternative incomes and many have already put their farms up for sale

DBSA senior project leader Mr Hannes Sauermann said 1,2m people from the far Northern Transvaal were expected to move to the PWV this winter

Up to 3m people could arrive in the PWV if no rain fell in the homelands by November

More than a third of the workforce on farms in the far Northern Transvaal — about 70 000 people — have been dismissed and sent to nearby homelands

About 200 000 refugees have fled Mozambique and poured into Gazankulu, Lebowa and Venda in search of food and water, said Mr Sauermann

The area, the Development Bank's region G, could be categorised as a major disaster area, rural development experts said at the weekend

Drought pushing thousands off farms

A confidential report by a development agency in the area said 90% of farmers surveyed had reported harvests of 5% or less

Rural Foundation Northern Transvaal regional manager Ms Santa Bossert said farmers had been left with no choice but to fire all seasonal and part-time workers following a disastrous fruit farming season

The development agency report said all development initiatives in the area had been halted

An expected maize harvest of 2m tons had only yielded 252 000 tons, while only 10 000 tons of an expected 65 000-ton wheat harvest had materialised, she said

Fruit orchards were dying and could take seven years to revive

"There's no natural water whatsoever and farmers have only had a three percent success rate in drilling for fresh water," she said

Seven thousand villagers in north-eastern Venda are surviving on less than two litres of water a day Some 600 000 people have been classified as having severe water problems in Lebowa, the reports said

The internationally accepted amount of water needed for health and hygene is 15 litres a person a day

At least 300 villages in the affected homelands are now totally dependent on tankers for water

The homeland reports also said

- Almost 100% of the dry-land crops planted in Venda and Gazankulu this season had failed,
- A quarter of the total population in Venda was destitute and depended on food begged from friends and neighbours,
- Some 90 000 cattle — three quarters of the total for the area — were expected to die in Venda due to the drought, while those that did survive would not be in a good enough condition to be sold, and
- Nutritional diseases have increased by 337% in Gazankulu since June 1991

The DBSA is working to minimise the damage in the area, including implementing drought relief projects and feeding schemes, Mr Sauermann said

How do you figure in Australia's eyes?

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TREVOR BISSEKER

IF YOU are depressed about SA's future and thinking of emigrating to Australia, join the queue. Hundreds of thousands of people worldwide apply for immigration visas each year and 80 000 of them will succeed in the 1992-93 programme.

This is 31 000 fewer than the previous year, mainly because of the recession and public concern about the high levels of unemployment, currently running at 11%

Government has undertaken "better targeting" to meet industry's increasing demands for skills, and new emphasis is also being placed on proficiency in English But this did not imply racial bias, I was told in Canberra The "white Australia policy" practised after the Second World War, when the slogan was "populate or perish", is a thing of the past.

"There are no racial barriers We don't even consider the effects of race in our immigration policy," said Vincent McMahon, youthful assistant secretary, migration planning, in the Immigration, Local Government and Ethnic Affairs Department

Why, then, the "ethnic affairs" in the department's title?

"This is because our department caters for the needs of the various immigrant groups," he said "For instance, we spend $A100m a year on teaching English There are migrant resources centres, and we help with assistance to refugees through specialist agencies."

McMahon said there was no evidence of a surge in applicants from SA There was a fairly steady intake of 2 000-3 000 South Africans a year

SA does not figure on the "Top 10" list of source countries. These are Britain and Ireland, Hong Kong, Vietnam, New Zealand, China, Philippines, Malaysia, India, Sri Lanka and Lebanon. Australia's population of 17-million is 94% white, but the influx of Chinese and southeast Asians is noticeable, particularly in Sydney, where there is a large Chinese community

"Australia has always been a migrant-orientated country and 26% of the population was not born here. Yet there is probably less racial tension in Australia than anywhere in the world," said McMahon

In the past five years, Australia's net gain of immigrants is estimated at about 560 000

What are a South Africans' chances of being accepted this year? It depends on the category, but if you are young, well-educated, proficient in English and not a doctor, quite good There are penalty points for doctors this year

The allocation of places is 45 000 for family migrants, 23 800 for skilled migrants, 10 000 for refugees/humanitarian reasons, and 1 200 for people with special skills

Applicants in the independent and "concessional family" categories are points tested Those who beat the priority mark of 110 for independents and 100 in the family category will qualify, even if they don't have a job to go to Others who score well go into a pool This allows government to select the best applicants and control the numbers being approved

The points list is quite detailed, but top points-scoring factors include

Skills Acceptable and relevant degree, diploma or trade certificate, with at least three years post-qualification work experience, and included in the priority occupation list — 80 points The bottom mark of 10 points is for 10 years of primary and secondary school education.

Age 18-29 years — 30 points Scales down as age increases If you are 50 or over, no points

Language skills Proficient in English — 20 points, reasonably proficient, but minor training required — 10 points

Family factor If your sponsor is a parent — 15 points, brother, sister or non-dependent child — 10 points

Citizenship If the sponsor has been an Australian citizen for five years or more — 10 points

Settlement If the sponsor has been continuously employed for the past two years — 10 points

An immigrant is immediately entitled to all the benefits of citizenship, including dole payments

Shares regain some of their losses

PETER GALLI

SHARE prices on the JSE yesterday regained some of last week's losses, in line with trends on most major world markets

The overall index closed 34 points firmer at 3 174, the industrial index 30 points up at 4 003, and the all gold index 28 points higher at 964

"Stronger closes on international markets, firmer precious metal prices and a weaker finrand combined to offset some of the negative sentiment on the local market," a dealer said

In Tokyo, the Nikkei index gained 109,30 points to close at 14 929,55 on continued short-covering by sellers, while in London the FTSE 100 index closed 19,3 points firmer at 2 376,1

Dealers said the weaker finrand, which closed at R3,8350 to the dollar from Friday's R3,78, and improved sentiment after the rise in gold and platinum, had boosted activity of mining and mining-related counters

Gold rose \$1,55 to close at \$337,25 in London from Friday's \$335,70, with platinum up \$1,50 at \$347,75 at the afternoon fix

"An increased number of buying orders started to flow into the market after lunch, but there is little quality stock on offer at the lower prices and buyers are having to pay up if they want scrip," a dealer said

The market was expected to drift sideways over the week unless "something unexpected" happened, but it needed positive, sustainable news for an upturn

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BDAY 18/8/92.

Increased earnings for restructured Genbel

MATTHEW CURTIN

GENBEL, Gencor's investment arm, has reported a 6,9% increase in earnings a share in the year-ended June 1992 Genbel has restructured its portfolio in recent years and its growing reliance on its non-mining investments and stake in fuels group Engen helped offset the impact of the depressed mining industry on profits

Earnings rose to 34,2c from 32c a share Genbel declared a 6,2% higher dividend, up at 34c from 30c a share

MD Anton Botha said that "given a moderate recovery in the world economy, Genbel should achieve further growth in earnings and dividends in the 1993 financial year" The company would continue to restructure its portfolio, reducing its exposure to the metals and minerals markets, to ensure it was maximising shareholders' wealth in the long-term, he said

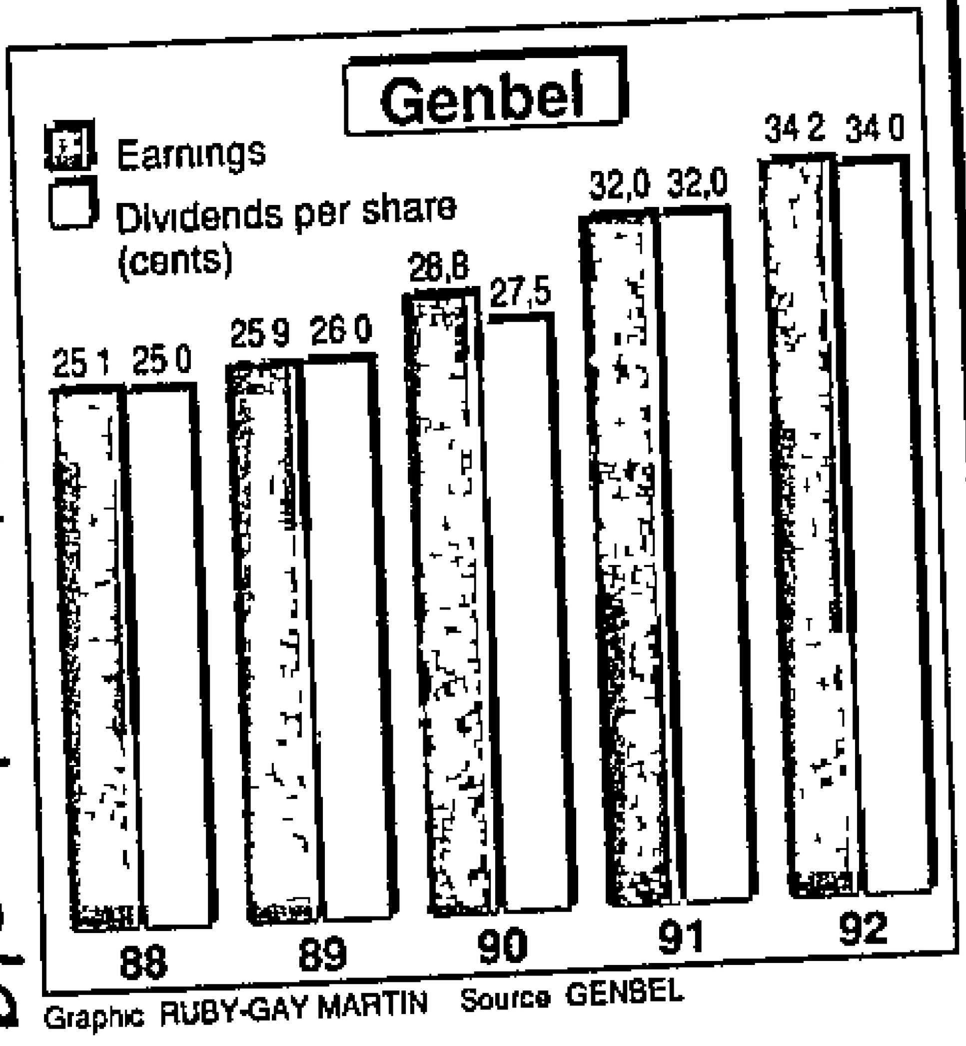
Genbel turned in distributable income of R148m (R138m), and earned a R143m non-distributable surplus on the sale of all or part of its stakes in Anglovaal Holdings, Gencor, mining investment company Middle Wits, and Rustenburg Platinum

Botha said Genbel increased its holdings in Samancor, Sappi, Transatlantic and Impala Platinum, and increased interest-free bridging finance to Gengold' developing Oryx gold mine

In the year, the market value of Genbel's net assets in precious metals and mining financials fell to R1,3bn from R1,8bn The value of its investments in the finance, insurance and property sectors rose to R663m from R611m, in the energy sector to R470m from R429m, and in the paper sector to R311m from R195m

The total market value of the company's assets fell to R3bn from R3,2bn in 1991

Unisen, Genbel's wholly owned short-term trading company, paid R22,5m in dividends against R20m last year, after producing a R33m (R41m) profit In 1990, Genbel transferred its short and medium-term investments to Unisen, after selling a significant proportion of them at a profit



Graphic RUBY-GAY MARTIN Source GENBEL

Jitters abroad wipe out gains on JSE

(232)

PETER GALLI and HILARY GUSH

MONDAY's gains on the JSE were wiped out yesterday as investors reacted to jittery conditions on world bourses

On the Japanese stock exchange, the Nikkei plunged 620,14 points to close at a six-and-a-half-year low of 14 309,41 as it was hit by renewed short sales and arbitrage unwinding following a steep fall in futures prices, dealers said

Share prices on the London Stock Exchange also lost their Monday gains on a lethargic market, with the FTSE index ending the day 21,4 points down at 2 354,7.

Platinum prices dropped $4,50 to $343,25 at the afternoon fix, while Nymex October platinum futures were trading $4,10 or 1,18% down at $343 in late trade. Japan is the biggest importer of platinum, accounting for about 2,05-million oz in 1991

In London, gold closed $1,15 down at $336

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On the JSE, the overall index closed 33 points down at 3 140, the all gold index eased 22 points to 942 and the industrial index lost 20 points to 3 983. These losses almost wiped out Monday's 34-point gain in the overall index to 3 174, the 30-point rise in the industrial index to 4 003 and the all gold index's 28-point gain to 964.

The downward spiral on the local market was led by De Beers, which closed below the R60 resistance level at R58,50

The slightly stronger finrand at R3,82 a dollar from Monday's R3,8350 close did little to deter foreign interest at these levels and some buying was reported

An analyst said prospects for early economic improvements on both local and international fronts appeared to be waning, which was reflected in investor caution and the bearish sentiment on stock markets

On the capital market, hectic trade and continued bullish sentiment saw rates fall to near nine-year lows yesterday

The yield on Eskom 168 stock finished at around 14,03% from an opening of 14,15% Similar lows on long-dated Eskom bonds were last seen in November 1983

The yield on the benchmark government

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JSE

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□ From Page 1

R150 stock ended 14 points down on the day at 14,10% from 14,24% at the start of the session Dealers, however, quoted trades significantly lower with the yield on the E168 and R150 stock down to 13,98% and 14,04% respectively

They said a surge of institution-led buying of medium-dated bonds in morning trade had led the downward movement in other rates Buying of longer-dated stock had, however, been mainly speculative

Although long-term rates were expected to come down further today, traders predicted an upward correction soon One dealer said the market was heading for a "healthy correction of about 70 points" within the next week He said rates would, however, come down to even lower levels during the year

● See Page 5

ANC, Govt at odds on abortion

STAR 20/8/92

(237)

Own Correspondent

DURBAN — Abortion on demand in a new South Africa would not be "easily allowed" if the present Government had anything to do with it, the Director-General of the Department of National Health and Population Development said yesterday

However, although official ANC policy had not been formulated, ANC Women's League chairman Dr Nkosazana Zuma indicated she was "pro-choice"

Dr Coenraad Slabber and Dr Zuma were tackling the topic of "A future health system for SA" at a forum organised by the Institute for a Democratic Alternative for South Africa at Durban's Elangeni Hotel

Dr Zuma said the number of fatalities from "backstreet" abortions — 14 out of 1 800 admissions at King Edward VIII Hospital last year alone — was sufficient to persuade her that abortion should be legalised

But both agreed that a future health system for South Africa must promote the goal of free health for all, could not be based on ethnicity and must be decentralised to the greatest possible extent

However, Dr Slabber said a detailed blueprint for a future health system would depend on the constitutional model adopted in the country, although it would be "folly to wait until finality is reached before we address a future health system"

Therefore, the Government had accepted five policy principles on which health services in South Africa should be built equity, accessibility, affordability, efficiency and acceptability

Dr Zuma added that symptoms of apartheid such as poverty, violence, and lack of housing and recreational facilities were major contributors to ill-health and would have to be attended to for a future health system to be successful

Govt, ANC tackle abortion in new SA

85 237 CT 20/8/92

Own Correspondent

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Send in raiders to toss out featherbeds and free economy

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B/DAY 20/8/92.

Two former economic advisers to Margaret Thatcher, SIR ALAN WALTERS and GEORGE GUISE, call for drastic changes to SA's corporate structure

SOUTH Africa is a continental anomaly. A Third World country, with the tribalism, the violence, the excessive public spending, overregulation, the overweening bureaucracy, state-owned behemoths, the protection and politicisation of much economic activity.

But superimposed on these is a convincing presence of the First World in the form of the great mining and manufacturing corporations. The English-speaking South Africans have dominated the private business sector, just as the Afrikaners have been predominant in government employment, while blacks have provided the labour. An oversimplification? A caricature? Perhaps, but it conveys the essence of SA for most of this century.

The income generated by the industrial and mining sector produced a large tax revenue to finance the jobs and sinecures in the public sector. The stated objective of the ANC leadership is to capture control of government in order to secure and expand those public sector jobs.

There has also been much talk of expanding the public sector by nationalisation, quotas for blacks, Africanisation, and so on. But now there is growing realisation among black leaders that such measures have been the root of the dismal economic performance of all the Second (communist) World and most of the Third World economies.

If there is a golden rule in economic management, it is that high taxation, expropriation, regulation and control lead to dilapidated infrastructure, political turmoil and uncertainty which drives capital and jobs away. That, in turn, exacerbates both economic and political tensions — and so leads to a vicious circle of decline.

What can the ANC, Inkatha, the NP and other groups do to promote wealth and growth to break out of this vicious circle? The solution is to send not for Marx and Lenin, but for Hanson and Goldsmith.

As in any other dirigiste socialist country (and, with its high ratio of government involvement and interference in economic life, SA must be so classed), the economy is dominated by very large corporations.

In SA, fewer than 10 conglomerates dominate the First World industrial sector. They have pyramidal or interlocking shareholdings which lock out their external shareholders from any influence over management, and protect their management from any true accountability to shareholders.

As is well documented, conglomeration, especially with monopoly power and protection against intruders, leads to much inefficiency. The rate of return on capital in the many peripheral activities is low. This is reflected in the fact that for most of these conglomerates the share price is less than the value of their component assets.

In any free market there would be a corrective, namely a takeover bid. Lords Hanson and White or Sir James Goldsmith would buy up the shares, take control, strip off the peripheral loss-making companies, change management and sell them for perhaps more than their acquisition cost, and get the company back to basics in its mining operations.

But few managements in SA fear a takeover bid.

Many reasons explain these featherbeds in the boardrooms. The most important is that everyone is in a featherbed with everyone else. Large blocks of shares are held by corporations in the same group as well as by controlled pension and insurance funds. It is virtually impossible for any outsider to mount a takeover bid against the interlocked interests of the five conglomerates which account for more than three-quarters of the market capitalisation of the JSE.

It is, however, a moot point whether, in the absence of such interlocking holdings, a protectionist, socialist government of the kind which has been in power in SA for so long would ever allow takeovers. Socialist governments are characteristically averse to buccaneers like Goldsmith and Hanson. They prefer their house-trained managers, who are more amenable to the habits of bureaucracy. Yet, they wonder why foreign capital is so reluctant to appear.

We believe takeovers would benefit virtually all groups in SA. Let us take the difficult one first: would they benefit the blacks? We believe they would.

First, such takeovers and unbundling would create, not destroy jobs. The efficiency gains that can be made are high — perhaps reductions in costs of 50% or more. This would make much industry efficient and competitive in terms of world as well as African markets.

Second, SA manufacturers could flood into their natural markets — displacing Asian manufacturers, but also developing new markets that do not now exist. This is the basis for real jobs and prosperity in the black townships as well as in the grassy suburbs.

As for the owners of these conglomerates, their shareholdings would be worth much more under an open takeover regime. True, some family shareholding groups as well as entrenched management cliques would lose their power to decide the fate of industry, but that is the price they must pay for the opening of the economy — but how handsome would be the rewards.

The Afrikaners would lose their privileged positions in the public sector while all races would be free to exploit the opportunities which a liberalisation of the white cartel-dominated industrial sector will provide. We suspect that removing the featherbeds in both the public and private sectors will be the making of a new generation of multiracial entrepreneurs.

The main task of a reforming government must be to insist on the disentanglement of the crossholdings of the conglomerates and the opening up of SA to foreign as well as domestic corporate raiders.

The first step is so simple. It is for the regulatory authorities of government and the stock exchange to cease the restrictive practice of protecting entrenched management groups from their disenfranchised private shareholders. If a takeover appears, the cross-shareholding should have the option of accepting the offer or of bettering it, but not of turning complacently away.

Such a simple shift in regulatory policy would not only bring SA into line with the most efficient, modern capitalist economies, but simultaneously awaken those sleeping assets which form SA's hidden wealth.

— Financial Times

☐ Walters is AIG Trading Corporation vice-chairman. Guise is former director of Consolidated Goldfields and was a member of the Prime Minister's Policy Unit 1986-90.

STAR 21/8/92

Privatised companies will face ANC nationalisation

232

By Sean Feely

A future African National Congress government would immediately nationalise any public enterprise that was privatised in the interim, according to economist Tito Mboweni.

Addressing a conference on commercialisation and corporatisation in Pretoria yesterday, Mr Mboweni sternly warned of the consequences of the Government's policy of privatising public corporations.

"Our policy is that any public corporation which is privatised now will be subject to immediate re-nationalisation without compensation."

Mr Mboweni reiterated ANC opposition to the privatisation of public enterprises, arguing the western countries that were pursuing privatisation could afford to do so as their economies already had developed infrastructure.

A democratic government in South Africa would have to ensure basic services were extended to the majority of the population through public corporations — Sapa

Moz refugees pouring in

CT 21/8/92

(236)

Own Correspondent

PRETORIA — Illegal immigration from Mozambique is reaching critical proportions, quadrupling over the past decade and intensifying over the past year because of the drought

During an SADF briefing in the Kruger National Park border area this week, Deputy Defence Minister Mr Wynand Breytenbach was told that the number of deportations of Mozambicans had risen from 11 534 in 1983 to 46 958 last year

The figure for the first eight months of this year was already higher than for the whole of last year

The SADF, which patrols the length of the park, had arrested 2 890 people last year and 2 730 so far this year

There are an estimated 400 000 Mozambicans in SA illegally

Military authorities believe the terrain impedes the apprehension of illegal immigrants and only 20% are caught

Mozambican refugees, pushed by the civil war and pulled by the need for food and work, are increasingly attempting to cross into SA via a hazardous 35km walk across the park

Military analysts are concerned at the poor health of refugees and the health risk they bring with them

Political implications are also beginning to be felt, with refugees absorbing many of the homeland resources, especially at schools and clinics

World Banks sends top speakers

Sowetan 21/8/92

(356)

The Africa Project Development Facility (APDF), an arm of the World Bank, will be sending top speakers to our forthcoming Business Conference on Sunday 13 to Tuesday 15 September.

In addition to sending Mr Alexander Keyserlingk, its general manager, it is also sending Southern Africa regional manager Mr Omari Issa Mr Issa will talk on "The Role of the Government in the development of small businesses into medium sized entities" and will focus on areas for Government concern

"From experience in similar developing countries there are standard areas for Government to concentrate on

● There are many facets that comprise a healthy business environment which must be more conducive to growth These include the need for less time consuming bureaucratic procedures Big business cannot be kept waiting too long to receive approval on their proposed investment ventures There is a need for an investment code to attract long term business investments Even something as innocuous as immigration and customs officials being more friendly and helpful fits into creating a health business environment, and so of course does a good infrastructure in order to facilitate efficient communication, dissemination of information and distribution

● Financial instruments - the Government should develop policies which assist small businesses to develop as opposed to just providing financial assistance and subsidies "

During his presentation Mr Issa will describe the steps that need to be taken to produce the right environment and will draw on examples from a selection of African countries A Tanzanian himself he will be able to share his hands on experiences gained while seconded to developing areas such as Abidjan, Nairobi and Zimbabwe Mr Issa also spent five years in South Korea and will describe the enormous growth of South Korea's economy which some 20 years ago was in a worse state than our present business infrastructures

The Africa Project Development Facility provides advisory services to private African Entrepreneurs in the preparation of viable medium sized businesses The Facility does not provide project financing, it works with the entrepreneurs to secure financing and helps them with obtaining technical and managerial assistance

'Unbundling' ups Gencor's shares

CT 21/8/92 (232)

By ARI JACOBSON

GENCOR group's rumoured unbundling may set a precedent for the large finance houses as a thumbs up from the market saw the share rise 4,6% or 50c over the last two days to R11,25c a share

The concept of unbundling or the breakdown of large conglomerates into smaller groupings has been at the forefront of economic debate about the future South Africa

The benefits of unbundling, explained Gencor chairman Brian Gilbertson, would "give us a clearer focus — the paper and pulp activities of Sappi, for instance, are materially different from digging holes in the ground"

Gilbertson said that the unbundling "would release for Gencor shareholders the 10% to 20% discount inherent in a pyramid structure" He added that "smaller groupings would appear to be politically more welcome in the new South Africa"

Frankel, Max Pollak's mining financial analyst Peter Davey added that the dearth of senior managers would hamper the potential of the individual pieces such as Sappi and Malbak coming out of the Gencor fold

Privatisation 'will be reversed'

HILARY GUSH (232)

AN ANC government would immediately nationalise any public corporations recently privatised by the current government, ANC senior economist Tito Mboweni said yesterday B/DAY 21/8/92.

He told a commercialisation and corporatisation conference in Pretoria that the ANC always had been opposed to government's privatisation process

"Those public enterprises which have been privatised will be subject to immediate renationalisation without compensation," Mboweni said

He said state corporations would play a vital role in SA's socio-economic development "One is not suggesting that SA public enterprises should continue to behave as they have for many years Instead they must gear themselves to changing domestic and international circumstances and operate in the context of strict efficiency and accountability rules"

Mboweni called for "cost transparency" and clear reporting of any cross-subsidisation of public enterprises He stressed the importance of management autonomy "Management power without accountability becomes tyrannical"

Government's commercialisation policy meant that market considerations took precedence over social issues.

Public Enterprises Minister Dawie de Villiers told the conference commercialisation — which occurred when state enterprises adopted commercial principles —

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Privatisation

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☐ From Page 1

and privatisation formed an integral part of government's economic restructuring programme

The programme was aimed at promoting growth, creating jobs and a better income distribution.

"It is our conviction that a better utilisation of scarce resources is possible only if more goods and services can be allocated by the determination of market forces."

The growth of SA's public sector over the past decade had placed a burden on the country's limited capital and manpower resources, resulting in higher government borrowing requirements.

"The correction of this problem lies in reducing the role of the state, curbing excessive public expenditure, applying the disciplines of the market and creating more room for private initiative and ownership"

NEWS IN BRIEF

B/DAY 21/8/92 (234A)

Polish walkout ends

WARSAW — A month-long walkout by 40 000 workers at Poland's only copper producer ended yesterday but several strikes, organised by radical unions, continued

In a victory for government, which had refused to bow to pay demands, workers at the state-owned copper combine KGHM Polska Miedz SA agreed to suspend the strike without getting the increases

Preventing urban decay their goal

STAR 22/8/92 (235)

A TINY task force is working on bracing South Africa's biggest city for a massive population explosion, reports JOE LOUW.

BY 2010, Johannesburg will be one of the world's 24 mega-cities. With an estimated population of 15 million it will be more populous than London is now and larger than Los Angeles.

The question is, will this mighty economic dynamo be a stable and peaceful city of respectable, middle-class, employed citizens or will it have degenerated into a decaying, crime-ridden core where services have ceased to function and which is taken over by vagrants and the unemployed?

According to statistics released by the United Nations Centre for Population Studies, by 2000 more than 80 percent of people in the developing world will be living in cities.

Many city dwellers are already engaged in desperate struggles for shelter, jobs, health care and food. Such problems are often most severe among those least able to cope with them: mothers, children, the homeless, the unemployed.

"Municipalities' resources are being stretched by the demands of urban populations that are continually being swollen by migration from rural areas. This phenomenon can be observed all over the world, Johannesburg is no exception.

Urban Foundation research shows that in the PWV townships, average occupancy per stand in 1991 was 10 to 11 people.

According to South African Institute of Race Relations statistics, 2,4 million people were known to be living in shacks in the PWV region alone.

In an attempt to cope, local governments are seeking innovative ways to manage urbanisation.

In Johannesburg, an urbanisation department has been formed.

Gerd Sipple, who heads it, told the Saturday Star what his team hoped to achieve: "We want to ensure that Johannesburg is firmly established as a leading city in the management of the urbanisation process.

Projects

"Ours is an integrated approach to urban development. We set into motion a series of constructive interactions and partnerships among communities and the controllers of resources to prevent urban decay and encourage renewal."

Sipple, whose tiny task force recently set up shop at the Civic Centre, outlined how his department worked and the kinds of projects it would get involved with.

"The issue of homeless people in central Johannesburg has long been recognised as a serious problem. Yet while there are over 14 organisations concerned with it, not much has been done.

"We got all the concerned community organisations to sit down together to explore ways of working together, and at the same time approached Johannesburg City Council to make available one of its unused buildings. This will be handed over to these organisations to run as a shelter for the homeless.

"Our intention is to facilitate a solution to the problem and then let the organisations tackle it in the way they determine is best."

One example of simple action to meet immediate needs was obtaining 66 single-decker buses for communities to use as clinics, libraries or even informal meeting places.

Current projects include a review of the problems hawkers face — and the problems they create — with a view to conducting a workshop at which policy would be reviewed with all parties concerned.

"What we are setting in motion is the kind of process that would be of benefit to any kind of local government, regardless of its particular political orientation. The political orientation of the council should not determine the kinds of processes used by the council divisions.

"What we are doing is finding a more appropriate process."

The 130-year-old council system, derived from a British model of local government designed largely to preserve social structure, was no longer useful, he said.

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It's the rich that want to leave

By BARRY STREEK
Political Staff

WHILE one-in-three English-speaking households had given thought to leaving South Africa, 90% of Afrikaans families had not considered emigrating at all, a new public opinion survey has found

A high proportion of those who had considered emigrating were in the upper-income bracket, and most live in Durban (33%) and Cape Town (25%)

However, 79% of the 800 white women who were interviewed door-to-door in the last week of July said they had not considered emigrating, Research Surveys' Omnicheck division said yesterday

"Of the English-speakers who had considered emigrating, 43% said they would like to emigrate but were unable to do so

"A similar number claimed that while they had thought about it, they did not intend emigrating

"The rest (14%) had plans to leave the country in the forseeable future"

Significantly more respondents who indicated that they and their families had thought about emigrating, but had changed their minds were from the top income group

"In the final analysis, only a small proportion of the total sample (3%) had firm plans for emigration

"However, the mood of English-speakers would appear to be less than optimistic, with a predisposition to setting up home elsewhere, should circumstances allow it"

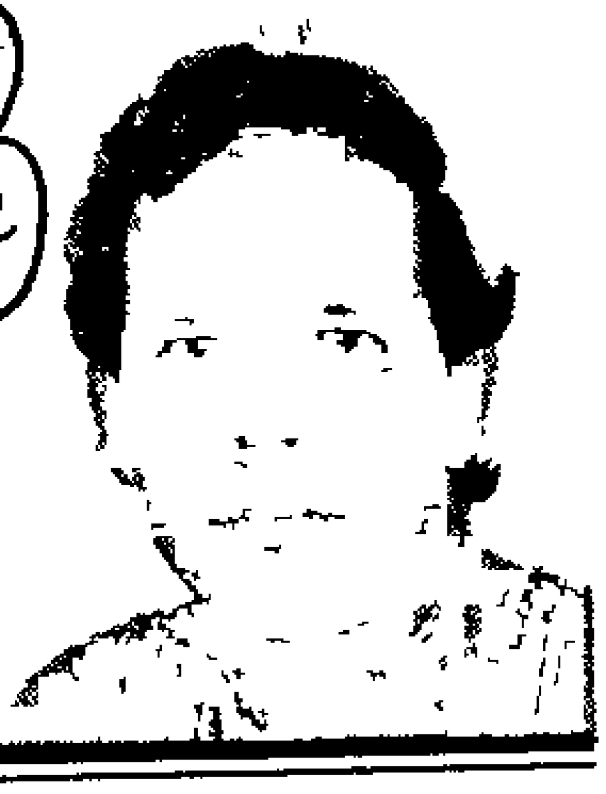
The poll indicated that 82% of women between 18 and 24 had not considered emigration.

Technical ways to beat market

STAR 22/8/92 232

FOOTSTEPS TO FORTUNE

RICHARD *Cluver*



MY COLUMN of August 8 stressed the dramatic capital growth possible if one brought intelligent management to bear on one's unit trusts. However, it was pointed out that the problem related to switching in and out of units was determining when the market was reaching a bottom or peaking

I suggested that what one needed was a sensitive indicator of market-direction change that avoided the whip-saw movements which bedevil moving averages, sometimes taking the user in and out of the market within a few days at an effective trading loss.

Indicators

I concluded that the best instrument I have been able to find for this purpose is the Kurtosis indicator.

I am not going to try to describe how the Kurtosis is constructed The mathematicians among my readers will understand it as the fourth derivative of differential calculus.

Ordinary mortals should simply accept that it is one of the many indicators available within my own ShareFinder suite of share market analysis programs and in one or two competing programs.

What have we actually achieved by using the Kurtosis indicator? This strategy involved seven transactions in the past 10½ years and achieved an actual increase of 403,18 percent. That is 149,7 percent more efficient than rand-cost averaging and 68,86 percent of the maximum theoretically possible gain.

A lump sum invested in January 1982 to present would have gained 456,18 percent.

Working with an initial lump sum and using Kurtosis to guide movements in and out of the market would have involved one in seven transactions over the 10 years and would have resulted in a 1 231,36 percent capital gain. That represents a 169,92 percent more efficient method of lump-sum investment.

In our research to develop a computer-automated unit trust strategy program, FundFinder 2, we have managed to improve somewhat upon those results, having attained 78,99 percent of the theoretical maximum gain over the 10-year period.

The process we are currently using is not, however, capable of emulation without the use of a computer because it involves a somewhat rudimentary use of the computer's own artificial intelligence to determine whether or not to issue buy-and-sell signals based upon its evaluation of the data it receives Back-tested over the past 10 years, this technique has achieved a 462,5 percent actual capital gain, which was 186,5 percent better than rand-cost averaging and would have to date involved 11 distinct transactions.

Essential

The inferences of this study are clear that you can beat the accepted returns by a handsome margin of you are prepared to go to a little trouble, but that contrary to the view I have always held, the exercise is really only worthwhile if you use techniques that are so mathematically intensive that a computer is virtually essential. Sadly, there seems no longer to be any room for the man who uses a pocket calculator and a well-sharpened pencil.

Cushion your assets in a crash

STAR 22/8/92

232

FINANCE STAFF

LAST week's big decline in share prices will not affect some investors' portfolios. Contrary to popular belief — that everyone loses when the market collapses — astute investment consultants say shareholders' assets need not be compromised.

"The solution is to know how to use the market to your advantage," says one portfolio manager, adding: "it is imperative for investors to understand that a bearish market provides as many opportunities to increase wealth as a bullish trend."

Graham Schneeberger, a director of Professional Money Management, says "There is good news for the worried investor Instead of selling blue chips in anticipation of a crash, the existing shareholder can safeguard and increase his investment through prudent hedging and protection policies"

Many portfolio managers are unable to convince clients that it is possible to make money by hedging equities against bear options or futures, which is accepted worldwide stock market practice

While many investors are unaware that such securities exist — derivative markets are relatively new in South Africa — the need to protect shares has been identified and stockbrokers are turning to such hedging policies

However, a number of issues should be assessed before an investor hedges his shares against bear trends

First, the portfolio manager has to determine whether market risk has been diversified and, second, establish how best to hedge the shares For instance, if the gold market is expected to collapse, the manager could either sell the gold shares, replace these with industrial stock or turn the shares into cash to take advantage of the next bull run

While this would protect the investor during a gold slump, it would offer little security when all share prices fall The manager, therefore, prefers to protect the existing portfolio with either a bear gold share option or a bear All Gold index future

"In this manner, the shareholder can keep blue chips, protect his investment and achieve capital gains while share prices are declining," says Schneeberger

"Portfolio protection can be achieved in a number of ways, is supported by major banks, is completely safe and totally founded on commonsense," he adds

Portfolio protection policies are not widely marketed because there is a misconception that institutions — which own more than 90 percent of all listed securities — will continue to support the JSE, and that it is immune to shocks from Wall Street, London or Japan

These fallacies were highlighted in 1969 and on Black Monday in October 1987, when the JSE crashed and investors were badly burnt

□ Graham Schneeberger can be contacted at (011) 880-6408)

THE JSE WEEK

Liberty adds 14%

232 By JULIE WALKER

LIBERTY Life led the way with ultra-consistent results and handsome special dividends in the half-year to June The share price put on 600c, or 14%, to R49,50 and Libhold R12 to R122.

Part of its success is attributable to Liberty's having added to its Stanbic holdings, paying R45 about a year ago. Stanbic hit R71 this week after a 550c climb. It has been a star performer in both earnings and share-price appreciation, a year ago it was R47,50

Anglo American must rue the day not long ago when it sold a large parcel of First National Bank shares off the market. First National gained 100c to R58,50 this week, almost double the price at which Anglo probably sold. ST Times (Bus)

Perhaps the memories linger because Anglo American and stablemate De Beers came under increasing downward pressure when everyone thought the bad news was history 23/8/92

For no reason other than newspaper speculation that De Beers might be dealing with the Namibian Government on Consolidated Diamond Mines, the market whacked the shares another R5 down to a 12-month low of R54,75 The price later rallied to R56,75 Anglo American dropped to below R100 for the first time since early 1991.

Industrials were quiet, other than Richemont and Kersaf A large deal in Kersaf before lunch on Friday fuelled speculation that Sol Kerzner might return to run the show — talk denied by Kersaf.

'Don't emigrate' appeal to whites

ANC president Nelson Mandela has appealed to whites not to emigrate because of violence.

He said in Klerksdorp on Friday white South Africans should remain in the country to help solve the political crisis and rebuild the economy. All South Africans, irrespective of their political affiliations, should govern a new SA. (236)

Citizen 23/8/92

MARKETS SOONER THAN
COST, WE WILL DO THE
AL MARKET RESEARCH, 3)
S, 5) ADVISE ON OFFICIAL
NY AVAILABLE CLIENTS, 7)
ARE, 9) ADVISE ON THE
XPORTERS
31) 86-4331, (031) 86-1081
FAX (031) 86-4339
AND OTHER COUNTRIES
DBN2093

ble today might be ridiculous tomorrow."

all the competing institutions are in the same boat.

Still fishing for NCI

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S Times (Buss) 23/8/92

OUT of the NCI frying pan into the Terra fire is the way I see the latest ploy to affect investors in unlisted securities.

The listing of NCI, punted as a potential blue-chip venture capital company, was terminated on the JSE in June. The company was technically insolvent, R14-million of shareholders' funds having been wiped out and not a cent having been made.

NCI issued shares for several years before listing.

Terra describes itself as a mining holding company with interests in mineral rights and deposits. It has applied for a listing on the JSE.

Terra offers NCI shareholders the opportunity to convert NCI shares into Terra at no cost — provided they subscribe for one Terra at 25c for every NCI held.

The offer is signed by Butch Vernon, Senor Consultant (sic) of REF Marketing, housed at the same Lonehill offices as Terra and its major shareholder Falcon.

To tempt NCI shareholders to subscribe for this offer, a geological report by CB van Niekerk is included with the circular.

Dr Van Niekerk values the reserves of Terra's four projects at a staggering R627,7-million.

This comes at a time when mining and exploration companies value their mineral rights at zero on the grounds that they are worthless until turned to account.

An alternative seems to be available to beleaguered NCI members. Chief executive Mike Clarke proposes in a letter to them that they "equitably participate in the financing of the salvaging of the company".

A holding company, The Opportunity Company, will be formed to recapitalise NCI and thereafter furnish financial services to its projects.

These look like the original clothes Mr Clarke donned when he launched the idea of venture capital management through NCI six years and R14-million ago.

Yet another option is available to NCI shareholders. A hundred shares plus a rand can be swopped for shares in General Holdings Investments (GHI), a company yet to be formed.

It will receive a stake in the New Uitkyk colliery near Middelburg. Needless to say, New Uitkyk's production and profitability will double or even treble if it gets the development capital through GHI.

Membership of NCI is basically a lure to raise money for GHI.

An investor should consider whether any fresh capital he puts into any of these propositions is really the best opportunity of the moment.

I say it would be like subscribing to a post-graduate course in how to lose money after failing the undergraduate course.

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Brain drain on increase

236

STAR 24/8/92

Staff Reporter

Immigration to South Africa suffered a setback in the first four months of 1992, with the overall gain of 3 027 in the first quarter of 1991 slashed to only 1 430 from January to April this year, according to the Department of Home Affairs

And a steady flow of people are emigrating from the country In April alone, 409 people left the country, 75 more than the 324 in April 1991

About half of the people who left this country in April were economically active, headed by 95 professionals, semi-professionals and technical experts, of whom 33 were engineers and related technologists, 44 clerks and salesmen, 32 artisans, 28 people in the managerial field, 19 in the mining profession and 15 involved in education.

The 201 emigrants who were not economically active included housewives, students and pensioners

During the same month, immigration was slashed from 1 144 in 1991 to only 519 in April this year.

On the plus side, 228 of the 519 who settled in South Africa in April this year were economically active

They included 86 professionals, of whom 25 were engineers and 23 doctors

The largest contingent of settlers (247) came from Europe, of whom 104 were from the United Kingdom The 122 who came from Asia included 40 from the Republic of China

A total of 97 immigrated to South Africa from Africa, including 43 from Zimbabwe, and of the 47 who flew in from the Americas, 21 were from the United States and 13 from Argentina

'Define public, private sector competition basis'

(232)

CT 24/8/92

JOHANNESBURG. — The basis on which the private and public sectors competed in the market should be clarified as soon as possible, Competition Board chairman Pierre Brooks said at the weekend.

Speaking at a commercialisation and corporatisation conference in Pretoria on Friday, Brooks said as competition by parastatals posed a significant threat to the continued existence of some private firms, it was essential that clear ground rules be laid down as soon as possible

He said government's policy of commercialisation was intended to reduce or eliminate its financial commitment to parastatals However, pressure on parastatal managers to extend their activities in order to secure alternative sources of income often threatened private sector business

In practice, commercialisation and privatisation were proving to be at variance with each other in that, while privatisation was intended to transfer certain state-owned business to the private sector, commercialisation was in effect compelling parastatals to take business away from it

The net result was an increase rather than a diminution of state involvement in the economy, he said

Provided the playing fields were levelled, the Competition Board favoured those moves by parastatals into private sector monopolistic and oligopolistic markets that would result in lower prices or improved consumer services

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ARG 25/8/92

Privatisation road: No easy entry

EMMANUEL LEDIGA

GOVERNMENTS throughout the world have since the 1980s been ridding themselves of state-owned enterprises. But there's more to privatisation than offering inefficient businesses for sale.

JOHANNESBURG — About 100 000 small businesses have been privatised in Eastern Europe since the collapse of socialism, and elsewhere privatisation also surges ahead, says the Lesotho-born vice-president of the World Bank, Mr Timothy Thahane, on a recent visit to South Africa

The Washington-based bank oversees privatisation around the world and advises governments on how to shed large state assets

Governments that once took control of huge enterprises cited market failures connected with monopolistic power, skewed income distribution and uneven economic activity as reasons for their action

They saw a corrective role for the state in compensating for these market shortcomings

"By the early 1980s, the state was a major force in production, distribution and the exchange of goods and services," said Mr Thahane.

State-owned enterprises (SOEs) contributed 3 percent of gross domestic product in Asia, 12 percent in Latin America and 17 percent in sub-Saharan Africa.

"In Eastern Europe and the former Soviet Union, of course, the whole economy was state owned," he said

But in the past decade, state-owned companies — inefficient, overstaffed and poorly controlled by politicians — plunged into a financial crisis

Cumulative losses of these companies reached 5 percent of GDP in sub-Saharan Africa between 1989 and 1991

Increasingly, the companies relied on government subsidies to survive

The only viable option to reverse the poor performance of these SOEs was to privatise them

Many governments, from Chile to Malaysia, and from Mexico to the United Kingdom, followed this path, seeking a new balance between the activities of the state and the private sector

In sub-Saharan Africa, said Mr Thahane, more than 30 countries had begun structural adjustments of one type or another.

He regarded privatisation as an important factor in the economic revival of African economies, and believed South Africa was not an exception

But he warned A successful privatisation campaign needed government commitment and political support

"I do not want to give the impression that privatisation is plain sailing," he said "It is not

"Many treacherous shoals lie between embarking on divestiture and completing the voyage"

Privatisation worked well when supported by a wide array of policy reforms such as liberalising trade, foreign exchange, licensing and other regulations that restricted entry and exit from particular markets or activities, he said

Experts were generally called in to value the enterprises to be sold

Before being put on the block, the enterprises must be prepared for privatisation, because they often had sizeable debts and other liabilities such as pensions, which needed to be paid first by the governments

The final hurdle was how to sell the enterprises

Many methods had been devised, including listing them on the stock market or leasing them to private operators

Debt-equity swaps had also been used, and some companies had even been given away, through share vouchers given to the people

Mr Thahane warned that privatisation was complex, and stressed "It requires persistence, conviction and public support

"Privatisation is not a panacea It cannot be separated from broader questions of economic policy reform and management But I have no doubt that world-wide privatisation is here to stay"

HEALTH

The right to terminate pregnancy

STAR 25/8/92. (237)

Abortion Reform Action Group (ARAG) was set up to get the law on abortion changed. Speak magazine asked Chris Diamond who runs ARAG's Johannesburg office why he feels abortion should be legal.

Chris Diamond is an unusual man. He believes women should have the right to choose what they do with their own bodies — and he is prepared to do something about it. He operates the Johannesburg office of the Abortion Reform Action Group (ARAG) from his home in Parkhurst on a voluntary basis.

Speak magazine asked him what his work involves. Mr Diamond says: "ARAG tries to pressure the Government to change the law on abortion.

"The law should allow women to decide for themselves whether they want an abortion and when.

"Because abortion is illegal ARAG cannot tell women where they can have abortions. We can only give people free information on how the law on abortion works and when it is possible to get a legal abortion."

Mr Diamond comes from Britain and has lived here for 18 years.

Last year the Ministry of Health did a survey asking women around the country whether they wanted the abortion law changed. ARAG was encouraged and thought the law might change. But the Minister of Health, Dr Rina Venter, said only 50 000 women wanted the law on abortion to change.

Mr Diamond believes the survey did not show women's true views. He says far more than 50 000 South African women have illegal abortions each year.

"Overseas medical records show that each year more than a thousand South African women fly to countries like Britain to have safe and legal abortions because they cannot have them locally. Those who do not have the money to go overseas have to settle for unsafe backstreet abortions. It is estimated that in South Africa more than 200 000 women have illegal abortions each year

"At Baragwanath Hospital, 4 000 women a year are admitted after having abortions.

"We should look at the numbers of women who have illegal abortions and then decide what women want. How can all these women be against changing the law?

"The laws in this country make it terrible for any women who needs an abortion Why should any women die from a botched abortion? If the laws were different, having an abortion would be as safe and legal as any other medical procedure, and it will be the woman's personal choice."

Mr Diamond feels government health departments should give free treatment to women who have had illegal, unsafe abortions.

About pro-life groups (groups which are against abortion) Mr Diamond says. "I cannot see people who say "No" to legalising abortion help bring up thousands of unwanted children.

"The people who don't have to have an abortion and never will are the one's making laws and decisions about it.

"In the end it's a woman's problem As part of a group campaigning to have the law changed, I think it's important for women to realise they are not alone"

Abortion is illegal in South Africa. The law says a woman can only have an abortion if.

- Her pregnancy threatens her life or her physical and mental health,
- There is a serious risk that the baby, once it is born, will suffer from a serious physical or mental disability;
- The pregnancy was a result of rape or incest,
- The pregnant woman is unable to understand fully the responsibility of being a parent This could also apply to girls under 16.

A woman has to go through a long and difficult process to prove she has the legal right to have an abortion

Because of this, only four out of every 10 women who apply for a legal abortion in South Africa get one. Most of these are white.

To contact ARAG in Johannesburg, phone (011) 442-9540.

New Kleinfontein revamp

NEW Kleinfontein Properties said yesterday it had proposed a reconstruction under which it would be reconstituted as a variable rate loan stock company.

It would apply to amend its listing on the Johannesburg and London stock exchanges. The listing in the JSE's property loan stock sector would be under NK Properties. (232) BIDAY 25/8/92

Shareholders would have to use the entire proceeds of a special dividend they would get to subscribe for new variable rate, unsubordinated, unsecured debentures irrevocably linked to the ordinary shares.

The company would also dispose of its land holdings and mining title to AFC Investments It said shareholders should exercise caution in their dealings. — Reuter

JSE follows sharp drops in global markets

MERVYN HARRIS 232

WORLD stock markets tumbled yesterday The declines came as concerted intervention by 15 European central banks failed to halt the slide of the US dollar to new lows against the German mark

The turmoil on foreign exchange markets fuelled fears that the weak pound might force a rise in British interest rates, prompting a sell-off of shares in London.

The FTSE index of 100 shares crumbled 2,3% or 54,6 points to close at 2 311,1, but off an earlier low It was the largest one-day fall this year and swept the index to an 18-month low BDAY 25/8/92

Most other European markets registered losses of 1%-3%.

The downward spiral of global share prices came on the heels of sharp losses on Wall Street on Friday which were extended at the opening of trading yesterday, although the Dow Jones industrial average recouped part of its losses in later trading

Only the Tokyo market went against the softer trend as the Nikkei index of 225 shares rose 2,5% to go back above the 17 000 level. But Diagonal Street followed the trend of other markets, with De Beers in the forefront of the falls, shedding 4,4% or 250c to a new year low of R54,25

However, the erosion of the dollar buoyed gold, which surged $4,65 to close in London at $342,05 The rise came on speculative buying said to be aimed at prompting a short-covering rally on Comex where major funds went short during the metal's recent sharp falls from a high of $360.

The JSE all gold index rose 15 points to 945 but players remained hesitant in the face of the metal losing its attraction as a safe haven, and reports of producer selling

The overall index shed 31 points to 3 148, with the industrial index down 30 points to 4 046 as Friday's positive sentiment was peremptorily brushed aside.

A dealer said "The abrupt change of mood reflects the fragility of a market which players are finding difficulty in reading There is not much selling pressure but buyers are holding back with the intention of buying shares later at lower levels"

Investor's tax move may not pay off in the long run

ANDREW KRUMM (232)

LONG-TERM investors in listed shares may benefit from a recent change to the Income Tax Act in the 1993 tax year, but may suffer in future tax years, says KPMG Aiken and Peat partner Alister MacKenzie

An amendment to the Act would allow JSE investors who had held their shares for more than five years to choose whether future profits were taxed or losses became tax deductible.

But there was one proviso, MacKenzie said. Shareholders could make the choice only once. Their decision to treat the profit (or loss) on any future share deals as being of either a capital or a revenue nature would apply to every succeeding tax year.

He said "Previously a share had to be held for at least 10 years before the receipts or accrual from sale could be regarded as non-taxable — that is, of a capital nature."

From March 18, 1992, this holding period had been reduced to five years, leaving the shareholder who sold his shares with two possible avenues.

- to continue as before under the old Act or;
- to use the new provision as a safehaven for the 1993 tax year

B|DAY 25|8|92

However, moving into this safehaven for the 1993 year alone could be risky from a future point of view

"For example, if he sold an affected share after March 18 and chose to treat the proceeds as a capital profit in 1993, the receipt or accrual on all future transactions will also be treated as being of a capital nature."

This meant that where the investor made capital losses in future, the Receiver would not allow these losses as a deduction from income

Gilt millionaires

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THE JSE WEEK

By JULIE WALKER

GLOOM on the equity floor could hardly contrast more starkly with the carnival atmosphere on the gilt market.

Several millionaires have been made over the past few weeks as rates gave up almost 100 points to well under 15%. Holders of call options only weeks ago have made plenty of money and expect more.

Their impoverished partners on the equity floor saw their worth decline even more this week. The market overall has shed 10% since the early June peak and the industrial index is down by 12%.

The cash-rich institutions have switched attention from private equity to public-sector debt

At the start of June everyone on the JSE expected a correction of up to 20%, but halfway through, the mood is one of despair. World economics, domestic politics, strikes and joblessness are getting to the JSE at last.

Not even gold's encouraging advance to $360 could stimulate buying of all but the best golds — Freegold, Vaal Reefs, Driefontein.

Rembrandt companies have been hard hit. From above R29 in early June, Remgro has lost almost 20% to R23,65 and SA Breweries has given up 15% to R51,75.

Tongaat shed 325c to R16 in a single deal of barely 1 000 shares on Friday, but was bid higher at the close.

S/Times (BUSS) 26/7/92

Move to revise law on firms buying own stock

BiDay 27/8/92 HILARY GUSH (232)

THE principle of SA company law which bars companies from holding or buying their own shares will be revised, says the Association of Corporate Treasurers of SA (Actsa).

Actsa national technical committee member Dave Mitchell said the right of companies to buy their own shares, within specified limits, through open market transactions on a recognised stock exchange, was already entrenched in the US and Canada.

He called for legal allowance to be given to listed companies to buy and sell their own shares through the formal marketplace. Repurchased shares could be held as "treasury stocks", he said, until the company's cash position changed.

"If listed companies are allowed to buy their shares when prices are low, and to sell them when prices have appreciated, they would be able to influence the supply and demand of their own shares. In a volatile market, this could become a significant factor in stabilising price movements, while at the same time promoting liquidity. Shareholders would benefit from the better market conditions, as well as from any profits made by the company."

Mitchell discounted the danger of management's decisions being influenced by insider knowledge.

"If anything, changing the rules creates an opportunity for us to improve disclosure standards and to give companies an extra incentive for releasing price sensitive information. We all want an honest and efficient market."

Among certain parameters he suggested was that:

☐ Special disclosure rules be negotiated with the JSE and the Securities Regulation Panel to guard against insider trading, and

☐ Company-held shares would not qualify for dividends, and voting rights should be suspended

JSE president Roy Andersen has said the JSE committee has an extensive research programme.

"Company share repurchase is certainly under consideration," he said

MONEY MATTERS Unit trusts offer capital growth, income, or combination of both

How to beat inflation and taxation

Sowetan 27/8/92.

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■ **DOUBLE DIGIT** Financial expert

Magnus Heystek looks at unit trusts as a hedge against inflation:

DOUBLE DIGIT INFLATION and high taxation having become endemic in South Africa, few conventional savings means have wielded a "real" return for many years

As a result, more and more people are looking to unit trusts in the hope of seeing real growth in the value of their money

What is a unit trust?

A unit trust is a sum of money pooled together by a group of various investors, that is used to buy a bulk of shares on the JSE

The pool of money is administered by a unit trust management company

Benefits of Unit Trusts

It is difficult to accumulate capital in today's tough economic conditions The two main problems are tax and inflation Investing in shares can offer distinct tax advantages as well as capital growth Growth in the price of shares as a whole on the JSE (in terms of the all-share index) has consistently out paced inflation

The price of shares also fluctuates, partly because of changes in investors' perception of the economy and partly because of changes in the fortunes of individual companies

So in order to invest wisely on the JSE, you need to have experience and know how

Unit trusts invest in a spread of shares and need a high degree of expertise to manage them Yet the individual investor does not need to have a large sum of money to invest in unit trusts

The management company will invest the money in a spread of shares to minimise risk

What are the charges?

The management company charges an initial fee - usually 5 percent of the amount invested - which decreases according to the size of your investment It also levies an additional service charge of up to 1 percent a year on the average month-end value of the fund

Capital gain and income

Unit trusts offer capital growth, income, or a combination of both The income you receive comprises both dividends and interest

The dividends, as well as the first R2 000 of the interest income, are exempt from tax

The dividends one receives from one's units can either be reinvested or paid out quarterly or bi-annually (depending on the type of fund one chooses)

Unit trusts and the investment spectrum.

Three broad categories of unit trusts exist

* Funds which yield high income and are classified as low risk

* Funds which are invested in a wide spread of shares on the JSE and are considered medium risk investments

These are known as general funds

* The specialist equity fund - investments are concentrated on one or a couple of sectors of the market and are thus often classified as higher risk investments

When to invest.

It is important to remember that, with any investments in the share market or unit trusts, growth is not immediate Unit trusts must be regarded as medium to long term investments

A unit trust investment should only be made if you already have adequate life insurance and have sufficient money in a savings account for any emergencies.

So not only is it essential that you are financially stable, but that you are prepared to keep the investment for at least five years

For your savings to grow at a rate higher than that of inflation, and therefore to show real growth, you would need to invest in a medium life unit trusts, which can give you capital growth, while being efficient

Genbel sees some encouraging signs of a worldwide economic recovery

STAR 27/8/92

By Stephen Cranston 232

The current portfolio weightings in Genbel are similar to the South African components of the Financial Times Actuaries World Indices

In the annual report for the year to June, MD Anton Botha says that if Engen, which refines and distributes oil, were re-classified as a consumer goods and services company, the similarities would be very close.

Genbel holds 22 percent of its portfolio in finance, insurance and property shares, compared with a 19,6 percent weighting in the Financial Times SA Index and 59,9 percent in basic industries as against 56,4 percent in the FT index.

Genbel's energy component is 15,5 percent, compared with the FT index's 4,1 percent, and the consumer goods and services holding is 2,6 percent, compared with 17,1 percent

Chairman Tom de Beer says that although certain commodity prices have risen in line with increasing demand since January, these had little or no impact on the fortunes of many of Genbel's underlying investments.

He adds that the South African investment environment was also affected by continuing high interest rates and political uncertainty. Genbel increased its earnings by seven percent to 34,2c a share

Mr de Beer says there are encouraging signs that the major world economies are improving and that the bottom of the commodity cycle may have passed

Mr Botha says that foreign exchange control and a continuing healthy balance of payments surplus have sustained the value of the commercial rand

"These factors reduced the profitability of many of the companies in which Genbel is invested.

"We are therefore only mildly optimistic that the profitability of companies in the portfolio will show any improvements in the current year"

STAR 27/8/92

Anton Botha . . . only mildly optimistic

The Star/Allie

Advance bookings for this week's retirement planning seminar organised in conjunction with Allied Bank have now closed, but bookings can still be made by phone.

The seminar is at th

Mining house shares lose shine

BDAY 27/8/92

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MATTHEW CURTIN

SHAKY diamond, gold and platinum prices have dulled the appeal of SA's mining houses However, some analysts say many of the shares should not be ignored because they offer protection against weak individual commodities and the potential of good growth once the cycle turns around

George Huysamer analyst Koos Pretorius said yesterday the shock turnaround in De Beers' fortunes had made the market wary of single commodity mining companies, and knocked the appeal of other groups linked to the diamond business

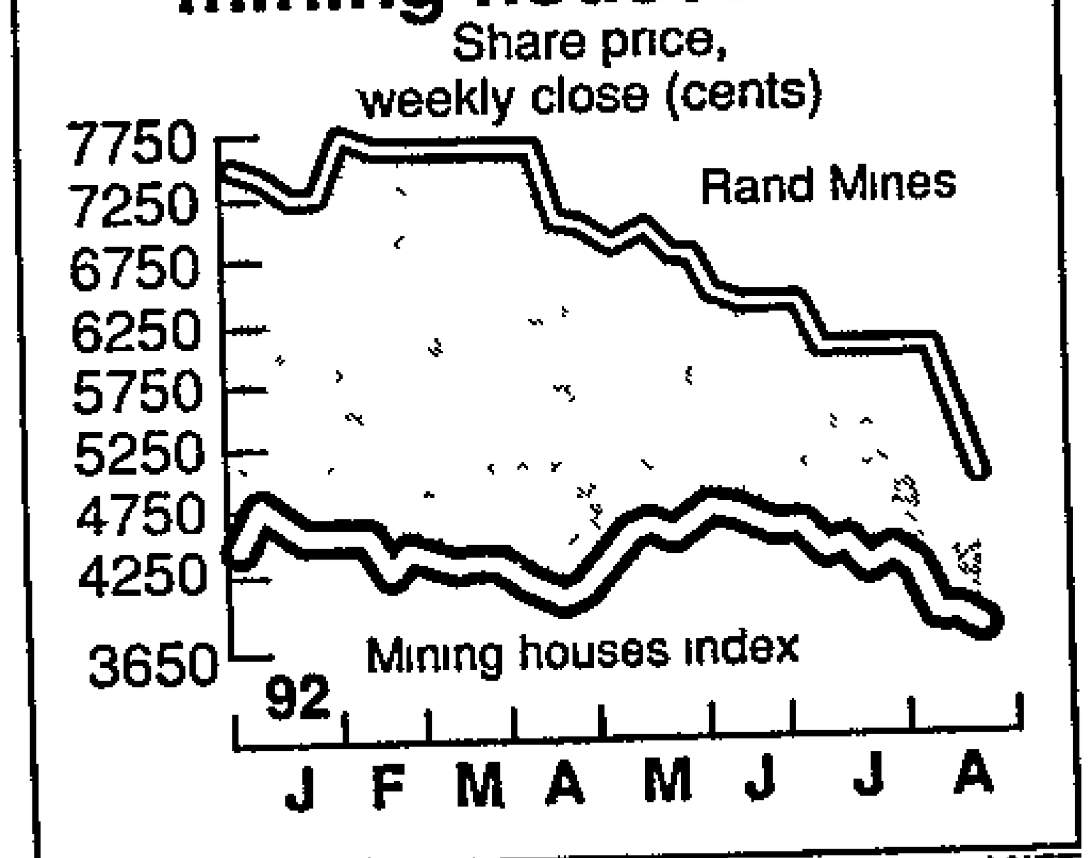
De Beers shares rallied a little on the JSE yesterday, closing 40c up at R53,10, still R40 off highs for this year Anglo American shares fell 25c to R94,75, a fall of more than R11 or R16% in the past month, and are 21% lower since the beginning of the year.

Mathison and Hollidge analyst Barry Sergeant said Anglo American particularly and Anglovaal — through investment company Middle Wits, which has an indirect stake in De Beers' Venetia diamond mine — had lost ground on the JSE recently because of their exposure to diamonds

Anglovaal fell 50c to R70,50 yesterday, a fall of nearly 10% or 750c in the past month

However, Anglovaal, Johannesburg Consolidated Investment (JCI), and Gencor are the three mining houses the stock of which has held up the best so far this year, losing only 3% to 10% of their value since January

Pretorius said these groups offered investors the security of diverse interests with limited exposure to any one commodity He said their "downside" was that they would sacrifice the spectacular growth in earnings should a commodities' boom occur



Graphic LEE EMERTON Source I-NET

He said Gencor was "a real steal" at current prices The stock closed 10c higher at R10,75 yesterday, giving Gencor a price/earnings ratio of 10,4

Pretorius said Gencor offered shareholders the prospect of real earnings growth in the 1990s, once the Alusaf smelter and the Columbus Stainless Steel expansion projects got off the ground, with the bonus of fuel group Engen's solid prospects

However, Sergeant cautioned that Gencor faced huge cash demands through its links to more than R10bn in capital projects the aluminium and steel projects, the developing Oryx gold mine, Engen's share of further stages of the Genref expansion projects, and the revival of Impala Platinum's mothballed platinum mines

Both analysts said it would be premature to "write off De Beers", and agreed a "downweighting" of Anglo stock in portfolios was in order

Pretorius said Gold Fields, "theoretically" a good stock, seemed to have been neglected by investors The group's shares have sunk 25% so far this year, and closed 25c lower at R57,75 yesterday

Sergeant said Gold Fields, because of the strength of its balance sheet and the quality of Driefontein and Kloof gold mines, was a safe haven for investors

Concern over financing the later stages of development at Northam Platinum was mitigated by the chances that a rights issue would be held by the mining company, not the mining house

He said JCI was also attractive, because platinum was the most likely commodity to turn around sharply, bringing super profits to Rustenburg Platinum and outweighing the mining house's exposure to diamonds

JCI stock has fallen 16% in the past month to R49,75, but is still near levels at the beginning of the year

Analysts agreed that Rand Mines was the mining house in which investors had lost interest The group's shares have fallen 33% this year to R50, and were bid at R40 on the JSE yesterday, after ambitious bids of R17,50 on Tuesday

Divested of its platinum, forestry and base metal interest, and lumbered with four marginal gold mines, Rand Mines amounted to little more than coal-mining subsidiary Randcoal, an attractive investment in its own right, they said

The restructuring of Rand Mines' head office, involving the "divisionalisation" of the mining house's operations, is still under way

Only the naive blame pyramids for economic ills

BDM 27/8/92. **JOS GERSON** 232

EVEN eminent economists should tread warily when they prescribe solutions for distant countries with which they are not intimately familiar. Sir Alan Walters and George Guise obviously felt no need for such caution when they wrote their piece on SA (Business Day, August 20).

Much of what they say about the political environment is valid and perceptive, but the same cannot be said of their rather facile attack on the country's corporations.

They fail to take into account the fact that most of the serious distortions (for instance, excessive agglomeration) are attributable to 30 years of exchange control regulations, which forced groups such as Anglo-American to diversify into industry instead of into other mining ventures overseas.

If the political situation were normalised and exchange controls lifted, the re-entry of foreign corporations into the country would afford the large groups the opportunity of spinning off many of their subsidiaries without the wholesale collapse of the pyramided holding companies being necessary. Until then, unbundling remains a mere panacea. Where unbundling is called for (as in the sale of Tradegro), it will occur anyway, without interference from politically inspired meddlers.

Walters and Guise are patently wrong when they accuse SA management of being "featherbedded" and unaccountable to shareholders. On the contrary, most of SA's operating companies are under the control of powerful family shareholders, such as the Ruperts and others (and, of course, the life insurers) to whom management of the operating companies is clearly accountable. Senior managers in SA are considerably less powerful and less well-paid than their counterparts in the UK and the US, and that is all to the good.

If, indeed, the pyramids are so inefficient and oppressive to the broader body of shareholders, how does one explain the significant premium in the price-to-earnings ratios of pyramid-controlled operating companies relative to those of the independent operating companies? In any event, it is absurd and extravagant of Walters and Guise to infer that collapsing the pyramids could lead to a cost saving of 50%.

They also show no sensitivity or awareness of the international debate about alternative systems of corporate governance that is now emerging.

Harvard University's Bradford de Long concedes that in almost every country the unfettered forces of the market tended over several decades to produce extremely concentrated structures of corporate control: from J P Morgan and the other great investment bankers of the US (cut down by Roosevelt for political reasons in the '30s) to the powerful banks of Imperial and even modern Germany, from the prewar Zaibatsus and postwar Keiretsus of Japan to the conglomerate Chaebols of South Korea, from the Agnellis of Italy to the Wallenbergs of Sweden.

Surely, the market must have had some purpose in fostering these structures, the development of which was almost always associated with phenomenal national economic growth rates. Only in the enigmatic case of the UK did such structures fail to emerge. Perhaps their absence provides a clue to Britain's dismally slow, long-run growth rate and its relative decline since the late 19th century, despite its undeniable success at developing impressive and sophisticated financial markets.

It may be significant that many US economists and financial scholars of diverse ideological persuasions now question the benefits of the Anglo-Saxon system of corporate governance. On the left, the Massachusetts Institute of Technology's Lester Thurow believes the "democratisation" of America's corporations in the '30s was a mistake. On the right, Harvard Business School's Michael Jensen, a defender of the wave of leveraged buyouts and takeovers of the '80s, wants the market to be entirely free to produce powerful shareholders, even if this leads to their becoming entrenched.

The point that has to be understood is that while corporate raiders such as Lord Hanson have undoubtedly helped to shore up the performance of the management-dominated corporations that characterise the UK and US, hostile takeovers and contestable control should not be seen as ends in themselves. Otherwise, the classic family-controlled firm would have to be considered — necessarily but implausibly — as an inferior anomaly (whatever the family's underlying shareholding).

Families could then add value simply by surrendering control and, surely, most families are not so vain as to forgo the resulting increase in their wealth! Regulations enforcing the principle of "one-share, one-vote" would then be superfluous. Yet, in the real world that is not the case. Such regulations are expressly designed to thwart the will of investors (and, in this country, institutions) who, with their eyes open, enthusiastically take up new issues in pyramided holding companies, which also serve to concentrate and to preserve the control function. The road to mutually negotiated takeovers should always be kept wide open, but in this respect SA's laws are more liberal than those of the UK.

Walters and Guise automatically assume that the present structure facilitates monopoly pricing. Yet the only effective antidote for that is foreign competition. SA consumers certainly overpay for a wide range of goods, but the root of their problem is to be found in the country's protectionist trade policies and various regulations that suppress competition. Industry structure per se has very little to do with it — as an excellent empirical paper by Wits University's Dan Leach shows.

What about the service industries, however, which by their very nature are less open to foreign competition? One such industry, namely supermarkets, may illustrate the point. In SA, in normal years, the major supermarket companies earn a net return of about 2%, which is roughly the international norm. In the UK, despite the prominence and power accorded the Monopolies & Mergers Commission, the return exceeds 6%. Have we not a case here of the pot calling the kettle black?

In one respect Walters and Guise are, unfortunately, correct. Dirigiste regimes have, in general, been more tolerant of concentrated corporate structures. There are many deep reasons for this, but one is that many voters and, above all, the intelligentsia of the English-speaking countries, seem incapable of differentiating between the world of politics and that of commerce.

In ideal circumstances, we should be able to reap the advantages of a highly devolved political system as well as those of a market-driven (if necessary, very concentrated) corporate structure. Alas, in reality, that may be asking for too much.

☐ Gerson is a consultant economist to Davis Borkum Hare & Co and a visiting lecturer at UCT's Graduate School of Business. The topic is the subject of his unpublished doctoral dissertation at UCLA and also forms part of a UCT-based research project which he has undertaken in collaboration with Professors Brian Kantor and Graham Barr.

Sharp dip expected in W&A's performance

(232)

BIDAY 27/8/92

MARCIA KLEIN

W & A Investment Corporation's earnings would dip by between 20% and 30% in the six months to end-June on the back of poor operating conditions in nearly all its markets, analysts said yesterday

Market expectations of lower results are reflected in W & A's share, which closed yesterday at a low of 210c after trading at 575c in October last year

Analysts said the interim performance would be more or less in line with their expectations for the full year.

They said income from its diversified operations, which include Gentyre, Form-Scaff, JD Group, AAF Investment Corporation, Vektra and various consumer related companies, would be down

This was because many of its divisions operated in markets which were cyclical and had been hard hit in the recession

Results would depend largely on its scaffolding business and on those of Gentyre, which has yet to report

Analysts were divided on how Form-Scaff would perform

They said its results would be down by between 10% and 40% as it was affected by local and international recessionary conditions

One analyst said scaffolding was likely to do better than most of W & A's listed companies, but it would still be down on the previous year

Gentyre's results, which were likely to be down by as much as 30%, would reflect the state of the tyre industry and competition from exports

Analysts were unsure whether it would be faced with a tax bill in the current period

Furniture retailer JD Group had already reported lower earnings

Analysts said all the group's consumer-oriented companies would turn in poor performances for the period

W & A would have reduced its debt from the sale of its hosiery interests and of most of its holding in Elcentre

The interest bill would also benefit from lower interest rates

But analysts said it was not known to what extent the group had reduced head office debt

The group would also be reporting with no contribution from its hosiery division

Hosiery contributed R21,3m to attributable profit in financial 1991.

STATE CORPORATIONS (232) FM 28/8/92

Back on the path to privatisation?

Two-and-a-half years ago, bowing to political pressure from the ANC, mounting union protests and an about-turn by the Democratic Party, government shelved most of its privatisation plans and focused on commercialisation — the halfway house devised to run State entities along business lines

Now, Public Enterprises Minister Dawie de Villiers, the man who put on the brakes, is talking about privatisation as if the past few years hadn't happened

"Commercialisation and privatisation form an integral part of the government's economic restructuring programme," he told a forum last week examining commercialisation and corporatisation, arranged by AIC Conferences "This programme is aimed at promoting economic growth and job creation, a better distribution of incomes, improvement in the quality of life, eliminating socio-economic backlogs and the upliftment of communities that have been deprived of basic needs"

Government also seems determined to push ahead this year with the full privatisation of the Abattoir Corp (Abacor), despite complaints that the industry must be deregulated first

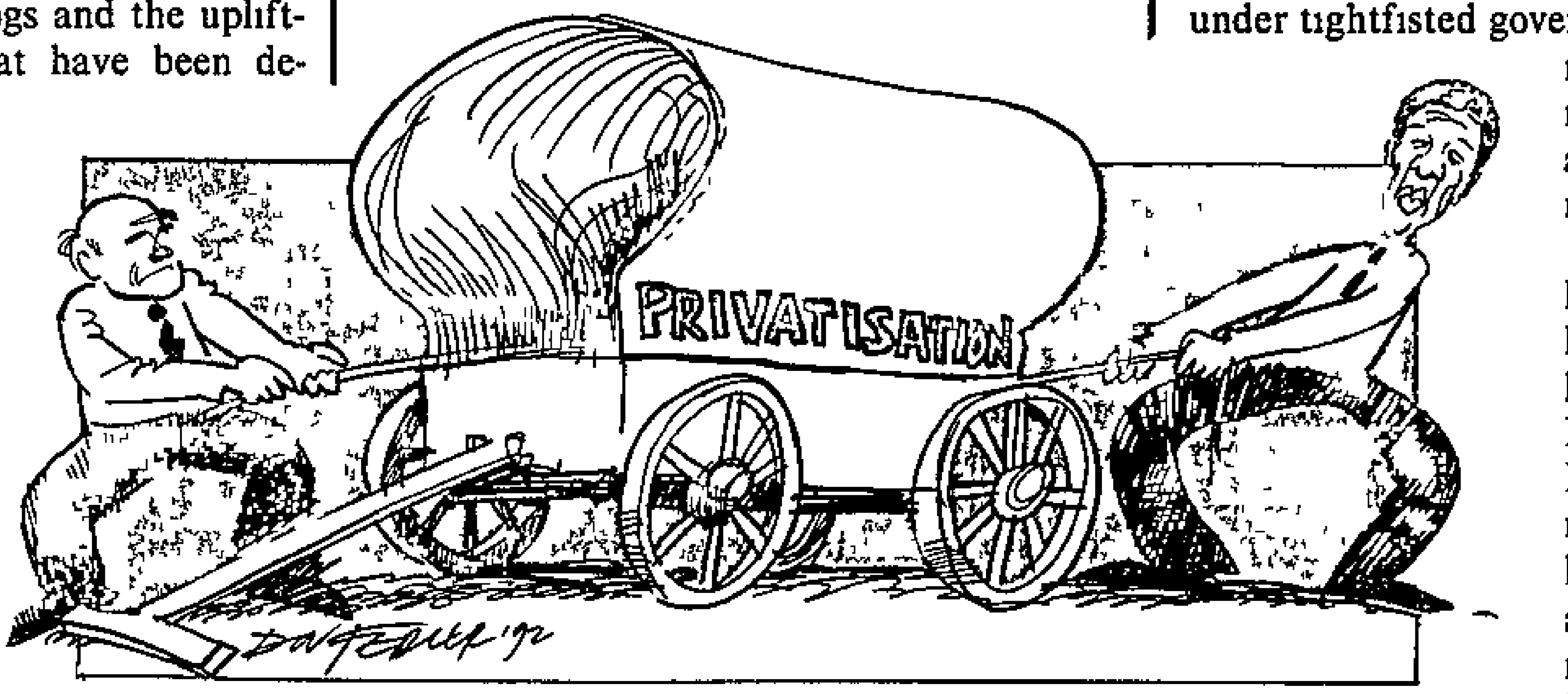
The change in strategy is surprising Certainly ANC opposition to privatisation is as rabid as ever ANC economics adviser Tito Mboweni's message to the gathering of business leaders leaves no room for doubt "Our policy is that any public corporation that is privatised now will be renationalised without compensation" He does stress, however, that the ANC has no hard and fast policy on commercialisation, though it has resisted all such efforts so far

Clearly, the ANC believes State corporations have an important role to play in SA's development, particularly in the redistribution of wealth The ANC correctly points out that these bureaucracies were, after all, used to implement apartheid policies to the disadvantage of blacks But the ANC's greatest fear, it seems, is that commercialisation and privatisation will transform enterprises supposedly designed to provide universal service into mere profit-making centres Says Mboweni, "Service will naturally only be extended to those who have the money to pay such a market-determined price"

SA Post Office chairman Donald Masson, however, points out that if services are priced too high, enterprises will simply go under He suggests that privatisation and commercialisation will deliver services more effectively than the State ever could or would "A bureaucrat will see providing telephones to 30m people as a nightmare A businessman will see those same 30m as a business opportunity"

Government's renewed commitment to privatisation, it seems, has been spurred by the collapse of State-run economies worldwide Says De Villiers "In the economic history of the world, the past few years will emerge as the period in which the total failure of centrally controlled economic systems have been proved beyond a doubt The inability of a State-controlled economy to provide growth and to improve the quality of life of its citizens speaks for itself"

Recent World Bank findings have also been an encouragement De Villiers quotes from a World Bank publication. "Private initiative and competitive markets play a critical role in fostering dynamic and flexible economies Support for private-sector development, therefore, is an essential element in helping to raise standards of living and reduce poverty"



In June, the World Bank released the results of a study on privatisation that concludes that privatisation really does create wealth The study, which looks at three privatisations in each of four countries — Britain, Chile, Malaysia and Mexico — concludes that 11 of the 12 privatisation sales produced a dramatic net increase in wealth Reasons for these successes vary but the bank suggests that privatisation resulted in higher investment, managerial innovation, better pricing of services and a shedding of surplus workers

Certainly, SA's own experience is reason for optimism The privatisation of National Sorghum Breweries last year proved a model for raising capital and redistributing wealth — the shareholders are mostly workers and small black entrepreneurs and the company is more profitable than ever The privatisation of Sasol and Iscor also went off smoothly, though share prices for Iscor have been hit by world market conditions

Likewise, the commercialisation of, among others, Telkom, the Post Office, Transnet (including SAA, which now has to compete in a deregulated market) and Armscor, has at least made these former bureaucracies financially accountable and more efficient, competitive and profitable (or at least less unprofitable)

Of course, in some instances, greater success could have been achieved had government skipped the commercialisation route and privatised directly An example is many of the former Armscor subsidiaries Industry experts believe they should have been sold off to the private sector immediately Instead, as subsidiaries of the commercialised Denel, many of them are battling to survive under tightfisted government ownership and need further investment to diversify and adapt to a commercial market

Commercialisation has also ushered in a host of other problems Competition Board chairman Pierre Brooks says numerous complaints have been lodged against many of the recently commercialised or corporatised entities "This does not come as a surprise. The government's policy of commercialisation is intended to reduce or eliminate government's financial commitment to parastatals This has put pressure on the managers not only to trim their particular operations but to seek alternative sources of income by extending the scope of their activities Doing so during a prolonged downturn has been challenged by private-sector firms whose viability is threatened by such actions"

It appears that, in practice, the policies of commercialisation and privatisation are proving to be at variance with each other Says Brooks "With justification, businessmen aver that while privatisation is intended to transfer certain selected State-owned businesses to the private sector, commercialisation is, in effect, enabling and perhaps compelling parastatals to take business away from them"

Of course, many argue this clearly increases rather than diminishes State involvement in the economy — which might be why government has decided to bravely re-assert its commitment to full-on privatisation

Mirryena Deeb

Africa 'needs skills of SA accountants'

BIPIA 28/8/92

GAVIN DU VENAGE

SA ACCOUNTING firms could provide expertise to the rest of Africa, usurping the role usually played by the UK, Canada and the US, Deloitte Pim Goldby's African board chairman Daniel Ndonye said yesterday

Ndonye, who also heads Deloitte's Kenya firm, said "we see business to business services thoughout the sub-Saharan region becoming much more closely associated, and SA can replace the usual sources of expertise now that she is once again part of Africa"

Services had to extend beyond traditional accounting to assisting trade relations and developing a common accounting strategy for the continent

Deloittes found itself providing information as diversified as how to obtain work permits and what products would be competitive in each market

He said cross-training programmes would give accountants the opportunity to participate in the daily life of host countries, while getting to grips with the financial environment

London expert discounts Big Bang as JSE solution

232 BIDAY 28/8/92

MERVYN HARRIS

A UK-STYLE Big Bang is not what the JSE wants or needs, says London Stock Exchange CE Peter Rawlins, who is on a brief visit to SA to advise on changes to the domestic market

"We engineered a process of huge and wide-ranging reforms for reasons of our international competitiveness, which was under threat The success of Big Bang is that we regained and enhanced our international capacity so that now two-thirds of all cross-border equity trading and 95% of all such trading in the European time zone goes through the London market," Rawlins said

"The commercial threat which London had to respond to in 1986 was and still is very different to the scenario the JSE is facing We did everything all at once in a great hurry

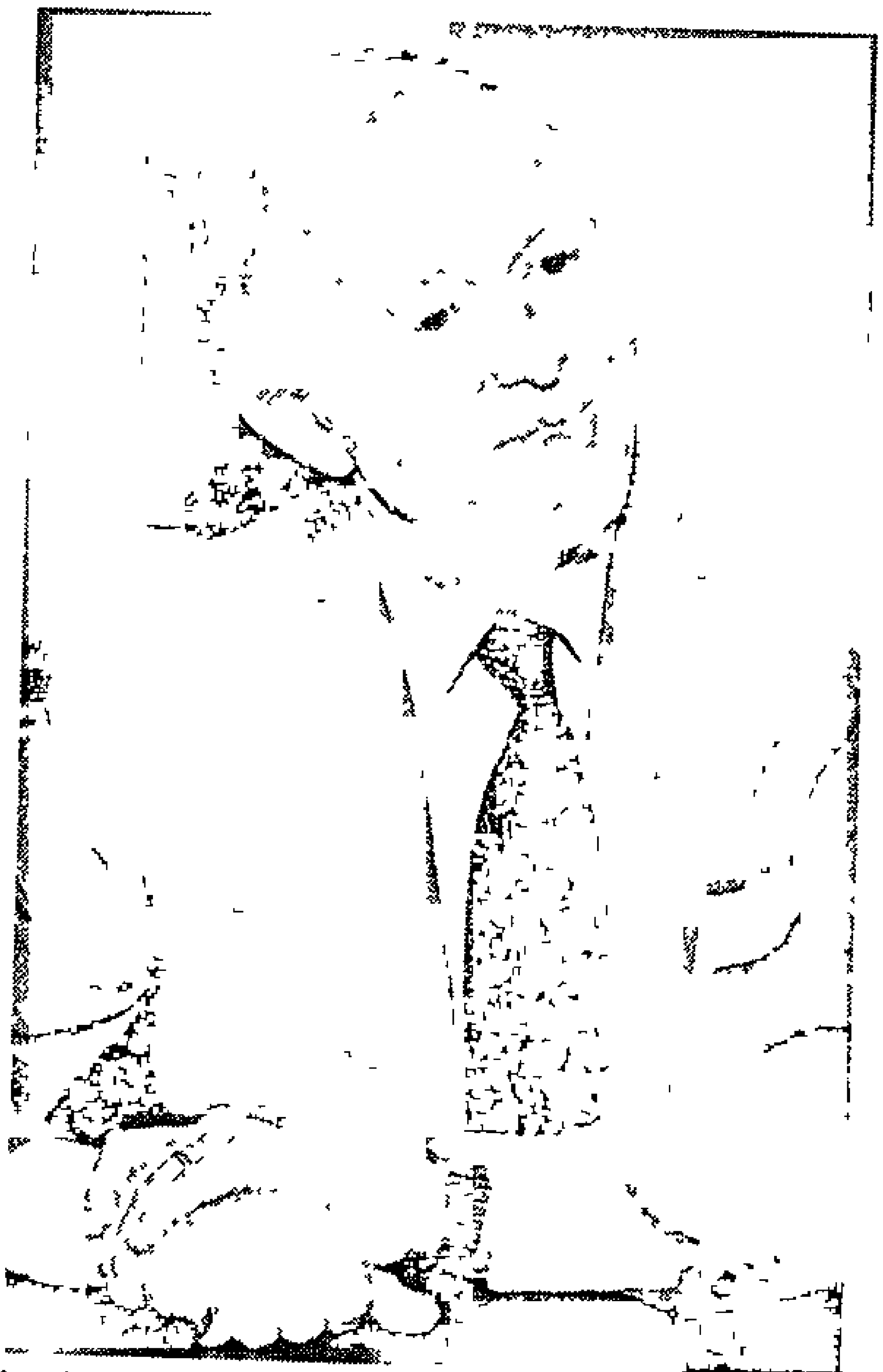
"My advice to the community here is to make sure that the implications of the reforms you want to introduce are fully understood, before you actually implement them

"If you decide on dual capacity (brokers dealing as both principal and agent), for instance, do not lose sight of the fact that it will bring pressures and conflicts that do not exist in a single capacity (agent only) environment," he said

"Management capacity was not adjusted and upgraded in line with the changes being introduced at the time on the London market Looking back on Big Bang, an excess amount of money was poured into the great white hope of information and communication technology," said Rawlins

"Many of the people taking the decisions at the time did not understand the implications of what they were doing

"Had we had more technically literate senior management, they would have seen some of the problems that have since had to be sorted out"



London Stock Exchange CE Peter Rawlins in Johannesburg yesterday. Picture ROBERT BOTHA

Since Rawlins took the helm of the London Stock Exchange three years ago, he has whittled down the number of employees from 3 500 to 1 500 And, he added, there had been no material reduction in the nature of the services provided

"My message to the JSE and the community here is to make sure you have the management to deliver the goods when introducing reforms Tomorrow's world may be very different to today," Rawlins said

FM 28/8/92 (232)

JSE LISTING CRITERIA (232)

Time for change

FM 28/8/92

Proposed changes to listing criteria, which become effective at the beginning of 1993, have received a lukewarm reception Brokers and other market watchers don't feel the amendments to the standing criteria for companies seeking a JSE listing are going to do much to improve the quality of companies coming on to the market, or to stem the high failure rate which has seen an increasing number of delistings since 1989

But next year's changes could presage a more fundamental overhaul of the listing criteria, along with possible changes to the Companies Act, which should tighten up a wide range of listing requirements These could include a move towards fuller disclosure as well as general principles allowing the JSE Committee more discretion to make subjective decisions on companies applying for a listing

The present amendments only raise the financial threshold for companies seeking a listing These are

☐ Raising the subscribed capital of companies applying for a listing on the main board from R1m to at least R2m, in the form of not less than 1m issued shares, excluding revaluations of assets,

☐ Raising the subscribed capital of those applying for the Development Capital Market (DCM) from R500 000 to R1m, in the form of not less than 1m shares, excluding revaluation of assets,

☐ Increasing the required audited profit level from R250 000 to R500 000, before tax, for a DCM listing, and

☐ Raising the subscribed capital of companies applying for a listing on the Venture Capital Market (VCM) from R1,6m to R2m, in the form of not less than 1m shares, excluding revaluations of assets

Richard Connellan, GM of the JSE's listings and equity markets division, says the amendments are being introduced to keep up with inflationary times, the present criteria not having changed for about six years But, he adds, questions have been raised about these criteria, which some feel make a listing too easy

Last year's high fallout seems to bear this out Of the 59 companies delisted last year (21 of which were liquidated), more than 60% were floated in the listings boom of 1986-1987 There is a view that more exacting listing requirements would lower the casualty rate

But changes will have to go beyond raising the capital requirements Some analysts feel even the new criteria fall far short of what is needed, believing companies applying to the main board should have share capital closer to R5m rather than the R2m required from next year

The JSE's listing department has been reviewing the requirements and co-ordinating input from other quarters, including work by Deloitte Pim Goldby partner Frank D' Amico It's hoped recommendations will be implemented early next year, once the amendments have been through the committee

The committee is waiting to study the first draft of the recommendations, which the *FM* understands will try to address some basic problems which now limit the ability of the

JSE's Connellan *questions have been raised*

JSE to make decisions on new listings

For example, the JSE has its hands tied by the Stock Exchanges Control Act and its own Red Book listing requirements It has to list any company that meets the relevant criteria, even if additional information places doubt on the financial integrity or ability of the company concerned

This is not the case on other stock exchanges, London for example, where the stock exchange council has the discretion to accept or reject applications even after listing requirements are met

Areas being investigated include acquisitions and takeovers, the waiving of minority shareholders' pre-emptive rights and suspensions

Changes to the Companies Act being considered by the Standing Advisory Committee on Company Law — including more stringent requirements for company disclosure — could also result in amendments to the JSE's requirements

Shaun Harris

Unbundle yes, for starters, say ANC

ARGT 29/8/92

232

The ANC feels it may well be necessary for conglomerates to be broken up or made subject to a regulatory framework which makes them accountable for the power they wield.

Weekend Argus Foreign Service

LONDON — Unbundling the big South African conglomerates is a good idea, says the ANC, but the way to do it is not by removing obstacles to takeovers.

In a letter to the Financial Times in London last week, Mr Mandla Langa, the ANC's deputy chief representative in the UK, dismisses suggestions by two British economists published the week before in the same newspaper

The ANC in London says much of the analysis of South Africa's economic problems made by Sir Alan Walters and Mr George Guise is "unworthy of serious discussion".

But it agrees that domination of the economy by the "interlocked interests" of five conglomerates leads to inefficiency and a lack of effective competition

Sir Alan Walters, vice-chairman of AIG Trading Corporation and a former economic adviser to the British Prime Minister, and Mr George Guise, former director of Consolidated Gold Fields, argued for a free market, in which takeover bids would be possible to correct the monopoly power of the large conglomerates

Criticising "feather beds in the boardrooms", they said it was impossible for any outsider to mount a takeover bid against the interlocked interests "of the five conglomerates which account for more than three-quarters of the market capitalisation of the Johannesburg Stock Exchange"

Unbundling the conglomerates would benefit everyone, they said It would create — not destroy — jobs, improve efficiency and allow South African manufacturers to open new markets Even the owners of the conglomerates would benefit, said Sir Alan Walters and Mr Guise, because shareholdings "would be worth much more under an open takeover regime".

Maybe, says the ANC, but the best way to fight monopoly power is by regulation According to Mr Langa, the ANC feels "it may well be necessary for conglomerates to be broken up or subject to a regulatory framework which makes them accountable for the power they wield in the economy"

He dismisses the suggestion by Sir Alan and Mr Guise that merely removing regulatory obstacles to takeovers would solve the problem

"This simplistic notion ignores the fact that takeover bids have produced the present conglomerates," Mr Langa says in his letter

Instead, he says, the ANC would "establish an effective competition authority with power to order, where necessary, the break-up of monopolies and to vet takeover bids, blocking those which would operate against the public interest"

Wednesday, Aug 26 quotations for unit trusts:

	Buy	Sell	Yield
General Equity Funds.			
ABSA	130 07	121,68	6,10
BOE Growth	131 81	123,15	4,86
Community Growth Fund	108 47	103 05	na
Fedgro	115 07	107 44	5,37
CU Growth	103 69	96 81	5,59
Guardbank Growth	2211,01	2060 51	5,17
IGI	120 82	113,08	4,62
Momentum	216,10	202 66	4 89
Metfund	168,53	156 23	4,38
Metlife	112,41	105 12	na
NBS Hallmark	849,69	793 59	6 34
Norwich	315,26	294 43	4 91
Old Mutual Investors	2443 84	2278,47	4,24
Sage	2177 46	2033,70	4,85
Sanlam	1491,61	1394 92	4 22
Sanlam Index	1134,87	1061,06	4,34
Sanlam Dividend	411,78	385,65	4,90
Southern Equity	174 68	163,56	4,91
Standard	1072,88	1008 38	7 94
Syfrets Growth	251,29	235,30	4,72
Syfrets Trustee	107,83	101 00	na
UAL	1850,91	1736,84	5,09
Specialist equity Funds:			
ABSA Industrial	116 88	109,31	9,39
Guardbank Resources	129,46	121,59	6,16
Guardbank Industrial	106,14	99 74	6,65
Sage Resources	99,75	93 13	7,19
Sanlam Industrial	924,68	864,98	3,45
Sanlam Mining	255,29	238,34	5,78
Southern Mining	111 88	104 60	5,93
Southern Pure	103,14	96 61	na
Standard Gold	142,80	133 82	8,81
Standard Industrial	102,83	96,91	na
Standard International	92,01	86,15	na
UAL Mining and Resources	327,16	306,15	5,09
UAL Selected Opportunities	1574,77	1473,36	4,69
Old Mutual Mining	204,55	190,44	5,82
Old Mutual Industrial	325,30	303,04	4,80
Old Mutual Gold Fund	91,28	85 03	6,59
Old Mutual Top Companies	215,88	201,24	na
Income/Gilt Funds:			
Metboard Income	112,54	111,36	14,85
Guardbank Income	121,49	119,00	15,21
Old Mutual Income	112,14	110 91	13,51
Standard Income	94,08	93,10	14,50
Syfrets Income	112,94	111,80	14,51
Syfrets Gilt	1143,02	1131,54	na
UAL Gilt	1252,07	1239,55	12,82

Investing on the JSE

SOUTH 29/8 - 2/9/92. 232

The Johannesburg Stock Exchange (JSE) is a market where people are able to buy and sell shares, negotiable investments and fixed-interest securities

A stock exchange operates on a similar basis to a market Its primary aim is to provide a place where shares and securities can be bought and sold The JSE itself does not issue securities - this is done by governments, municipalities, public corporations and public companies Trading is governed by regulated procedures or rules These rules, formulated by the Stock Exchange committee, are designed to protect the investor from any dishonesty or malpractice

The Johannesburg Stock Exchange has two main functions:

- to provide companies with a mechanism to raise capital for the expansion of their business,
- to provide the individual with an avenue to invest their savings - with the potential for capital growth

A stock exchange should be regarded as a high rish/long term investment. The biggest risk the investor is exposed to is the volatility of share prices Share prices can easily fall below purchase prices, resulting in a capital loss Yet well run, financially stable companies' share prices tend to appreciate over time. This capital appreciation acts as an inflation hedge

On the stock exchange, money is made from the profits of the company whose shares have been bought. These are declared as dividends

The price of the share is determined by the supply of, and demand for, the share When there are more buyers than sellers for a particular share, the price will increase. This also offers opportunities for capital gain for the investor

Because of the risks, one of the best possible ways to invest on the JSE is to work through a broker To invest on the JSE one has to be a member - this is because it is not possible for a large body of investors to all buy or sell shares at the same time Brokers help overcome this problem by handling individuals' transactions

The broker's job is to advise investors and execute the buying and selling of securities on behalf of the client. He/she is well informed and closely follows the affairs of companies, monitoring national and international affairs to determine their effects on business being conducted

In return for their services, brokers charge a small commission on investments made Since brokers handle large sums of money which do not belong to them, it is essential that they are trustworthy To protect the investor, the JSE lays down stringent laws to which brokers must comply

Investing on the stock exchange must be a careful, well thought out decision - the stock exchange does everything in its power to protect the investor against risks of fraud and corruption, but it is not able to protect the investor against the capital risks of making the investment.

To further avoid investment risks, the investor should have a portfolio of shares However, shares are costly and a large number of people cannot afford to make up a portfolio This is where a unit trust investment can benefit the investor who wants to make a smaller or more varied investment - there will be more about this next week

Investors cannot afford to be caught napping

STAR 29/8/92

232

FOOTSTEPS TO FORTUNE

RICHARD *Cluver*

READERS who have regularly followed this column should by now clearly understand why it is dangerous to abandon their financial health on the share market or in unit trust investments.

To maximise capital growth rates you need to go with the flow of the economy, switching from a general fund to a gilt or high-income fund whenever the market seems to be reaching a peak.

It might be wise later on in the cycle to move to a mining or gold fund to take advantage of improving export markets.

Whatever you do, never simply dig in your heels.

It is worth noting that investors who failed to get out in time at the end of the great JSE bull market of 1969 saw the overall value of the market fall 60 percent in the weeks that followed that crash.

It took nine years for the JSE Overall Index to recover to the level of the 1969 peak, and during that time inflation had stripped nearly 60 percent from the value of money, implying that even nine years later investors were no better off in inflation-corrected terms.

The next great bull market was in 19

The market index rose 666,66 percent ahead of the 1969 peak.

But once one had corrected for inflation, the October 198 peak index stood at only 83 percent of its implied 1969 monetary value.

By June this year, as the market peaked again, the inflation-corrected value of a rand invested at the peak of the 1969 market was only 70c, so 23 years on, inactive investors would still have been losers.

To prove my argument that it pays to move in and out of unit trusts as the market makes major fluctuations, let us look more closely at the long-term history of South Africa's oldest unit trust, the Sage Fund.

Brokerage

When it opened its doors on June 14 1965 you could have bought units at 104c each.

This figure included a 5 percent up-front fee for Sage, marketable security tax and brokerage.

In the years that followed, taking only the year-end prices, the fund:

- Peaked in 198 at 195,76c
- Bottomed in 1970 at 111,68c
- Peaked in 19 at 169,90c
- Bottomed in 19 at 130,97c
- Peaked in 1987 at 1 526,61c
- Bottomed in 1988 at 1 176,23c.
- Peaked in 1992 at 2 373,03c.

Had you sat tight throughout the 27-year period on an initial investment of R1 000, it would be worth R22 818.

Had you been able to anticipate each peak and bottom and sold each time the fund peaked and bought in each time the fund reached bottom (apart from the fact that you could have placed your capital on call at the bank in between sales and repurchases in order to earn even more money) your R1 000 initial outlay would have brought you R56 531.

Just eight transactions in 27 years — requiring very little effort and not putting you at risk of being labelled a trader by the Receiver of Revenue — would have given you that 148 percent improvement in capital growth.

So I say again: do not dig in you heels when the market starts to fall.

Sell out, and live not just to face another day but to ensure greater profits in every way.

Overvalued rand hits commodities

S Times (BUSS) 30/8/92 (232)

GENBEL managing director Anton Botha calculates that on inflation-rate differentials between America and SA since commodity prices started to fall in 1988, the rand should have fallen to 322c to the dollar instead of the current 275c.

He says the Reserve Bank manages the rand against a basket of currencies, in a world of dollar-denominated commodity trade.

"It is not helpful if you are a commodity producer. Wages are inflation driven and Eskom pegs its tariff rises at a few points under," says Mr Botha.

In other words, costs go up and revenue falls because the currency is too strong.

"Gold would have been R180/oz higher if the rand were where it should be."

Mr Botha gave a presentation at the JSE this week. It was suggested to him that if the Reserve Bank allowed the rand to slide, the good work done by Chris Stals and crew would be undone.

Mr Botha agreed, saying that other changes, such as reduced government spending, revised tariff structures, greater competitiveness and removal of protection, were also a necessary part of an economic restructuring.

Mr Botha says Genbel's staff of 35 and its relationship with Gencor have added value to the company.

He says Genbel could be administered by a part-time accountant if the portfolio did not require management.

ANTON BOTHA: Golds sold

Left unchanged for the past five years, the portfolio would have been worth 30% less today.

The biggest change has been the disposal of many gold shares.

Mr Botha is more confident about gold in the 1990s than he was in the 1980s, but Genbel exploration arm Randex is all-but dormant in the face of poor prospects.

"Randex holds attractive mineral rights around Winkelhaak gold mine, but if a mine is ever established we are talking of R2-billion and seven years before there is any return. But I can buy the Winkelhaak gold mine today for less than R350-million. There is simply no incentive to develop mineral rights at present."

Mr Botha outlined his expectations for Genbel's biggest investments. The single largest is Engen, worth 13% of the R3-billion portfolio. Increased wholesale margins and refinery expansions should see Engen right in both the short and long term.

Preference shares and a few ordinaries in Trans-Atlantic — Donny Gordon's UK-based property developer and insurer — are the second-largest holding. Mr Gordon's record is enough to sustain Genbel's hopes.

Genbeheer is the next biggest and stands to gain in times of economic upswing. Impala should benefit from higher platinum demand for autocatalysts, expansion and cost control. Pulp and paper prices are recovering to Sappi's delight.

Mr Botha is confident that De Beers will come right in the long run and Samancor "can be really magic" when demand for ferrochrome picks up.

At 515c, Genbel is at a discount of about 20% to net asset value and yields 6,5%, all earnings paid as dividend.

Mr Botha has charged director Peter Cronshaw with the task of promoting Genbel and parent Gencor internationally.

Mr Botha says: "Capital has been relatively accessible in SA so far, but it could be hampered in the future. Also, we cannot export capital for investment abroad, so will have to fund any overseas deals with foreign capital."

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COMPANY LAW

Updating control

The basis of defining control of one company by another has been changed Ownership of more than a half of a subsidiary's equity capital has been abolished as a criterion Now, in theory, shares that do not provide for equity participation but carry a majority of voting rights could confer control on their holder

Werksmans partner Carl Stein says the latest Companies Amendment Act has introduced the new definition of "subsidiary" to bring it into line with international practice Unchanged is the requirement that the controlling company must be a registered shareholder of the subsidiary The new criteria for control require that the controlling company

☐ Holds a majority of the voting rights of the subsidiary,

☐ Has the right to appoint or remove directors, holding a majority of the voting rights, at meetings of the board of the subsidiary, or

☐ Has sole control of the majority of the share voting rights in the subsidiary, whether by agreement with other members or otherwise

Previously, a subsidiary-holding company relationship existed if a company either

☐ Controlled the composition of the subsidiary's board, or

☐ Held more than half of its equity share capital

The new definition — among other changes — replaces the criterion of control over the composition of the board of the subsidiary with that of the right to appoint or remove directors having a majority of voting rights In effect, the test is now that of voting control either at shareholder or at board level The changed definition provides for a situation in which votes at either shareholder or board level are weighted

In testing control, the total of voting rights in a given company, held through various subsidiaries of the same ultimate parent company, remains recognised ■

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