

MANUFACTURING - NON-METALLIC MATERIALS

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In terms of an agreement in principle, clinched in transatlantic telephone calls running through to 2 am on Friday, PG Wood Industries (PGWI) and the Whitestone Investments consortium will form Luxembourg-based Wood Products International (WPI)

By Ian Smith

WPI will take over the businesses of PGWI's off-shore subsidiary Wood International (WI), one of the world's biggest timber trading companies

The consortium will put \$55-million into WPI in return for a 50% stake in the company WI will hold 49% and the remaining 1% will be held by an international management trust

PGSI joint executive chairman Bertie Lubner will be executive chairman of WPI

Confidence

He told Business Times "This is one of the most significant breakthroughs for the wood division's international expansion programme"

If the expansion had been financed from SA it would have cost about R200-million through the firrand

Members of the Whitestone consortium come from an international who's who in business It was put together by US industrialist Alan Quasha, who specialises in selecting strategic industries for investment

Consortium chairman is Aubrey Cole, who recently retired as vice-chairman of US forest products group Champion International. Other Americans include Bill Donaldson, a founder of investment banking house Donaldson, Lufkin & Jenrette Inc, and Robert Wright, a former senior partner of Arthur Andersen & Co French banker Herve Pinet, former chief operating officer of Banque de Paribas, is also a member.

It must be a vote of confidence for PGSI that businessmen of this calibre will go into partnership with the group, and are content to leave present management in place

Biggest

The project began with a chance meeting of Mr Lubner and Mr Quasha in Europe Investigations into a couple of joint ventures began, followed by serious negotiations which began about four months ago

Mr Lubner says "The group was looked at, from top to bottom Every aspect of our operation was examined in detail before the green light was given"

WI has established itself as as one of the biggest players in the international wood industry

Its activities cover almost all operations from rough-

sawn timber through the range of added-value timber and board products to components meeting the needs of the furniture, construction and do-it-yourself markets

It is established in the UK, continental Europe, the US, Australasia, South-East Asia, South America and Central Africa

International management has been investigating ways to secure growth from a sound base, says Mr Lubner "The industry is going through a time of transformation and we wanted to be sure we were ready for the changes"

Most sectors of the foreign operations are in line with or ahead of strategic targets, but PGSI's interim report in December said the international timber trading operations were being comprehensively restructured to meet changing market de-

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A CONSORTIUM of US and European investors has paid \$55-million for half of Plate Glass & Shatterprufe Industries' International wood empire. The cash injection values the foreign timber operations of PGSI at \$110-million — R410-million through the financial rand.

PGSI JOINS COUPD AS PARTNER

S/Times 14/1/90

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Profits up

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improve on this in the current year because of the introduction of the Fiat Uno in April. It believes the model will add about 4% to new-car sales. *5 Times 14/1/90*

Volkswagen has indicated it made a profit of R85-million on sales of R2-billion.

Delta has also done well. After the new management took over the General Motors operation, sales increased to 30 000 from 24 000 in 1986. They rose to 40 000 in 1988 and 42 000 last year.

The breakeven point in 1986 was 45 000 sales, but cost-saving measures have reduced it to 20 000.

Samcor, assembler of Ford and Mazda, says sales rose, but profits were lower than in 1988. Sources suggest profits were about R100-million, largely because of strikes in August and November.

BMW, which was strike-free last year, had one of its best years in sales and profits.

Mercedes-Benz lifted production by 10% last year to its highest level for three years. The heavy-commercial vehicle market also picked up. The company says it is satisfied with its profitability in 1989.

Naamsa executive director Nico Vermeulen says the total profit represents a return of 4,6% on sales of R13-billion — marginally better than the internationally accepted 4%.

Suggested profits of R1,1-billion in the past two years have, however, not wiped out the R1,5-billion losses suffered in the previous three

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mands. Mr Lubner says "International operations have reached a stage which requires the introduction of additional capital and expertise to facilitate continued expansion and profit growth."

"The formation of WPI and the partnership with Whites-tone is the most constructive

PGSI coup

way to build on our strong foundations"

PGSI says the deal will not have a material effect on either projected earnings for the year to March 31 or the group's net asset value. But "meaningful profit growth" is expected.

PGSI has been one of the

best-performing shares on the JSE in the past 10 years. Apart from its international wood interests, it dominates the glass business in SA. It is among the biggest glass companies in the US and Europe.

The company was founded by Morris Lubner, whose sons Bertie and Ronnie took over management in 1977. Bertie has concentrated on timber and Ronnie on glass.

5 Times 14/1/90

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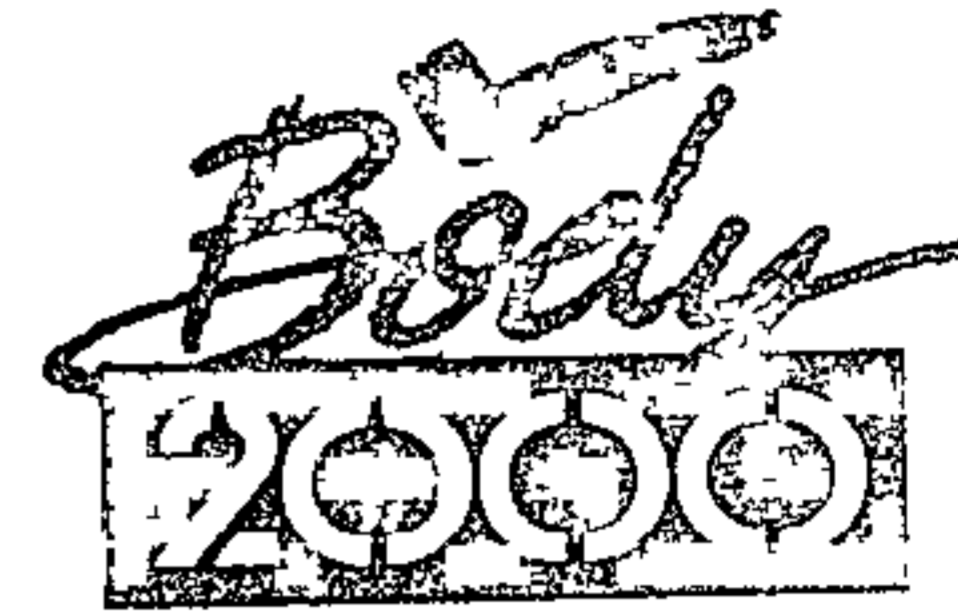
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Non-strategic shareholders advised to sell

CHARLOTTE MATHEWS

LOW earnings growth in Plate Glass and Placor is projected for the next two years, according to a report by Irish & Co analyst Heidi Vollmer *BID on 15/11/90*

Investors with strategic holdings in these companies were advised to hold while non-strategic investors should sell their shares, Vollmer said

She said the long-term underlying fundamentals of Plate Glass were strong but real earnings growth was not expected to materialise until the 1991/92 financial year.

The group operated in three cyclical markets — building, motor and furniture

Both its local and international markets were expected to turn down over the next year. The international operations contributed 63% to turnover but only 14% to attributable profits. Returns from the investment in expansion in the US and Australia were expected to materialise only in the year ended March 1992.

The debt to equity ratio for the group as a whole was 62%, and considerably higher in the international glass operations. A further negative factor highlighted by Vollmer was that as the rand strengthened, Plate Glass's rand hedge advantage would wane.

The group paid a tax rate of 52% in the interim period to September and the rate would remain over 50% in the current year because of offshore losses that could not be offset against income.

Earnings a share rose 1% to 211,9c (210c) at the half-year and were not expected to exceed last year's earnings for the year to March

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Recapitalisation follow-up to Plate Glass wood venture

193 B/Day 15/11/90

THE agreement between Plate Glass Wood Industries (PGWI) and an international consortium to form a R280m joint company, announced over the weekend, could be followed by a recapitalisation of the glass interests of Plate Glass (PGSI) as well

PGSI joint executive chairman Bertie Lubner said the agreement was aimed at expanding PGWI's international operations

Previous announcements have indicated that the glass interests have similarly been looked at and evaluations are under way to recapitalise that division

In terms of the arrangement, published in today's Press, a consortium of American and European investors, Whitestone Investments, will contribute R140m towards the formation of Luxembourg-based Wood Products International (WPI)

WPI will acquire the existing business of PGWI's subsidiary Wood International

CHARLOTTE MATHEWS

The consortium will hold 50% of the new company and Wood International, which is contributing the other R140m, will hold 49%

The remaining 1% will be held by the existing external management of Wood International

Bertie Lubner will be the executive chairman of WPI and the current chief executive officers of WI's operating divisions would constitute WPI's management

Intensify

"This will take us into a new era, said Lubner "It is undoubtedly one of the most exciting developments that I can remember in my 30-odd years. The potential is so vast"

The investment would be used to intensify the wood division's existing operations. The division was moving into value added products as well as commodity-related

transactions

Although the investment would be used substantially for growth, Lubner added that some of the additional amount would be used to reduce PGWI's borrowings, which constituted about 30% of its equity. The effects would appear on PGSI's results for the year to March

The transactions will, however, not have a material impact on the projected earnings of PGSI for the current year or on its net asset value

"The sound foundations already established through many years of experience in the manufacture, shipping, trading and distribution of timber, board and related products in selected international markets place WPI in a strong position to become a leading international player in the industries it serves," the directors said in the announcement

They added that the partnership with the Whitestone consortium would also provide WPI with access to new markets and fresh input to strategic planning

Worms in the wood

Bad news about Interboard continues. This week it was revealed that a write-down of its particle board plants will result in the net worth being decimated. But chairman David Olsen and MD Barrie Jones, who replaced Ed Dutton in mid-1989, say income flow is improving and the group should recover.

In a cautionary announcement, Interboard quotes from a report produced by its auditors, Ernst & Young, who are also investigating foreign exchange transactions of Interboard between 1981 and 1989 for the police and Reserve Bank. The report says the plants at Wadeville, Swaziland and George appear to have been overvalued at purchase.

It says that to date R65m has been paid for the George plant, which was then represented as new but was in fact second-hand and used outdated technology, it has now been valued at R10,5m. This indicates an excessive price was paid to overseas vendors, perhaps one of a variety of forex offences.

Olsen tells me the George plant would be the biggest write-down. Depreciation on the Wadeville plant, Interboard's oldest, has reduced its original R19m book value to a small amount, the Swazi plant, which cost R47m, has been depreciated for a few years and the rand has fallen. Interboard's report for the year to end-February 1989 values plant and machinery at R162m (R86m). Net worth was then 102c a share but may now be around 60c, or R100m in total, he says. The share price is now 30c.

The announcement says the Reserve Bank has issued a notice of attachment on shares held by Interboard BV of Rotterdam, which effectively holds 72% of Interboard. It says a direct offer for control of Interboard is thus unlikely to succeed — referring to a reported bid to be made by German interests via financial consultant Horace Sammel.

All this follows an application by the SA company last week for an investigation to reveal the identity of its new controlling entity, under section 255 of the Companies Act.

Interboard BV is apparently 100%-owned by Interboard NA NV, a Dutch Antilles company. Interboard NA NV is 100%-owned by The Gibbs Trust of Jersey, the trustee of which is a company, Stonehage of Guernsey. Such trusts, called "Dutch Sandwiches", are apparently common, being tax efficient and providing a screen for their controllers.

Olsen says there has been little contact between himself and the sole director of the BV and NA NV companies, Joost Versluis, but Versluis recently advised the SA company that new shares issued by BV last year had resulted in the Gibbs Trust losing its

control. Versluis's refusal to reveal the identity of the new controlling shareholders prompted the section 255 application. Technically, the BV company could still vote its shares.

The Gibbs Trust apparently also did not approve of the share issue, which may have been unauthorised, and it is acting to remove Versluis. Olsen says he is not authorised to reveal the trust's beneficiaries. However, there may now be division between the trustee and the beneficiaries, which might explain the trust's support for the appointment of Olsen (previously described as a "representative of the controlling shareholders"). Olsen appointed Jones.

There may be some link between Dutton, Versluis and the new entity controlling the BV company. Dutton went overseas late last year. He was arrested on December 28, after his return, and has been charged with forex offences and fraud.

A statement in Interboard's interim report, published in October, that a negative effect on the group following the investigations was unlikely, may no longer be correct. Olsen says a negotiated settlement of any claims against the BV company was hoped for, but may be impossible because of the change in control.

He says income flow from the George plant is not matching interest payments. The same does not apply to the other plants, the Wadeville plant has been producing record results recently.

And, whereas an impression had been created that the chipboard division was Interboard's major operation, in fact in the half-year to end-August, it produced only 17% of turnover. Interboard reported a R5,7m attributable loss, against a R22m profit in its previous full year. The audio division, which contributed 36% of turnover, is said to be thriving. A new MD has been appointed to the building materials division, Buildcor, of which Interboard holds 80% and which contributed 33%. It has been performing poorly but should improve.

Olsen says management has been tightened and more senior managers appointed. A plethora of legal matters have been settled. He says Interboard has "taken the medicine" and there can be no more major knocks, gearing is not excessive even after large write-downs, but the company could face a cash squeeze. He believes recovery should be well under way in the year to end-February 1991.

Mike Lewis, chairman and MD of IGI, which, with 10% is the largest minority shareholder in Interboard, says he is confident of the assets, business and new manage-

ment of Interboard. Olsen and Jones appear to be genuinely working for Interboard's recovery and minority shareholders should not lose hope — if only because it apparently still has major assets.

Teigue Payne

IMPALA/WESTPLAT

Karee merger?

As the FM went to press there were strong rumours that a merger between Lonrho's Western Platinum and Impala Platinum's developing Karee Mine was imminent.

It appears Karee is to be merged with Western Platinum's operations in return for which Impala will take about a 27% stake in Westplat. The two mines are contiguous in the Marikana area of the western Transvaal. Approached for comment, Lonrho SA chairman Terence Wilkinson said he could say nothing before a press conference scheduled for Wednesday afternoon.

The deal follows earlier rumours of talks between Impala and Westplat (Fox May 12 1989), which were confirmed at the time by Wilkinson and Impala chairman Steve Ellis. Both said the talks related to areas of possible synergy between the businesses, including a possible swap of mineral rights. On Tuesday night Ellis declined to comment before a press statement due from Impala on Wednesday afternoon. F/M 19/1/90.

The Karee mine is being developed to provide replacement tonnage for Impala's operations and, at first glance, it appears strange Impala should want such a deal.



Impala's Ellis ... finding synergies

Another blow for Inboard

16/1/90
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The long-suffering Interboard shareholders have been dealt another blow with the announcement that, as a result of over-invoicing of plant, the net worth per share could be closer to 60c than the 102c stated in the end-February 1989 accounts.

This latest development is in line with market speculation that over-invoicing of assets bought from overseas is part of the forex irregularities that the Reserve Bank is currently investigating.

Diagonal
Street

ANN CROTTY



The collapse in the Interboard share price from a 12-month high of 87c to its current level of 30c suggests that the market has been expecting this sort of news with possibly even worse to come.

At 30c the share price is well covered by the 60c asset base. Indications from Michael Clemitson (who was appointed director of Interboard Ltd with responsibility for the flatboard division two months ago) are that 60c is the very lowest level to which the asset base would have to be written down.

He stresses that at this stage there is considerable uncertainty as to the exact valuation that could be placed on the group's assets. The decision to issue a cautionary announcement today, stems from the information that has so far be gleaned from the Reserve Bank's investigation into the foreign exchange transactions of the group since 1981.

According to the auditors report: "It would appear that the plants for the Wadeville, George and Swaziland factories were purchased for amounts significantly in excess of their then market value. Based upon independent professional valuations received, this plant is presently reflected in the accounting records of the group at amounts significantly in excess of fair valuation.

"The plant for the George factory was refinanced for R38,2 million excluding gst. A letter stated that the plant was new and unused. It would appear from information at our disposal that the plant was in fact secondhand and made use of outdated technology. The plant, for which approximately R65 million has been paid to date, has not yet been fully installed and has been valued by independent professional valuers at R10,05 million as a going concern."

It appears that by far the largest write-off of assets will relate to the George factory but Mr. Clemitson points out that the R10,05 million could be extremely conservative and that a final valuation determined either by net realisable value or replacement value could be higher.

The damage done to the current book value of the asset base through any over-invoicing of the Wadeville and Swaziland plants would then be considerably lighter. Depreciation on the Wadeville plant (the company's oldest) has reduced the initial R19 million cost to "just a few million".

Depreciation and the fall of the rand has also helped to soften the blow at the Swaziland plant.

Something of a long-shot for the shareholders is that the investigation could result in a recovery of some of the funds lost through over-invoicing.

This (or the hope of a final valuation above 60c) may not be sufficient reason to make the share look attractive but for the tougher investors who are prepared to take the risk that this latest development is not the end of the bad news (including a rumoured break-up of the group), at 30c the share might look tempting.

In addition the new board of directors seem intent on producing solid profits from the group's assets. Difficulties at the George plant will hold back performance in financial 1990 but 1991 could see some good earnings if current events do not take management's eye off the ball.

Recapitalising (193)

Plate Glass & Shatterprufe Industries' recapitalisation of its international wood interests looks bullish in the long term but some analysts think the deal is likely to delay earnings growth

The recapitalisation introduces another R140m in return for a 50% shareholding for a consortium of European and American investors. This makes the new, enlarged international wood company, Wood Products International (WPI), worth about R280m. A recapitalisation deal with different investors is being examined for the group's international glass interests.

Last year, 65% of PGSI's earnings were from SA sources and 35% from overseas, 26% of all earnings were from wood. In December co-chairman Bertie Lubner said PGSI's earnings in the year to March were likely to be close to the 482,7c of last year as the costs of multiple new outlets overseas were absorbed. However, he was "excited" about the 1991-1992 year.

Lubner now says the new investors will not only provide capital but are well connected and have considerable expertise in management and finance. Some analysts say those benefits are long term; in the meantime the new investors will expect dividends.

PGSI financial director Mike Reed expects moderate growth in earnings in the 1991-1992 year. He says the expansion programme overseas is phased and there will not be a major surge of new development. He believes the new capital should increase earnings growth, if nothing else, because of savings on interest on borrowings. Dividends paid to investors are likely to be lower than high interest rates in Europe. Once outlets opened in 1989 and 1990 turn around to profit, untaxed because of previous losses, overseas earnings should accelerate.

JSE investors were apparently sanguine about the deal. In the two days following the announcement, PGSI rose 4,6% to 5 700c and holding company Placor 3,3%, to 2 350c.

Teigue Payne

PPC highlights ¹⁹³ ~~198~~ impact of inflation

Star 19/11/90

It might not be enough to benefit the share price, but indications from Pretoria Portland Cement (PPC) that demand in the first three months of financial 1990 has been slightly better than expected should provide some comfort for shareholders who had braced themselves for a tough year or two.

But financial director Chris Wrogemann says that at this stage the general tone of the annual report still holds, namely that "at best a flat year for both cement and lime is forecast".

For shareholders perhaps the more important factor is that "every effort will be made to increase dividends, at least in line with inflation."

Assuming an inflation rate of 15 percent, this suggests a dividend of around 150c. And assuming a two-times dividend cover, which Mr Wrogemann says is appropriate for the industry, this suggests that earnings of around 300c are on the cards.

At its current level of R23,50, this puts the share on a prospective P/E ratio of 7,8 times and a prospective dividend yield of 6,3 percent. The historic P/E is 9,3 times and the historic dividend yield 5,5 percent.

However, if the earnings figure is adjusted for inflation, the P/E rating would be closer to 24 times.

In its 1989 annual report PPC devoted a section to the impact of inflation on group business. Using 1982 as a base and applying the mid-year annual increase in the consumer price index, the group's earnings per share, instead of increasing from 124c to 253c (as it did in nominal terms between 1982 and 1989) actually fell from 124c to 68c in 1986

Diagonal Street
ANN CROTTY



and from there increased in real terms to just 98c in 1989

Applying the same exercise to the dividend stream over that period, the nominal figures show an increase from 32c in 1982 to 130c in 1989.

The adjusted (real) figures take a much more erratic path, starting at 32c, dropping to 27c in 1986 and recovering to 50c in 1989. The important fact is that every year dividends are covered by real earnings.

In addition, the adjusted figures show the group's real operating cash flow is comfortably able to match a need to replace fixed assets.

The exercise shows the considerable impact that inflation has on shareholders' real wealth.

But the PPC finance team does not go quite so far as the Adcock-Ingram team which, in its excellent 1989 annual report, included a supplementary consolidated current value income statement and balance sheet based on the ED 77 proposals.

This showed current value earnings per share at 69c — a sharp drop from the EPS of 143c reported in the "traditional" historic-cost income statement.

It also showed comprehensive income per share of 279c and current value income per share of 70c.

All of which highlights the fact that shareholders should treat figures based on historic-cost accounts with considerable caution.

Year	CPI %	Earnings per share (cents)		Dividends per share (cents)		Operating cash flow (R million)	
		Actual	Adjusted	Actual	Adjusted	Actual	Adjusted
1989	13,8	253	98	130	50	220	85
1988	13,4	202	89	100	44	185	82
1987	16,8	138	69	60	30	136	68
1986	18,9	116	68	47	27	118	69
1985	15,1	155	108	43	29	119	83
1984	10,2	160	128	43	34	137	111
1983	13,6	132	117	35	31	106	93
1982	15,4	124	124	32	32	101	101

Effect of inflation on earnings, dividends and cash flow.

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Cement freezes as State spends less

THE outlook for cement is gloomy, but the three listed producers have bounced back with the market since the great scare of last October.

High interest rates and a sharp downturn in building activity knocked Blue Circle from a high of 1 875c in May to a low of 1 100c in November

The share has recovered to 1 600c Anglo-Alpha and PPC have also ridden the roller-coaster

The average financial and industrial PE is 10 Anglo-Alpha is 7,3 times earnings, Blue Circle 6,1 and PPC 8,9 The three are thus at large discounts to the market

Cartel

They constitute a cosy cartel As a result, they can be embarrassed by their profitability Some analysts say their chief problem is hiding profits

What is reassuring for shareholders, if not would-be home-owners, is that stated earnings are a rock-hard minimum

Anglo-Alpha is unusual among industrial companies in adjusting its figures for inflation

All three are good-quality companies with strong asset bases, so value is suggested But for the capital-intensive cement companies volumes are all-important and profits volatile

Restored

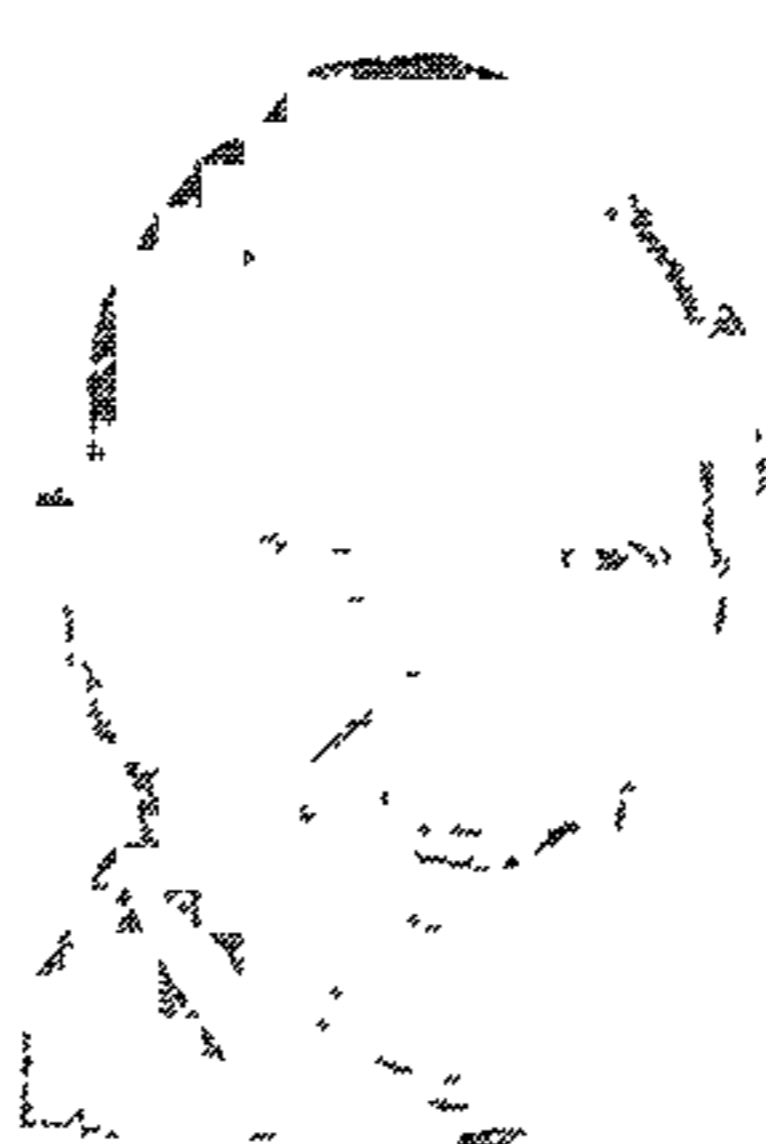
State spending has long been crucial for the cement industry Ronnie Searle, deputy managing director of Anglo-Alpha, says the Government is sincere about monetary and fiscal discipline

The Lesotho Highlands project and Mossgas are the only two big Government contracts under way this year

The industry predicts a slowdown in cement sales for 1990 After rising rapidly



ANGUS MORRISON able to weather downturn



TED HODGKISS outlet in informal sector



RONNIE SEARLE slow-down in State spending

By Charmain Naidoo and Robyn Chalmers

since 1985, sale tonnages are expected to decline by 5% this year

But thanks to strong cash flows in the good times — notably in last year's bonanza when volumes rose 17% — Anglo-Alpha, Blue Circle and Pretoria Portland Cement (PPC) are low geared and in good shape to maintain dividends, if not earnings

Adequate

In 1985, when cement volume sales fell sharply and interest rates peaked, Blue Circle's earnings a share were 13,3c, Anglo-Alpha's 123,1c and PPC's 114,0c

Improved conditions in the building and construction industry in the past four years restored profitability Blue Circle earned 244,0c a share last year, Anglo-Alpha, 275,4 and PPC, 252,6c

Blue Circle group financial director Angus Morrison says the company's merger with the aggregate and ready-mixed concrete operations of Murray & Roberts has put the company in a position to lead the market in both sand and stone It is also in a better position to weather the expected downturn

Because of bleak prospects Blue Circle is unlikely to make any major investments this year, and borrowings

should fall from the June 30, 1989, figure of R80,4-million

Mr Morrison says that, with a debt equity ratio of 22%, adequate interest cover and the transition to full tax completed, the company is financially strong enough to ride out a downturn

Cement division chief executive Graham Hardy believes the cement industry is unlikely to pick up before the second half of this year, which could result in capacity use dropping from 70% to about 65%

On a prospective pe of 6,75, earnings yield of 14,8% and a dividend yield of about 6,6%, analysts say the shares are relatively cheap, but may stay that way until conditions improve

Overvalued

Anglo-Alpha assistant managing director Ron Searle believes that his company, with a pe of 7,3, is "fairly valued"

"I think most companies in SA are overvalued when you look at inflation and our limited investment avenues

"We do not have much in the way of large Government-backed projects or civil construction this year Expenditure on roads will also decline We hope low-cost housing will compensate

"There is not much elasticity in cement — you can't reduce the price to improve demand," says Mr Searle

He predicts a cement price increase equal to the inflation rate as partial protection for producers

Tight

None of the three companies is highly geared Anglo-Alpha's debt equity stands at 39,7% and is unlikely to fall in the next three to four years

The reason, Mr Searle says, is that, for the first time, last year the company paid tax and was unable to reduce borrowings

Between R300 and R400-million will be spent on plant replacement in the group over the next three to four years

"There will be no significant expansion at Anglo-Alpha for a while We are going to sit tight"

PPC's plants operated at only 63% capacity last year

Managing director Ted Hodgkiss predicts a static year, but is looking to PPC's development division to come up with ideas for gradually increasing cement use

"I think the influence of the informal sector will continue to grow," says Mr Hodgkiss

Interboard slides as worms emerge

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5/Times
2/1/90

INTERBOARD shares shed another 10c to a new low of 20c this week after the company's new managers announced they were opening a can of worms. The share price was 87c a year ago

Chairman Ed Dutton resigned last August and was arrested in December on charges of foreign-currency fraud amounting possibly to R200-million

Mr Dutton, in jail since December 29, had fewer than 24 hours of freedom this week after being released by a magistrate who ruled his original arrest warrant was out of order. After one night at the Riviera Hotel on the banks of the Vaal, he was rearrested.

Unwilling

Interboard was listed in 1986 after a reverse takeover of Renhold and a 35-for-100 rights offer at 30c a share. Even before it was listed it was surrounded by controversy because of a special bookover deal at 237c.

The R33-million deal was struck at more than 2.5 times the Renhold price on the JSE. Interboard NV held 68% of Renhold and Mr Dutton claimed it wanted 75%. He said NV paid a premium to him because he was an unwilling seller. He said the Dutton family retained 5% of Renhold — renamed Interboard.

Exactly who is behind Interboard NV is a secret. Interboard's new chairman, Dave Olsen, invoked Section 255 of the Companies Act to try to ascertain who was the beneficial owner. Mr Dutton denies he was involved.

Crash

Before the Interboard listing there were fewer than 30-million shares in issue. A lengthy paper-chase resulted in the current 162.2-million.

Soon after it was listed, Interboard bought a door-maker at Louis Trichardt, and then Supersonic and Neville Forbes for the issue of 8.5-million shares.

It bought tile-maker Agrob from a German shareholder for R13.1-million.

Interboard was capitalised at more than R250-million compared with the current R50-million.

In July 1987 it bought In-

By Julie Walker

terboard Swaziland for the issue of 20-million shares. Interboard said the Swazi arm alone had a net asset value of R48 million.

Three months later Interboard floated subsidiary Buildcor — which housed Doorcor and Tilecor (Agrob) — on the JSE. Members had rights to 40 Buildcor at 35c for every 100 Interboard held. The JSE crashed, and only 7% of the shares were taken up by the public, leaving underwriter First National Merchant Bank with 13.7-million Buildcor shares.

All the while, Interboard's profits were shooting up. It announced expansions of R100-million on new plant at George in 1988, bringing the number of factory sites to three, including the original one in Wadeville, Germiston.

Then it bought Tempest at net asset value of R21-million from its Swiss parent for 7.8-million shares — a share price of 271c compared with the market's 70c. It also bought Truckor, and sold Neville Forbes.

In May last year it bought forests in Swaziland.

Cracks

The first cracks appeared when Interboard announced results for the six months to August 1989. Where a profit of R24-million was attributable in the previous year, a loss of R7-million was recorded. Interboard blamed the high interest payment (R7.3-million) incurred at George.

At the same time, Mr Olsen announced that Interboard was helping the Reserve Bank to investigate foreign-exchange transactions associated with the group. He said there should not be a negative effect on the group when the results of the investigations were made known.

This week, Mr Olsen announced that this might not be correct.

Auditor Ernst & Young issued a report saying "it would appear that the plants

for the Wadeville, George and Swaziland factories were purchased for amounts significantly in excess of their then market value."

The George plant has been independently valued at R10.5-million, but R6.5-million has been paid for it so far.

The Reserve Bank has issued a notice of attachment for the shares held in Interboard by Interboard BV. There is little prospect of any direct offer for BV's controlling stake being successful.

Mr Dutton sits in a jail, having been denied bail. Interboard's minority must also sit and wonder what went wrong. In their heyday, the shares traded at 210c. They are down by nearly 90%.



IVAN DODD ... The Wheel makes a theme shopping dream come true

Workshop and Wheel bring a theme to SA

By Charmain Naldoo

THEME shopping centres, first tested in Durban, are the newest trend in SA.

Two projects, the charming Workshop and glitzy Wheel — together worth R132-million — have changed the face of shopping.

The Workshop is a Sanlam project, developed by Murray & Roberts and Retail International. It cost R42-million.

Johannesburg architect Bentel Abramson revamped the old railway station workshop in downtown Durban and turned it into a money-spinner.

Based on London's Covent Garden, San Francisco's Pier City Nine, Salt Lake's Trolley Square and Boston's Quincy Market, The Workshop worked.

Impetus

M&R Properties chairman Eric Field says more than 130 shops in The Workshop turn over about R75-million a year. Between 20,000 and

complex (22,000m² is trading space with the rest for parking and access routes) opened for business.

"The cost of land in the centre of town is prohibitive, which is why The Wheel is the size it is," Mr Dodd says.

Although there appears to be much development of property in Durban, "there is not enough."

Linked

"Most developers seem to be attracted to the PWV area. Durban is not enjoying a buoyant economy. One of the problems is concern about black-white urbanisation."

Rents in The Wheel are high. Major tenants pay rents linked to turnover and a basic rent, and shopkeepers about R43/m². Small traders pay set rents.

Mr Dodd says rents are market-related.

"We've had no problem letting our shops. Leases vary. The majors have 10 years with an option to renew for a further 10. Most of the others

"The small traders sign a year's lease. The reason for this is that we can change the atmosphere as well as the type of goods available regularly."

One of the major tenants at both The Workshop and The Wheel is Pick 'n Pay General manager, Natal supermarkets, Gordon Hoult says "I'm not unhappy with the rent. It's prime CBD. We had an exceptionally good Christmas at both the centres. I believe however, that The Wheel will take a little time getting off the ground."

"As the areas open up to all races, the customer profile will change."

The financial director of a chain store says Johannesburg CBD rents are the steepest in SA at between R70/m² and R80/m² in new buildings.

Mr Dodd says that in this "traumatic economic time" a positive approach is necessary.

"The Wheel was built in recessionary times and needed the commitment of a large number of people. We hope it will have a lasting effect on

Star 23/1/90

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Builders and suppliers clash over spiralling costs and monopolies

By Frank Jeans

The building-cost spiral goes on and this year the industry can expect a 18 percent jump in material prices, further aggravating the affordability factor in housing

Commenting on the price escalation and criticising the "mini and maxi monopolies" among materials producers, a leading builder, Robert Giuricich, predicts that costs will double in five years — possibly sooner

Writing in the latest issue of *SA Builder*, official journal of the Building Industries Federation (Bifsa), Mr Giuricich hits out at the protectionist policies which have created an industry where a few major companies have a "free hand in fixing prices or becoming price leaders and controllers"

"Major companies in the brick industry say there are no monopolistic conditions," says Mr Giuricich

"The cement industry also does not admit to this them. But what do we have in the brick industry?"

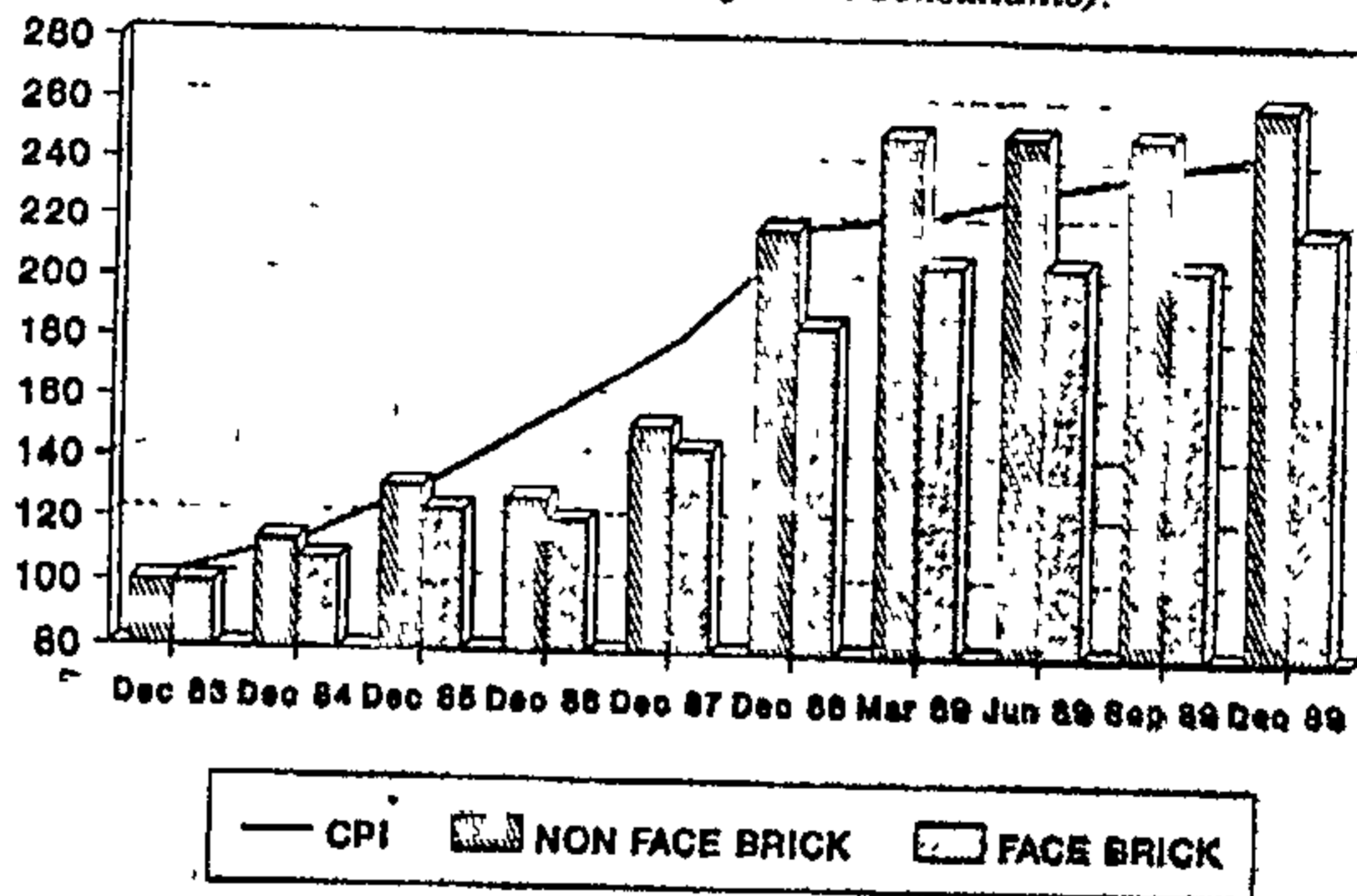
"A handful of smaller companies who rub their hands in glee when the major producers increase their prices so that they may follow suit and keep theirs marginally below those of the majors, thus reaping the benefits of quasi-monopolistic situations."

Cement producers

A past president of the Master Builders Association (Witwatersrand), Mr Giuricich, criticises the cement producers who are allowed to retain their cartel arrangements, thus "fuelling inflation and playing havoc through hefty, regular and truly unjustifiable annual price rises"

"Phenomenal profits are unashamedly blazed across annual re-

Brick price index compared with CPI. (Source LHA Management Consultants).



ports which will probably be bound in leather in years to come, as they have to do something with the money and profits they make," he says

Peter Kett, commercial director of Blue Circle Cement, says the cement industry had been thoroughly investigated by the Competition Board, which concluded that trading arrangements were not in conflict with the national interest

"For several years our prices have been below the inflation rate," he says

"I don't understand the basis on which Mr Giuricich talks about unjustifiable annual price rises"

Brick prices

Keith Nurcombe, national marketing director of the leading brick producer, Corobrik, says "Pricing in the brick industry is absolutely non-collusive and there is strong competition within the clay brick industry"

"Indeed, the industry can show, and has already indicated, that pricing in many instances has been in line with inflation and usually slightly less"

"From Corobrik's point of view, we have generated articles for the Press based on statistical research sourced from an independent Pretoria organisation and covering price increases and the cost components rises of building materials for housing"

"These figures tell us that the clay brick as a cost input to a house has not been untoward in price rises. In fact, it is on the side of conservative pricing"

Mr Nurcombe says that in a business where the industry has, over the past two years, been averaging 65 to 70 percent of its productive capacity, the costs have obviously been high, both in terms of fuel and labour inputs

"Factories, therefore, can hardly be considered to be running at fat profits when they are so severely under-utilised."

A MILLION EPWOLCIS

Court orders probe into Interboard affairs

Star
23/11/90 By Ann Crotty (193)

The directors of Interboard have obtained a Supreme Court order for an official investigation into the affairs of the company

The order was granted in terms of Section 258 of the Companies Act and will cover all the various transactions that have led to the present situation at Interboard

According to an official announcement. "The Board is confident that the group is viable and strong and decided to obtain an independent examination of this position because of recent speculation"

Speculation about Interboard and its former MD Ed Dutton has dogged the market performance of the company's share price for well over a year. But developments since last August seem to have significantly undermined the group's credibility.

These developments include a sharp drop in earnings for interim 1990, the resignation and subsequent arrest of Mr Dutton, the institution of a Reserve Bank investigation into activities of the company between 1981 and 1989, the initial indications of that investigation that the book value of the group's assets may be significantly overstated and, an investigation to identify the controlling shareholder of Interboard.

To the extent that the Section 258 investigation not only succeeds in revealing a relatively healthy operating situation at Interboard but also succeeds in distancing the current management from the events behind the developments that have taken place over the past six months, it could prove to be the first step in a move to restore credibility.

Such a move would not only help shareholders but should also improve the situation vis-a-vis the group's staff, customers and creditors. Any prolongation of the current uncertainty could have serious operating implications for the group including exerting cash flow pressure.

According to the affidavit submitted in support of the application "The applicant (Interboard) believes that there are numerous transactions involving other companies associated with the applicant and with a certain Edward Isaac Dutton which require investigation"

The affidavit also points out that Interboard's assets exceeds its liabilities by not less than R100 million.

The group's current assets do exceed its current liabilities and gearing is around 80 percent.

Court bids in four countries to identify Interboard's top shareholder

LITIGATION has been initiated in four countries in a dramatic bid to identify Interboard's controlling shareholder after an unexplained share issue late last year.

And Interboard's directors have successfully resisted three attempts by an un-known entity to interfere in the company's affairs.

Affidavits lodged in the Witwatersrand local division of the Supreme Court on Friday also allege that Interboard "founder" Ed Dutton is attempting to interfere with the company's affairs from a prison cell. He is arraigned on charges involving more than R130m.

In the most serious allegation, Inter-board MD Barrie Jones submits that steps have been taken by Dutton and others to remove members of Interboard's board to obtain control over the applicant, Interboard.

"This will result in the concealment of Dutton's involvement in the alleged fraudulent transactions. Further he will attempt to utilise the structures that have been created, both locally and abroad, to place his alleged ill-gotten gains beyond the jurisdiction and control of the applicant and its subsidiaries."

The affidavits show Interboard BV, which is registered in the Netherlands and is evidently controlling shareholder of In-

Barrie Sergeant

terboard, failed in a bid to remove Jones and chairman David Olsen in November.

A similar attempt utilising Johannesburg attorneys Bowman Gillfillan Hayman Godfrey Inc on December 29 has not been resolved. A third attempt to interfere with Interboard's management, namely the appointment of a Dutch director, has also been resisted.

The affidavits also show that litigation is pending on the matter in Guernsey, Netherlands and the Netherlands Antilles.

The papers also allege the assets controlled by Interboard BV controlling entity Stonehage Guensey consist of cash representing certain of the proceeds of the transactions entered into by Ligneus (also once administered by Stonehage) and the entire share capital of Interboard NV, which owns the share capital or almost the entire share capital of Interboard BV.

The Johannesburg action, brought as a matter of urgency on Friday to clarify the position in respect of Interboard's affairs, was successful and Mr Justice MacArthur granted an order for an investigation under Section 238 of the Companies Act.

The court papers also claim Interboard is solvent, with assets exceeding liabilities by more than R100m since September, the papers claim, Interboard has paid off more than R8m in debt.

In an affidavit by Jones, supported by SAP Mayor George Frederick Kitching and others, it is alleged the sole director of Interboard BV, Joost Versluis, and Dutton are in communication with Rakisons, the London solicitors.

States Jones "It is believed that Dutton, in his apparent capacity as consultant to the beneficiaries, is the person from whom Rakisons has apparently been taking its instructions and that Versluis has throughout been acting on Dutton's instructions."

To Page 2

INTERBOARD directors, attempting to identify a mystery controlling shareholder, this week secured a Supreme Court order for an investigation into a company's affairs in terms of a previously unused section of the Companies Act.

More than 100 pages of affidavits concerning the Interboard case, filed in the Supreme Court last week, detail allegations that Interboard founder Ed Dutton is attempting to run the company from prison, where he is awaiting trial on fraud charges alleged to involve more than R130m.

They also detail allegations by the directors of false invoicing on imported plant, and claim the Reserve Bank was not properly informed when part of the proceeds was returned to SA in financial rands.

Mr Justice MacArthur granted an application for an investigation of Interboard under Section 258 of the Companies Act.

In 1981, a tax-efficient corporate structure using on- and off-shore companies, inter vivos and discretionary trusts and other entities — known as a "Dutch Sandwich" — was created.

Interboard's South African operation is about 72% held by Interboard Holdings BV (registered in the Netherlands) which is in turn 100% held by Interboard NV (registered in the Netherlands Antilles), which is 100% held by The Gibbs Industrial & Development Trust (registered in Guernsey).

Concerning the alleged frauds perpetrated by Dutton, the directors included in their affidavits a report of January 4 this year by Interboard's auditors, Ernst & Young, concerning certain plant and machinery Interboard had acquired for, inter alia, its George factory.

The report said the plant had been acquired for "amounts significantly in excess of market value". The George plant was refinanced for R38.2m. The credit application was signed by Dutton and one Derek Brindle to the effect that the plant was

Many questions to be answered in the Interboard puzzle

4/12/81 24/11/90

BARRY SERGEANT

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ful, as Versluis "has refused to disclose the information sought".

The allegation is made that Versluis and Dutton are in communication with Rakisons Moreover. "It is believed that Dutton, in his apparent capacity as consultant to the beneficiaries, is the person from whom Rakisons have apparently been taking their instructions, and that Versluis has throughout been acting on the instructions of Dutton."

A lack of co-operation from Versluis led Stonehage to conclude Versluis was not acting in good faith. Further, that he was "seeking to protect himself and possibly Dutton from the consequences of what appears to have been a serious irregularity, namely Versluis's connivance in the dilution of The Gibbs Trust's holding (through Interboard NV in Interboard BV) to below 50%."

Interboard's directors state that, in the second of two telephonic conversations with Johannesburg Interboard executive Michael Clemitsen on November 29, Versluis said Interboard NV suddenly held less than the required 50% controlling interest in Interboard BV. He was not prepared to disclose the new shareholder's identity.

Dutton was Interboard MD until August 11 1989. Jones's affidavit says he used the group to perpetrate fraudulent transactions, against the group as well. He adds that the extent to which Interboard and its assets have been manipulated by Dutton is not fully known.

"This will result in the concealment of Dutton's involvement in the alleged fraudulent transactions. Further, he will attempt to utilise the structures that have been created, both locally and abroad, to place his alleged ill-gotten gains beyond the jurisdiction and control of the applicant and its subsidiaries."

Steps have now been taken in Guernsey, the Netherlands, the Netherlands Antilles and SA for, inter alia, the removal of Versluis as director and administrator of Interboard NV. But at this stage dozens of questions remain unanswered.

including details of the George plant and machinery. The beneficiaries' solicitors, Rakisons of London, advised that the information would not be supplied. Stonehage refused to resign Rakisons then sued in the Royal Court on behalf of the beneficiaries for removal of Stonehage as trustee. The action is being defended.

It has emerged that Stonehage, in the course of its trusteeship of The Gibbs Trust, provided and procured the services for three companies belonging to the trust, including Ligneus. Jones says in an affidavit, "These companies were allegedly used by Dutton to carry out the transactions involving the supply of plant and equipment to the George plant."

He further says "the assets controlled by Stonehage consist of cash representing certain of the proceeds of the transactions — involving the said plant — entered into by Ligneus."

It also came to the attention of Stonehage that Dutton alleged interest in Interboard BV. Attempts by Stonehage to solicit information from sole Interboard NV and Interboard BV administrator and director Joost Versluis have been unsuccessful.

caused false invoices to be delivered to certain banks regarding the remittance of funds abroad through the medium of the commercial rand."

Jones also says that, as a result of an interview he had with SAP Maj George Kitching, "there appear to be several other transactions involving inordinately large sums of money, and the Interboard on-shore and off-shore structures."

Jones states he was advised "it is not appropriate at this time to fully disclose particulars." These are under investigation by the SAP.

Less than a month before the papers were filed in the Supreme Court, litigation on the matter was under way on the other side of the world, in Guernsey. The beneficiaries of the Guernsey-registered Stonehage Trust (which administers The Gibbs Trust) went to the Royal Court of Guernsey in an attempt to have Stonehage removed as trustee.

In the Guernsey litigation, Stonehage refused to resign as trustee of The Gibbs Trust on advice from its London solicitors, Baker McKenzie, unless certain conditions were met —

"new and unused".

The Ernst & Young report stated that the plant was second-hand and outdated. A sum of R65m had been paid for the plant. A professional valuer said it was worth R10.1m as a going concern. The auditors believed a "material irregularity" in terms of Section 26 (3) of the Public Accountants and Auditors Act had "taken place or is taking place."

The affidavits state that Dutton "caused" the plant to be bought from a Belgian company, Spano NV, for DM2.5m through an offshore company Ligneus.

"It appears that certain of the funds paid to Ligneus for the plant, less the amount that Ligneus paid for the plant to supplier Spano NV, were reintroduced to SA by way of a financial rand investment without the true nature of this transaction being disclosed to the Reserve Bank."

Interboard MD Barrie Jones states in his affidavit: "Dutton is charged with fraud in that during the period he falsely represented that certain bona fide investors exist abroad that wish to invest in the applicant (Interboard) through the medium of financial rands in amounts involving R130m. A further charge is that he

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hopes the investigations will be completed within a few months. He says the results should assure shareholders and creditors that Interboard has nothing to hide, that there are no further worms in its woodwork and that it is solvent. His affidavit says Interboard's assets exceed its liabilities by "not less than R100m," which translates into 62c a share.

It says Interboard NV is controlled by a discretionary trust, the Mary Trust, registered in Guernsey. Interboard NV is the Antilles company which held 100% of Interboard BV of Rotterdam, which in turn controlled the SA company. Mary Gibbs signed the deed as a favour to her son-in-law — who was drawing up the trust deed — but says she does not know Dutton. The deed says the trustees and protector of the trust should refer to Dutton before exercising their discretion. However, they still have the final discretion.

The trustee is a company, Stonehage (Guernsey), which is defending an action recently instituted to remove it as a trustee by the trust's current beneficiaries, Caroline Caseley, Annette Caseley and Nicolas Higson. Jones says he does not know who they are. Stonehage, in turn, has applied to court

in Antilles to dismiss Joost Versluis, the sole director of both the NV and the BV companies. This is a precursor to an action to reverse the issue in late 1989 by Versluis of new shares in BV, which purportedly resulted in NV losing control of BV to another unknown entity, perhaps backed by Dutton. Stonehage alleges Versluis acted without authority.

In late 1989 Versluis began trying to remove David Olsen, who was appointed chairman of the SA company by Stonehage in mid-1989, and Jones. He first requested them to resign then, through Johannesburg attorneys, moved to call a meeting of shareholders.

Though letters of inquiry under section 255 have been sent out by the minister of trade & industry, he has not yet invoked the section 256 power to block BV from voting its shares. It now seems highly unlikely that BV will proceed to call a meeting.

Jones believes the possible bid for the SA company by German interests via financial consultant Horace Sammel may have been to gain strategic information about the company. He conjectures that Dutton is trying to regain control of Interboard, possibly to thwart investigations.

The picture being painted by Jones is of an honest trustee battling with an alliance which may include Dutton and Versluis. There is nothing to controvert it and an affidavit from the investigating officer, Major Frederick Kitching, supports Jones's affidavit where it concerns the police investigation. Since full disclosure is the objective, shareholders should regard the development as positive.

Teigue Payne

Abrasive Corp, which made R50m in turnover for Hudaco, to impact fully in 1991. Hudaco increased its share in Deutz Dieselpower, the SA manufacturer of Deutz diesel engines, from 50% to 70% effective from October 1989. Deutz powers 90% of underground mining vehicles worldwide, says Clarke, and will benefit from the trend to mechanisation in SA. Local content of the engines has risen.

The value-based phase six of the automobile local content programme should also benefit Hudaco. Following the Angus Hawken acquisition, Hudaco is dominant in the market for oil seals, whose value exceeds their weight. Bearings cannot be made locally but Hudaco is looking to diversify its sources of supply. Overall, 40% (25% of Hudaco's products were sourced in SA.

Being largely in the aftermarket, Hudaco should benefit from the economic downturn. It has major stakes in all its markets, all of which are for strategic consumables. Acquisitions contributed only marginally to growth last year. Clarke says no major acquisitions are likely this year, but the same may not apply in 1991.

Teigue Payne

INTERBOARD 193 FM 26/1/90

Peeling the layers

The second unusual Companies Act court application made by Inboard directors, for an investigation of the group's affairs in terms of section 258, should expose every aspect of it, according to MD Barrie Jones. His supporting affidavit indicates that Ed Dutton, Interboard's former chairman and MD, was behind the offshore trust which ultimately controlled the group — as had long been suspected.

The section 258 application last week follows another the previous week, under section 255, to determine Interboard's shareholders. Both were successful and Jones

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6/Jan 30/1/90

Marlin deal unlocks plans for fast growth in granite operations

CHARLOTTE MATHEWS

MARLIN Corporation's R37,7m in cash will enable it to expand its existing activities and also expand by purchasing other operations, the directors said yesterday.

Marlin announced yesterday that a consortium headed by the Board of Executors would acquire control of Furnfair, which holds R37,7m in cash.

Furnfair will offer to exchange 60% of the Marlin shares for Furnfair shares at 190 Furnfair for 100 Marlin. This will create 41m new Furnfair shares and bring the total of Furnfair shares in issue to approximately 62m. Furnfair will become the pyramid holding company of Marlin.

Marlin will raise R37,8m by a rights offer of 30 Marlin shares for every 100 held, the offer to be underwritten by its pyramid company.

"Marlin will be able to expand its existing granite operations at a faster rate than would otherwise be the case," chairman Peter Gain said in a telephone interview yesterday.

Embassy (193)
Our existing activities are quarrying and exporting of granite blocks, international granite trading and the processing of granite, including its application in specialised cladding and flooring contracts on construction projects.

"The group is actively engaged in SA in work on Bank City and Anglo American's new head office at 55 Main Street, as well as the US Embassy, Pretoria."

Financial director Ian Macmillan said the group was moving more into the beneficiation of granite.

"We believe the future of the industry lies in this area."

"Up to now we have been mainly engaged in the sale of the raw material. Initially beneficiation would not form a large part of our operations but we will expand this as rapidly as the market will allow."

He said the new arrangement would have a significant effect on the group's earnings.

Marlin announced its first step into beneficiation in September with the acquisition of Marble Pentelic, a leading granite and marble processor for building contracts.

High costs hit Aurora Granite results

AURORA Granite's results for the six months to December see the recently listed group still labouring with higher-than-expected development and production costs *810m 20/11/90*

The "teething problems" leave a R2,5m trading loss, with cost of sales taking R3,5m *(193)*

BRENT MELVILLE

Directors say there is no prospect of any dividend being declared this year and that they will require further finance

□ The group has a new MD, with P Jardine taking over from Stuart Thom

Aurora out of tune with prospectus forecast

Star 3/11/90

Rattling around in the depths of my memory is a line from an old pop song which went "Oh oh oh Aurora". After the publication by Aurora Granite of its disastrous interim figures "Oh! Aurora!" seems more appropriate.

Aurora came to the market in June last year full of exceptional promise. The prospectus dwelt on the extensive ore reserves of black granite; the new techniques which would be employed to ensure recovery of high quality granite and the great expertise of the staff.

More pertinently it forecast net sales for the year ending June, 1990 of R14,8 million, an operating profit of R8 million, a net profit of R7 million and a 9c dividend.

For the six months ended December the company is showing a loss of R2,48 million, and there will be no dividend this year.

It doesn't seem as if it was any surprise to the market Aurora's shares, privately placed at 200c, touched 265c just after the listing, and are now hovering around 60c — a 77 percent drop from their peak.

Too optimistic

NOV 193

What went wrong? Mr Kevin Kartun, mining analyst with Frankel, Kruger Vinderne believes the directors were too optimistic. But Mr Kartun himself is not pessimistic about Aurora's prospects. Its granite is of good quality and revenue should start to pick up in the coming months, he says.

Mr Ted Grobicki, Aurora's chairman, agrees with Mr Kartun that the prospectus was a little optimistic, which is why he does not want to make any further forecasts

However, he is not despondent. One reason for the poor profit performance was that recovery grades were below those expected. The upper levels being mined at the company's Kwaggaskop and Rookraal quarries are characterised by closely-spaced sub-horizontal

Diagonal Street

DEREK TOMMEY



fractures and this means that the granite blocks recovered are on the small side

Unfortunately, these areas are overlain by large blocks of granite and the faulting was discovered only after quarrying began

However, indications are that in certain areas the recovery grades should improve with depth, and work at the mine is aimed at reaching these areas, but it will take some time

Mining plan

Profitability has also been affected by higher than anticipated production costs, as a result of changes to the mining plan in order to cope with the poorer rock conditions

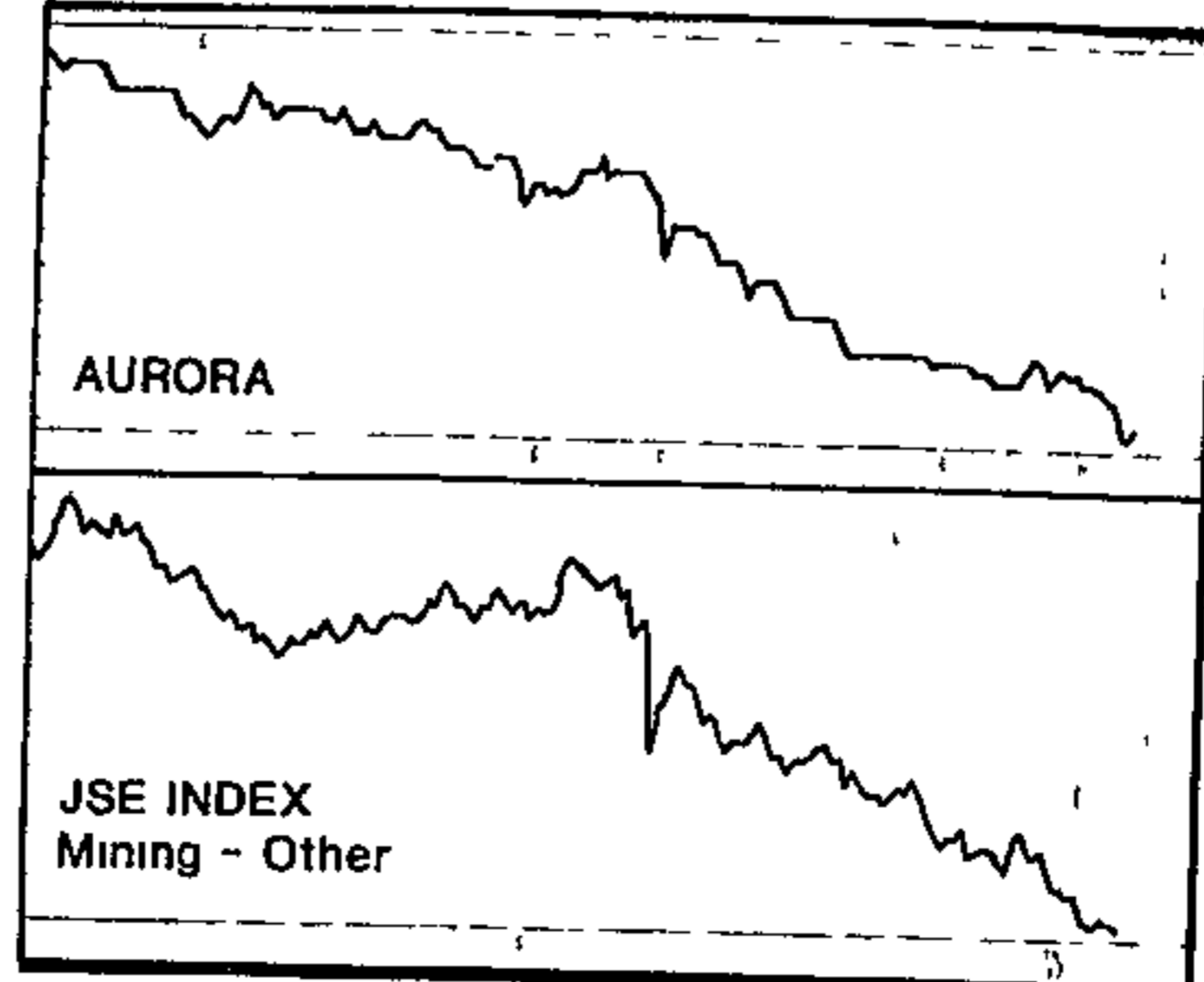
On the brighter side, Mr Grobicki reports that the market for the company's granite remains strong, although there is resistance to the purchase of the smaller blocks

The failure of Aurora to produce results matching its forecast has badly affected the company's cash flow and it is considering ways to raise more money, says Mr Grobicki

Speculators will be trying to gauge Aurora's prospects. Buying Aurora shares at around 60c at this stage could be a temptation. If things start going right for the company its shares could easily reach R2 and even R2,65

However, the company needs more money, and some time is likely to elapse before the mine has an opportunity to get things right

So it may pay to wait for a few more quarterly reports before taking the plunge.



Aurora's share price decline follows the downward path of the JSE Mining-other index

B/Pay 14/2/90

Fraser Alexander handles material rise in its income

RIAN SMIT (193)

MATERIALS handling group Fraser Alexander (FA), whose interims to end-December were announced yesterday, is firmly on course to maintain strong attributable income growth for the year.

The group increased attributable income and earnings per share for the half-year by 25% to R7,7m (1988: R6,1) and 62,5c (50c), respectively. Its dividend rose by 27,3% from 11c to 14c a share.

Attributable income since the 1987 financial year has increased from R2,5m to R5,1m in 1988 and to R11,4m for 1989.

Chairman Peter Flack said the growth in income had been achieved in the face of increased competition in the construction and materials handling sector.

The group's construction operations were not general, but filled niches in the civil engineering market so that in market downturns, such as the one currently being experienced, competition increased.

He said cost-cutting drives by the major mining groups had put pressure on FA's margins, but the increase in environmental awareness was having a positive effect on the group's large "muck hauling" and mining rehabilitation operations.

FA had in principle agreed to acquire a manufacturer of concrete manholes, which would give the group a 50% share in this market, and FA was also looking at an acquisition in the materials handling field in Britain, Flack said.

"We believe the group's earnings growth in the second half of the year will be at the same level (25%), and that our inter-related operations will continue to produce ... an above-average return to our shareholders," he said.

'Record demand' to blame for Interboard stock shortages in George

INTERBOARD CE Mike Clementson has confirmed stock shortages were experienced at the group's George plant

Responding to allegations that the group could no longer meet clients' demands, he said stock at the factory was low at the beginning of January because of "record sales in November and December 1989"

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JACQUES MAGLIOLO

Also, the company experienced a sharp increase in orders from certain customers, who were expecting price increases, he said

"Customers, like Caréline which placed orders that were higher than usual, were advised

to temporarily seek supplies elsewhere," he said *8/2/89 16/ 2/ 90*

Other factors impeding ability to meet "particularly heavy demand" were annual plant maintenance and the installation of a drier

"The George plant will certainly be able to fully meet customer needs from March onwards," he said

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Customers call for cement cartel scrapping

Business Times Reporter

SCRAP the cement cartel is the heated demand of one of its biggest customers.

Peter Michau, managing director of Concor Technicrete, says his company spends R6-million a year on cement, but gets "the same prices and the same customer care as a little hardware shop on the Natal South Coast buying R6 000 of it a year".

"The authorities are playing games with free enterprise. They tiddle with monetary and fiscal policy to fight inflation and then permit the Cement Producers Organisation to share the market."

Mr Michau complains that cement producers are arrogant.

"They give you 30 days to pay and no matter how good a customer you are, if



Peter Michau one price increase after another

you haven't paid by the 31st day, they stop supplies. If they were in competition, they wouldn't dare do that. "It is outrageous that they don't deliver. The customer has to fetch cement or hire someone to do it for him."

FOCUS ON A LONG RUNNING FUD

"The cost of transporting cement has risen astronomically. Cooper & De Beer, the biggest cement transporter, lifted its prices by 37.6% last July and by another 22.1% on January 1 — more than 100% if you annualise it."

"From time to time, cement producers simply announce price increases based on their calculations of return on capital. We all know there is horrendous overcapacity in the industry. The customers have to pay for invidious business decisions."

"They hit us every six months with price increases. Cement prices were raised from January 1 by 9%. On July 1 last year they rose by 4.9%. We get only

about a month's notice, which is not enough because we are locked into price contracts."

Group Five managing director Peter Clough is also critical of cement cartel members.

"I am slightly sympathetic to their case. Transport is a major cost element. But I don't see why the builder should not have the right to negotiate prices with one or more cement companies of his choosing. The cement plant closest to his site would have a price advantage, but competition from the others would keep prices under control."

Another stern critic is R M Girulich, past president of the Master Builders Association, who writes in the SA Builder: "The cement industry is

allowed to retain its cartel arrangement, fuelling inflation and playing havoc through its hefty, regular and truly unjustifiable annual price increases."

"Phenomenal profits are unashamedly blazed (sic) across annual reports, which will probably be found in health-care in years to come, as they have to do something with their money and profits they make."

Ted Hodgkiss, managing director of PPC, said cement prices would rise, not fall, if the cartel were scrapped. Mr Hodgkiss says the cartel has been vindicated in several close studies by the Competition Board and before that by the Price Controller.

"Look at the cement companies' return on investment and you'll see it is

pretty low in all but the very best years. We are content to accept a low return because, over the long term, it is a relatively stable, low-risk market. If it became riskier, we would all want higher returns and we would get them, only one way — by increasing prices."

"There is no way anyone could build a cement plant at present prices and get a return. It's only because plant was put in place years ago that we can price as we do. A facility the size of Duralboom, our R200-million plant in north-eastern Transvaal, would cost R500 a ton of capacity against the R100 capital cost of Duralboom."

Mr Hodgkiss questions the right of a big customer to easier credit terms and lower prices, contending that could render smaller contenders uncompetitive.

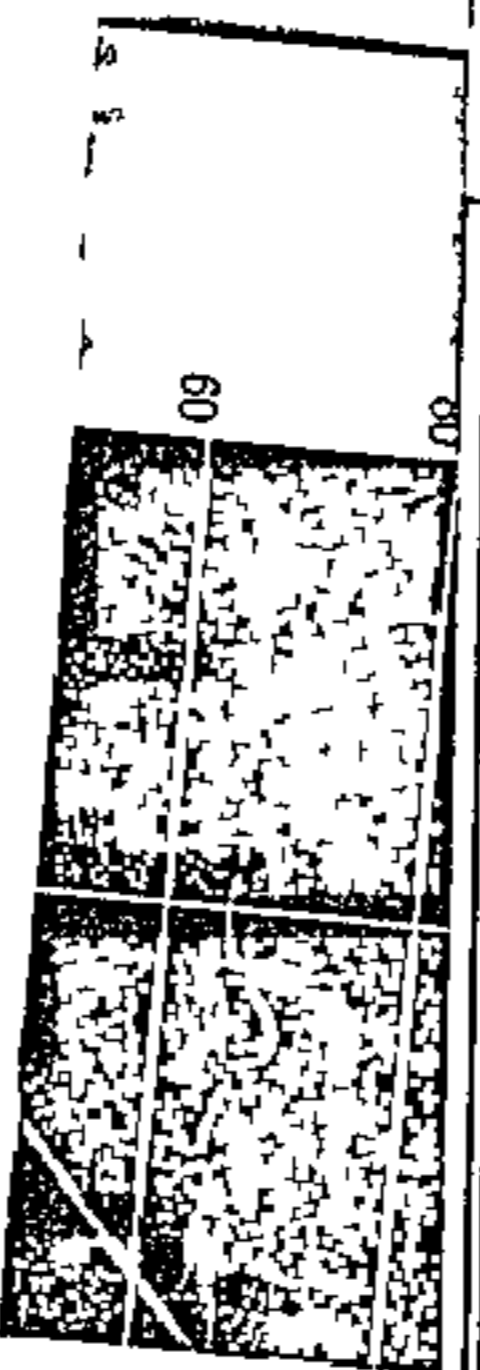
He says free competition obtains between cement transporters, whose

costs have been raised by higher truck prices, higher licence fees and the imposition of tolls. Customers would complain even more vociferously if members of the cartel provided transport.

Cement plays only a minor role in building-price inflation. He claims price increases have generally been less than rises in the consumer-price index. The cement cost in a house is low — from 3% to 10% of the total, depending on the construction methods.

"The major cause of building price inflation is the inefficiency of the labour force. Many a job that should take two weeks lasts for six because of poor management."

"I can't tell you how builders waste materials. Of course, I shouldn't complain about that. We are beneficiaries."



60

Anglo-Alpha final dividend scores 21% increase in 1989

BIDAY 8/2/90

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ANGLO-ALPHA Limited (AAL) has lifted its final dividend 15,4% to 75c (65c) for a 21,1% increase in dividends to 115c (95c) for the year to December 31 1989.

The company has emerged from the year with a stronger balance sheet and income statement, but suffered an 84,3% decline in net cash inflows to R14,1m (R90,1m) The main reason for the weaker cash situation was an increase in taxation payments from R533 000 to R32,2m as plant and machinery tax allowances dried up

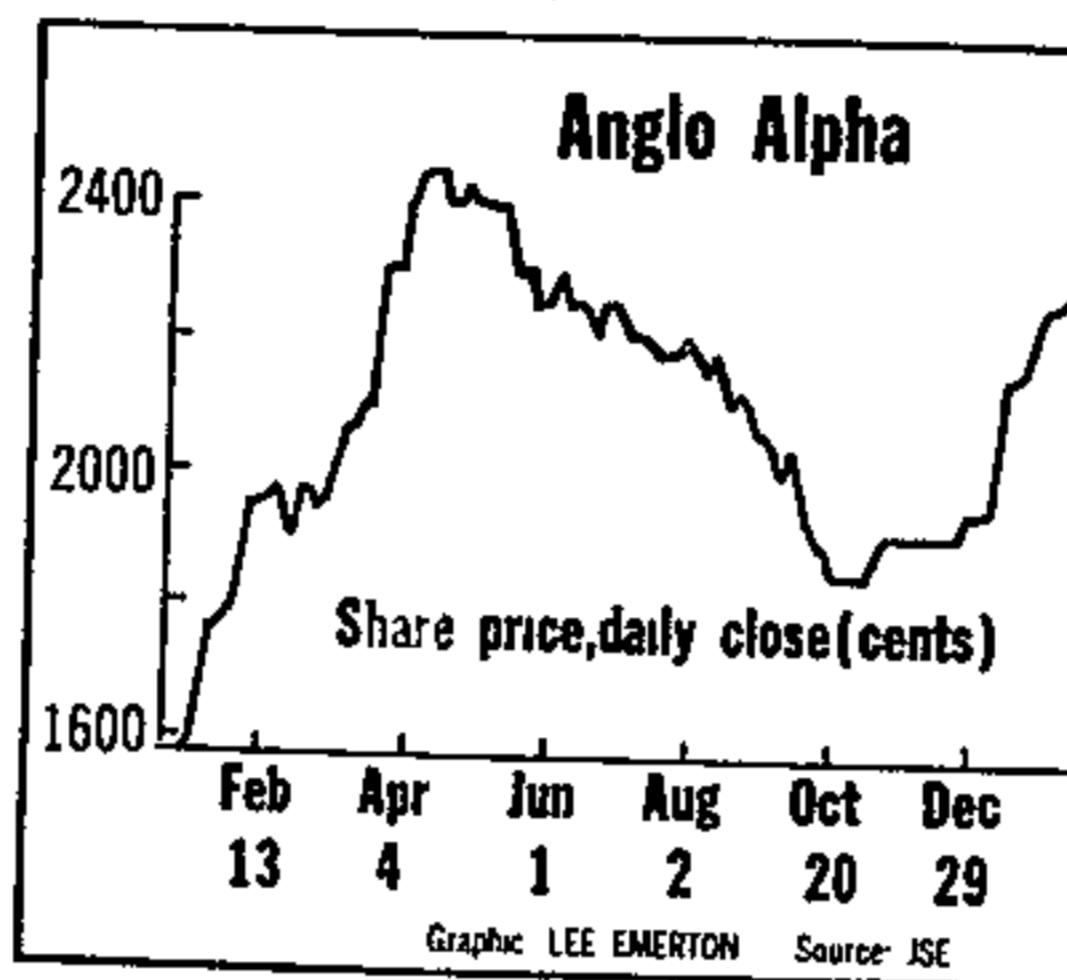
The blue chip, often applauded for its high level of disclosure, last year derived 48,3% of its turnover from cement, 19,4% from stone, 30,6% from industrial and 1,7% from others including investment income. Consolidated turnover increased 17,7% to R624,7m (R530,6m), with net operating income up 13,2% to R169,2m (R149,5m)

AAL MD Johan Pretorius expects cement consumption to decline 3% this year "This is more optimistic than the

BARRY SERGEANT

general forecast of 5% down" But he expects sweeteners such as volume and value from the industrial division in particular products such as high-quality calcium carbonated filler

Net operating income was affected by an increase in cement sales from lower margin sources and abnormal maintenance costs, and increased by



only 13,2% to R169,2m Investment income improved strongly by 58,8% to R13,9m

In the 1988-1989 financials current cost (inflation adjusted) earnings per share (EPS) increased 8,1% to 234,3c (216,8c), while historic EPS increased 13,1% to 367,2c (324,6c) The latter increase, comparable with the inflation rate, is slightly negative in real terms

In order to comply with updated accounting standards and also ensure comparability with its competitors, AAL changed its deferred tax policy in financial 1989 Financials for 1988 and 1989 have been restated to reflect the change to the partial basis of providing for deferred tax

Net attributable income is increased by R20,3m (R20,2m) to R70,5m (R65,2m), an increase of 8,1% Restated current cost EPS is up 67,5c (67,2c) to 234,3c (216,8c) On the balance sheet, ordinary shareholders' equity at current value, after including the capital revaluation reserve, is up from R1,2bn to R1,3bn

Interboard is not delivering, claim clients

JACQUES MAGLILO

MECHANICAL problems at Interboard's George and Wadeville factories are forcing Western Cape board traders to seek supplies elsewhere.

Listed company Penny Pinchers and Careline, the largest producer of kitchen cupboards in the Western Cape, cancelled substantial orders for chipwood and melamine boards at the beginning of this year.

This means Interboard has lost a potential R4m in sales this year — the estimated amount the two companies spent on Interboard goods in 1989.

According to Penny Pinchers MD Garnet Carr, orders had to be changed at the last minute, because "no stocks entered the Cape Town market".

Carr says that although Penny Pinchers have dealt with Interboard for the past five years, Interboard failed to fulfil an order (worth between R200 000 and R300 000) placed in December. This led Penny Pinchers to replace the order with Bison and Nova boards.

B1 Part 14/2/90
Sheets 193

Careline is another Interboard customer which has moved its business to Bison and Nova.

The company has, since January, received only part of one truck load of boards instead of the normal weekly load consisting of between 360-400 sheets — at a monthly cost of about R150 000.

Careline MD Haylen Lewin says "Interboard had become unreliable, resulting in the cancellation of 12 truckloads and the disruption of our production."

"Their products were not the best quality but, because they complied with SABS requirements and were good to us, we stayed with them."

Lewin says Interboard has not been in touch with them since orders were cancelled, and Careline is unlikely to place other orders with Interboard.

Asked to comment, Interboard Cape Area manager Lee Rudd said: "We have had mechanical hitches and could not guarantee supply."

But he was adamant the company would be back in full production by the end of February.

Everite tots up the cost of strike

193) SYLVIA DU PLESSIS

MANAGEMENT of building and construction-listed Everite has estimated the cost of a lengthy strike in the group's major plants to have been "in excess" of 5c a share.

The strike, which began at the end of May last year during what MD George Thomas said was also a "difficult" period in the economy, continued into this year to help slash interim earnings to 10,3c a share from 14,8c. *8/10/90 14/12/90*

However, directors of the group — a manufacturer of fibre-reinforced cement products, plastic, pitch fibre and ceramic products — maintained dividends at 7,5c a share for the six months to December.

This was in spite of turnover that fell to R162,2m (R180,8m) and operating margins that were slashed to 16,5% (20%) by loss of output, lower productivity and the need to buy in products to supply customers.

Unprofitable

Interest higher at R1,3m (R940 000) and extraordinary items of R1,4m (nil) — reflecting the costs incurred in the closures of two factories and charged against non-distributable reserves — translated into bottom-line earnings R5,3m lower than the corresponding period at R7,8m.

Thomas said two relatively small but unprofitable operations, the Agriplas factory at Belville and the Tiger Tiles factory at Bronkhorst-spruit, were shut down during the period under review after having incurred losses of about R1m after tax.

He said earnings for the second half should be "somewhat above" those achieved during the period under review.

The share closed untraded yesterday at 245c — just off its November low of 230c — after peaking at 390c in April last year.

Four FSI companies

issue cautionaries ^{STAR 16/2/90} (193)

Four companies associated with FSI Corporation's expansion into health care have issued cautionary announcements. They are Noristan Holdings, Aurochs Investment Company, Citizens Holdings and Crest Holdings.

FSI Corporate Services said yesterday that shareholders were advised in December of the acquisition by Noristan of a controlling interest in Aurochs and the intention of changing the nature of Aurochs' business from that of a property company to one operating in the health care industry.

Negotiations are under way which, if successfully concluded, may affect the value on the Johannesburg Stock Exchange of shares in Noristan, Aurochs, Citizens and Crest. A further announcement will be made in two weeks' time.

"Until such further announcement, shareholders in the four companies are advised to exercise caution in dealing in their shares" — Sapa

Masonite results mirror cooling in economy — MD

^{6/10/91 20/2/90}
BUILDING material manufacturer Masonite (Africa's) year to end-December was, according to chairman and MD Alan Wilson, a direct reflection of the "cooling down of the economy and rising interest rates"

While turnover rose 13% to R102m, taxed profits increased by only 5% to R9,5m. This translates into a 4% increase in eps to 140c and a 16% cut in

⁽¹⁹³⁾
JACQUES MAGLIULO

dividends to 56c

Wilson is satisfied with the group's performance for the year and says sales volumes of all product lines were maintained at a high level. "Margins were adversely affected by a change in mix between local and export markets."

The company has embarked on a

major capex programme to upgrade its Estcourt manufacturing facility and to acquire additional land

Though Masonite has strong liquidity, with a current ratio of 2,2 (1988 2,0), group borrowings leapt to R5,4m (R42 000) forcing it to continue funding its capex programme by retaining a greater share of earnings

The directors forecast similar results for 1990

193 whole page & check adverb

Business Day

SURVEY

Ten years ago Alex Barrell launched Africa Glass from a one-bedroom flat with a share capital of R500 and three employees. Today the company is SA's second largest glass processor and distributor. RENIE BOOYSEN reports.



ALEX BARRELL

Compact living boosts demand for quality mirrors

THERE are only two commercial Development Corporations in SA with mirror manufacturing plants — Africa Glass and PG. Both plants have sufficient capacity to supply the entire SA market and are largely dependant on the export market for economic business operators. In 1985, with financial assistance from the Industrial

Development Corporation, Africa Glass set up its mirror division after buying a plant from Italy. Africa Glass Mirrors MD John Tenderin believes there is a growing market for mirrors locally. "With building costs escalating and compact living and work places becoming the norm, mirrors provide an excellent means of creating the illusion of space and provide wonderful effects when used in conjunction with lighting." "It's just a question of getting an awareness of mirrors across to the consumer. What is needed is a massive advertising and media campaign. SA is one of the lowest consumers of mirrors per capita in the Western world. A large proportion of the mirrors manufactured by Africa Glass Mirrors is exported. Although the international market is very competitive, the weak rand has helped AGM to compete internationally. However, says Tenderin, "In order to compete, the

A market which spans the world

ABOUT 20% of Africa Glass's turnover is export-based

The group exports products to Australia, North America, South America, Europe, South East Asia and the Middle East.

Chairman Alex Barrell says the added value of lamination and mirror silvering, combined with SA's relatively weak currency, provides the export edge.

Export director Marc Pingo says another important reason for the company's export drive is that local expansion is getting increasingly difficult.

"We keep bumping head to head with the opposition. So why go through all the hassles if opportunities exist abroad?"

The group's export drive started in South East Asia in 1985/86 with mirrors.

Pingo says South East Asia, with its high growth rates, has in recent years been a growth market for most glass products. He says the South East Asians settle their debts promptly and with few queries.

Commitment

One of the biggest problems for SA exporters is to engender a commitment to quality in the workforce.

"We're trying to get the message through to the whole group. Quality must be perfect because we're trying to compete in highly sophisticated markets. The

Meteoritic rise to the top of the pile

IN LESS than a decade Africa Glass has risen from nowhere to become SA's second biggest glass processor and distributor, with about 20% of the SA glass market.

It is privately owned and for the present the owners see no need to go for a JSE listing.

The story of its rise should serve as a model for MBA students. It saw a gap in the market and exploited it relentlessly. The equity owners are now young, wealthy men — led by executive chairman Alex Barrell, 39, who sees only broad horizons around him.

Barrell and his associates identified an obvious opportunity in February 1985 when Murray & Roberts decided to refocus on its construction activities and rid itself of incidental businesses — one of which was its national glass company, Elgin Merchandising.

The only other big player in the industry which had the financial muscle and the incentive to pitch convincingly for Elgin was

the PG Group.

Industry sources say PG Glass was dissuaded by Competition Board considerations from taking over Elgin as a going concern.

The only other option available to PG was to make Murray & Roberts an attractive offer in terms of which the company would be closed down — and PG would acquire the assets.

Agreed

According to a Financial Mail report at the time Murray & Roberts agreed that PG would take over Elgin's stock and certain plant, consisting of glass supplies, some cutting, bevelling and polishing machinery and certain commercial vehicles.

The magazine speculated that a figure of between R4,5m to R5m was involved.

It also noted the deal "has left industry front-runners PG Glass in an unassailable position in the SA market."

What goes up, must come down. Enter Jeff Saville, ex-MD of Elgin Transvaal, who was keen, like Barrell, to become master of his own destiny.

Elgin's substantial customer base suddenly needed a new flat glass supplier, and although PG's other Transvaal outlets were an option, they had been doing business with Saville.

So Barrell approached Saville, whose brother Mark had joined Africa Glass some years before and was running the company's glazing operations.

Africa Glass had been one of Elgin's largest customers, and both Barrell and Saville realised the obvious advantages of teaming up to exploit the huge gap in the market left by the demise of Elgin as a going concern.

The vast downstream base of independent glass companies — those not linked to PG Glass, and, in fact, competing aggressively with the smaller PG outlets — needed the support of an independent bulk distributor.

Any new operation which took up the gap would have to provide a reassuring refuge for the smaller operators, whose biggest fear was, and always will be, the threat of a PG takeover of their independent supplier.

All that needed to be done by a bulk distributor to attract their custom was to convince them that it (the distributor) was independent of PG.

Testimony

At that stage, Barrell owned a relatively small company, already called Africa Glass — which may have sounded slightly grandiose at the time, but with hindsight, bears testimony to Barrell's keen sense of direction.

Barrell says, although Africa Glass had already been engaged in a bit of wholesaling along with its glazing operations, "it was Saville who spear-headed Africa Glass's wholesale

Import duty has become outdated

THE 20% import duty on flat glass has questionable economic merit — and glass consumers are beginning to militate against it. There is no doubt there was sense in the duty when government acceded to the request for an import duty by Pilkington Brothers of the UK when it investigated the establishment of SA's first float-glass factory in Springs in 1976.

Float-glass factories entail substantial capital outlay and it would have been foolish to enter such a venture without an assured market.

The factory, therefore, needed protection — at least during its formative years — against cheap sources from abroad, which inevitably become available as the glass market moves from oversupply to undersupply.

The question, however, as with many other protective barriers to importation, is for how long there is economic merit in their existence.

The case against the duty made by consumers is that it has the effect of boosting Pilkington SA's prices, and consequently profits, to a level which it would not be able to sustain if it had to compete head on with imported glass.

So, say some, the duty is conspiring against glass consumers on the outdated pretext that the development of the local glass industry is to be protected.

Pilkington is 100% owned by Glass SA, the combine set up with the merger of Plate Glass & Shatterprufe Industries (PGSI) glass processing and

distribution business in the Transvaal.

At the time, Africa Glass had been in existence for five years.

Barrell started it in 1980 with a share capital of R500 ("all I had", says Barrell) and three employees in a one-bedroom flat.

He says starting a glazing operation represented the cheapest cost of entry into a business with which he had become familiar, having worked for Federated Timbers subsidiary Float Glass for four years.

Today, Africa Glass employs more than 500 people.

"In retrospect, I think that has certainly been our greatest achievement," says Barrell in his matter-of-fact style.

"To start at grassroots level, without having to go outside for capital, and to build from there to what we have today."

So Africa Glass's first major expansion took place in the Transvaal

distribution interests with Pilkington.

In 1983, PGSI adopted the attitude that if you cannot beat them, join them. It had grown to the extent it was absorbing the bulk of Pilkington's glass production for its processing and distribution operations.

Keen

Analysts say PGSI was clearly keen on further vertical integration, which could only proceed upwards to manufacturing as it already dominated processing and distribution.

It had to consider either the establishment of its own glass plant or a merger with Pilkington.

As Pilkington's largest consumer it was also in a position to influence Pilkington's profits. At times, glass can be imported more cheaply than Pilkington's prices in spite of import duties and surcharges (there is presently a 10% import surcharge on most varieties of flat glass in addition to the 20% protective import duty, in terms of government's campaign to address SA's balance of payments problems).

So the merger was mutually beneficial. PGSI now participates in Pilkington's profits, while Pilkington is assured of a large downstream market for its products.

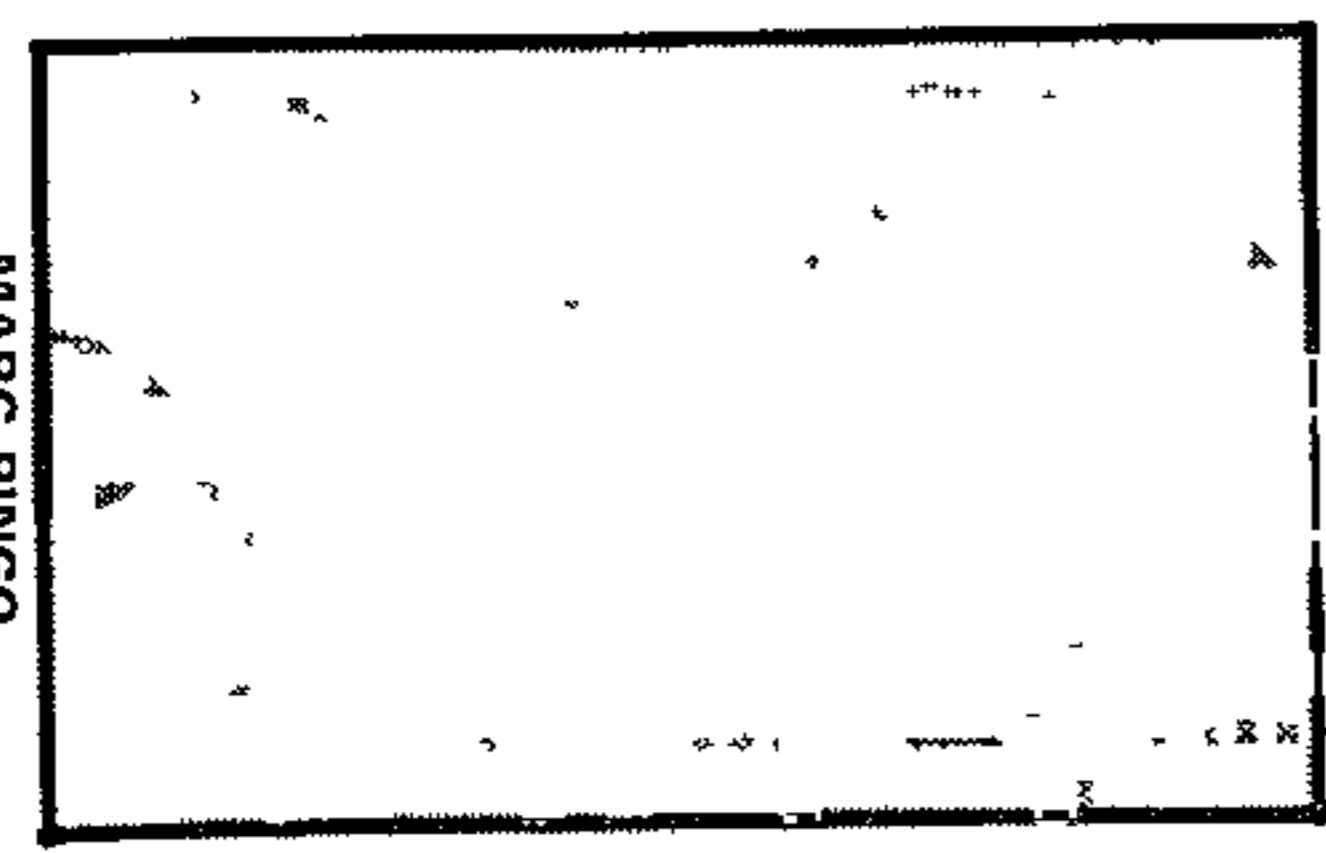
The spanner in the works appears to be Africa Glass, which claims to take about 20% of Pilkington's production.

Chairman Alex Barrell says most float-glass producers break even at about 70% of their production capacity, after which their profit increases on a steeply accelerating curve.

There are, therefore, similarities between Africa Glass today and PGSI in 1983 in that Africa Glass must seriously examine the possibility of upstream vertical integration.

Glass SA joint-CE Patrick Farlong says the Pilkington factory is working to full capacity, and that it will probably be able to satisfy the SA market until 1994.

But he concedes Glass SA's projections for glass demand could be upset, if unexpected economic trends arise. When the Pilkington factory becomes unable to feed the entire market, extra glass will either have to be imported — or a second factory will have to be built.



MARC PINGO. Samples of Africa Glass's mirrors and laminated products have passed the SABS, DIN, British and US standards.

Whole party
elected adverts

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Africa Glass

Raking in awards for achievement

AFRICA Glass's phenomenal success in a very short space of time was recognised twice last year when it was named a runner-up in the State President's Export Achievement Awards (in the manufacturing category) and runner-up in Business Day's Best Non-listed Company Award.

Overseas

The annual State President's Export Achievement Awards were introduced in 1985 to replace the long-established State Award Companies, individuals and organisations that have made significant contributions to the expansion of SA's export trade, as well as exporters of goods and services are eligible.

aggressive and creative export marketing which has resulted in the diversification of export market outlets and increased export earnings is also important. Product design, research, special product presentation and the training of overseas sales and other representatives are other criteria.

Competed

Africa Glass was runner-up to winner Highveld Steel & Vanadium Corporation in the manufacturing category in 1989.

A laminate success story

AFRICA Glass's patented laminate-production method is one of its proudest operations.

Compares

There are two prime requirements for laminate glass to fulfill it is either bought for its safety requirements or for its sound-reducing qualities.

for certain purposes, especially sound-reducing, its CIP product is better than PVB. It nevertheless also distributes other manufacturers' PVB laminates.

Realise

"The market is beginning to realise the cost-benefit of our products," says Bagnall.



MIKE CHATKIN



JEFF SAVILLE

Philosophy is to decentralise

AFRICA Glass's SA operations are focused in three main centres, the Transvaal, Cape and Natal — with the Transvaal operation clearly the biggest.

Acquisition

Africa Glass's Cape Town operation represents its only acquisition during its 10 years of growth.

BARRELL HAS BUSINESS IN THE BLOOD

MICHAEL HOUSE, educated Alex Barrell, 39, has an instinctive grasp of numbers, but he is certainly not your conventional accountant.

B Day 1/3/90



Chubb acquisition expands security unit

CHUBB Electronics's acquisition of Rennie's Electronics Security (RES) for an undisclosed amount will increase its penetration in the greater Johannesburg security market.

The deal, effective from today, includes the purchase of RES's reaction unit First Force.

Chubb Electronics MD Robert Dickerson says the combination of Chubb's rapid response unit and First Force will increase the number of response units

ZILLA EFRAT

in the greater Johannesburg area.

The expanded unit will operate 24 hours a day and serve both domestic and commercial markets.

Chubb Electronics, part of Chubb Holdings, will honour and service all RES's contracts, as well as those commercial clients currently protected by First Force.

Turnaround plan for troubled Interboard

B Day 1/3/90

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A MAJOR effort is underway to turn around the troubled Interboard, which is expected to show poor results in its financial year to February.

The group's earnings have shown a downward trend since the second half of the year to February 1989. It made R24m in attributable profits in that year, but followed this with a R7m loss for the six months to August 1989.

Its share price has plunged from about 190c in 1987 to 27c at the close yesterday.

Former chairman Ed Dutton faces fraud charges involving more than R130m, and an investigation is underway to unravel Interboard's international shareholding.

Last month Interboard cautioned that its Wadeville, George and Swaziland plants were overvalued.

Director Mike Clemitson says there have been problems with inconsistent quality of products from its Flatboard and Buildcor factories where chipboard, doors and tiles are made.

The problems have been attributed to an inadequate management structure using dated equipment and poorly trained personnel.

However, Clemitson says none of these problems is insurmountable and solid progress has been made towards turning the group around by making use

ZILLA EFRAT

of existing assets, the most important of which is a loyal workforce.

The first step has been to restructure each division, decentralising control, responsibility and accountability to the most appropriate level.

Next has been the implementation of tighter reporting systems and the shortening of control intervals.

The chipboard industry worldwide has been under rigorous commercial pressure for a number of years and there have been important changes in manufacturing methods and materials.

In the short term, Interboard has entered into technical agreements with two European groups to examine its current technology and assist in upgrading to new processes and methods.

Clemitson says: "Our equipment is generally in acceptable condition and at present we see no need for major capital expenditure."

"Certain modifications are essential and these must be addressed, but it will be more important in the coming year to concentrate on maintaining plant at optimum capacity."

The Audiocor division, which manufactures radios and hi-fis, is doing well because it is run by good management he says.

Gefco, Msauli show the way to fortune

193

EDWARD WEST

BOOSTED by better dollar prices and a favourable rand exchange rate, asbestos producers Gefco and Msauli beat all forecasts when Gefco increased earnings by 81% and Msauli by 58%, results for the year to December 1989 showed.

Gefco earnings a share increased from 36,6c to 66,1c. Msauli's earnings increased from 177,2c a share to 280,7c.

Net income for Gefco rose from R13,1m to R23,7m on an 18% turnover increase to R98,9m. Msauli's net income increased from R11,4m to R18,1m on a 29,9% turnover increase to R74m.

Trading conditions were less favourable than in 1988, but both companies expected to remain profitable in 1990, albeit at reduced levels, chairman Pat Hart said. *6/Day 8/2/90*

Hart said in a statement Gefco's crocidolite fibre sales volumes had been marginally higher than in 1988, but amosite sales had dropped.

Gefco's operating income increased 110% from R14,8m in 1988 to R31,3m.

The improvement in Gefco's operating income was due to better prices, favourable exchange rates and lowered production costs. Production costs at the Kuruman and Penge complexes were below the inflation rate.

Msauli's operating income increased 94% from R11,6m to R22,4m. Sales volumes were slightly down, but operating income benefited from good prices and the exchange rate — in spite of a 21% increase in unit production costs.

Gefco declared a dividend of 15c bringing the total to 22,5c (12,5c) a share for the year. Msauli declared a final dividend of 50c bringing the total to 75c (35c) for the year.

3-1

MASONITE

FIM 9/3/90

193

Chipping dividends

Activities: Making wood and mineral fibre building products

Control: Masonite Corp (USA) 67,3%

Chairman: F J Raubenheimer; MD: A H Wilson

Capital structure: 6,82m ords. Market capitalisation R85m

Share market: Price 1 250c Yields 4,5% on dividend, 11,2% on earnings; PE ratio, 9,0; cover, 2,5 12-month high, 1 425c, low, 1 000c. Trading volume last quarter, 14 000 shares

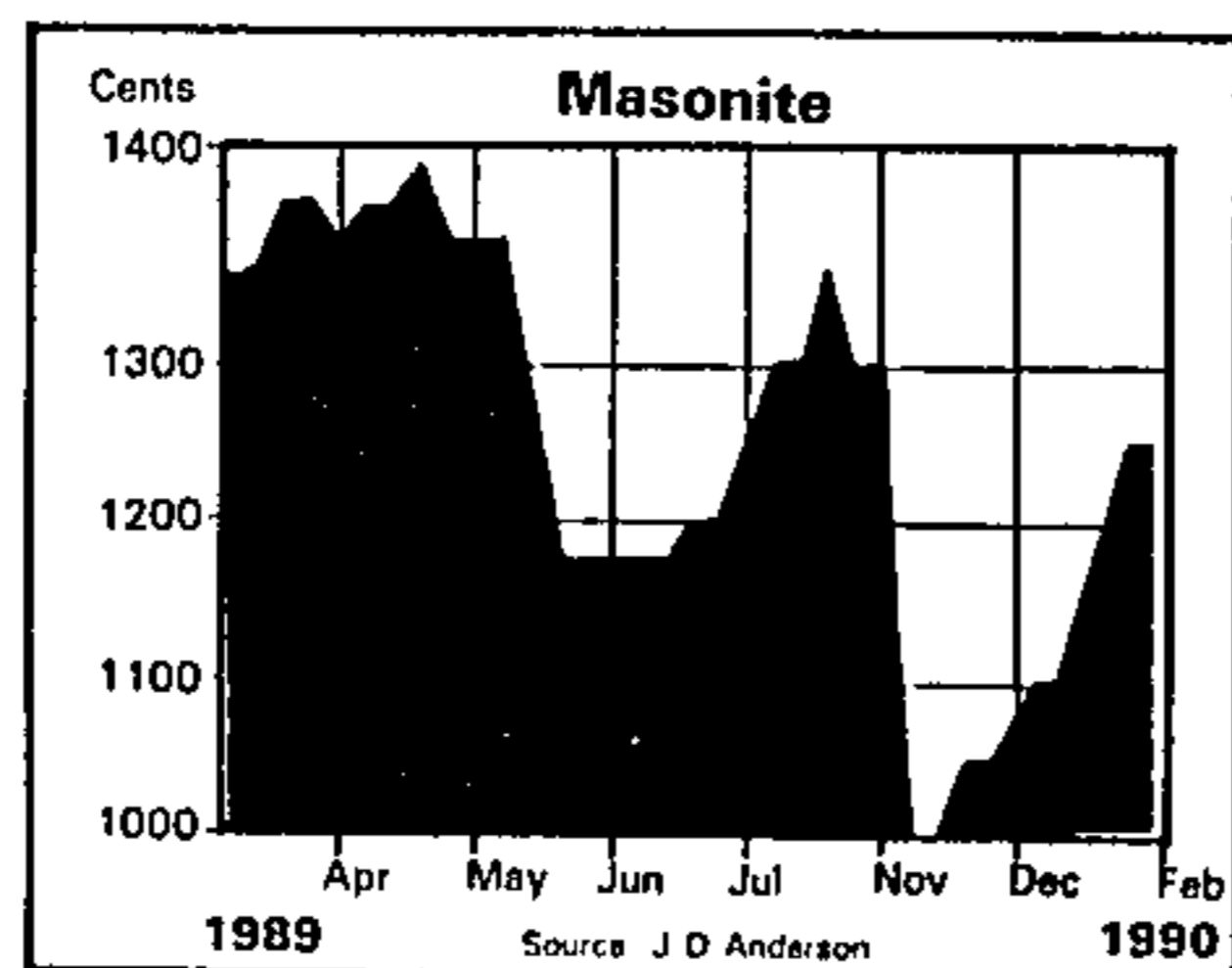
Year to Dec 31	'86	'87	'88	'89
ST debt (Rm)	—	—	—	2,5
LT debt (Rm)	0,5	0,3	—	5,4
Debt equity ratio	—	—	—	0,15
Shareholders interest	0,63	0,61	0,61	0,59
Int & leasing cover	n/a	n/a	n/a	71,8
Return on cap (%)	17,5	19,2	24,6	20,7
Turnover (Rm)	69	74	90	102
Pre-int profit (Rm)	7,9	9,5	15,3	15,4
Pre-int margin (%)	11,5	12,8	16,9	15,1
Earnings (c)	89,8	101,5	134,0	199,6
Dividends (c)	40	72	67	56
Net worth (c)	432	472	559	642

Yet another dividend cut, even though earnings have continued to rise. This year, though, the cut is realistically justified by the fact that greater retentions are needed to finance additions to forestry plantations, plant and equipment. Realistic, because increasing borrowings at present interest rates would lead to the problems of reverse gearing, at least in the short term.

Last year, of course, Masonite increased its long-term debt to help finance acquisitions of new plant and part of its factory expansion expenditure.

Raising additional equity capital seems out of the question — the American parent is most unlikely to invest more money in SA even if the political climate is changing and, presumably, it does not want its interest diluted. The best to be expected is that the American parent will not be pressed to divest but will insist its offshoot continues to finance itself as conservatively as possible.

Last year's trading proved to be less difficult than initially expected, though newly-



appointed chairman Alan Wilson notes mixed performances. Sales to the furniture and motor industries tumbled, as both industries suffered the effects of credit curbs. Sales to the building sector increased or held steady. This year, Wilson indicates, is likely to be much the same.

Exports stepped in to keep the Estcourt factory running at full capacity, despite lower domestic sales, but this led to narrower margins. For the present there is the prospect of the rand remaining relatively firm which, in turn, makes it less easy to increase export profits.

Capital expenditure this year will be directed both at increasing the company's plantation holdings and adding to factory capacities. Presumably that implies some further clipping of the return on assets (ROA) ratio, as new plantations contribute only once trees can be felled. And, as long as ROA remains lower than the cost of borrowing, retentions will continue to rise.

Wilson gives no indication of this year's likely dividend, though he expects earnings will be little different from last year's. The tightly-held share is best suited to long-term portfolios.

Jim Jones

LEPPIN FIM 9/3/90

Margins vanish

Activities: Imports, manufactures, distributes and exports food supplements and vitamins

Control: Directors 76,7%

Chairman: G Leppin; joint MDs: N Hannemann and T Hannemann.

Capital structure: 8,6m ords. Market capitalisation R1,5m

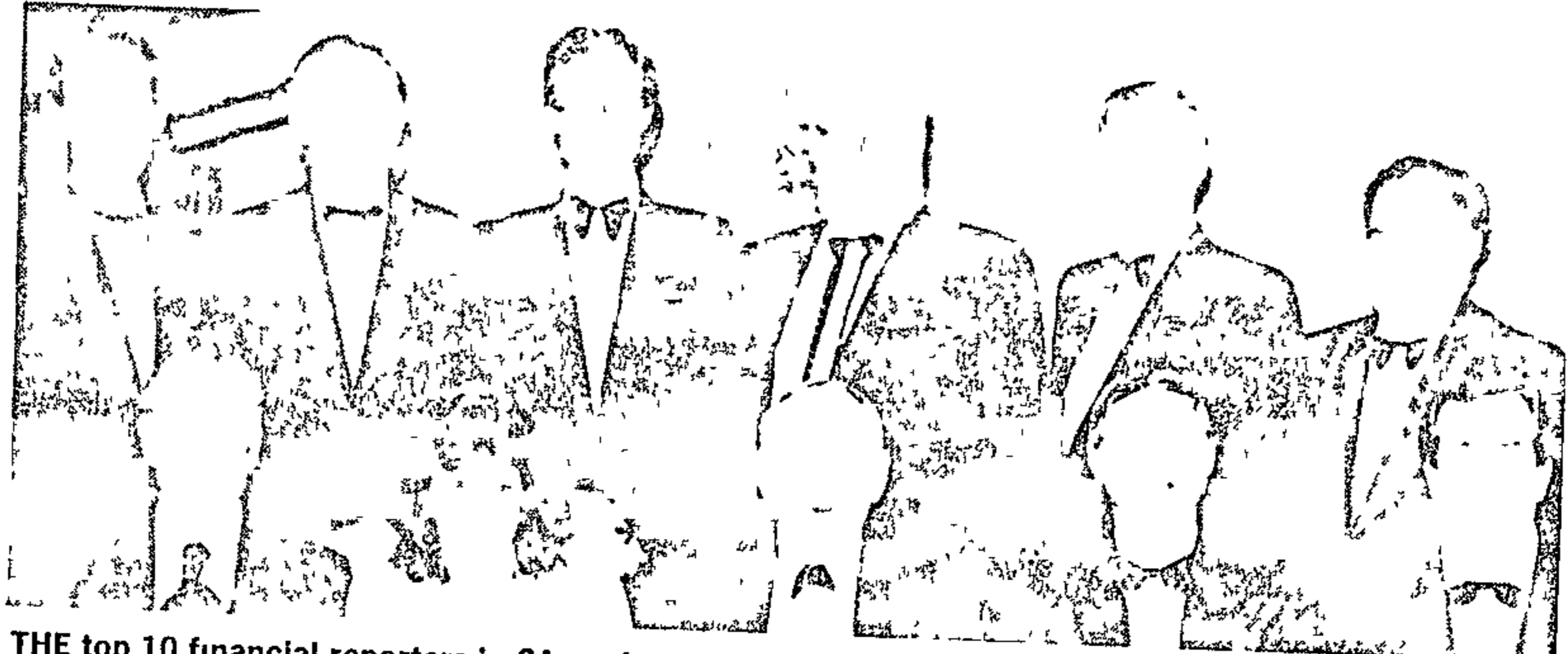
Share market: Price 17c 12-month high, 28c, low, 14c. Trading volume last quarter, 36 650 shares

Year to July 31	'87*	'88	'89
ST debt (Rm)	0,3	0,5	0,9
LT debt (Rm)	0,1	0,1	0,2
Debt equity ratio	0,74	0,47	1,07
Shareholders' interest	0,33	0,44	0,27
Int & leasing cover	13,1	3,9	(0,48)
Debt cover	0,8	0,6	0,05
Return on capital (%)	20,3	10,2	—
Turnover (Rm)	3,7	4,4	6,1
Pre-int profit (Rm)	0,3	0,3	(0,08)
Pre-int margin (%)	8,8	6,9	—
Taxed profit (Rm)	0,2	0,2	(0,25)
Earnings (c)	3,2	2,7	(2,9)
Dividends (c)	nil	1	—
Net worth (c)	8	15	12

* Pro forma

For the second consecutive year, Leppin Holdings' earnings have fallen despite strong turnover growth.

Management attributes the latest 2,9c per



THE top 10 financial reporters in SA, as found by judges of the CA-Business Times award (back, from left): Mark Bower (financial director, Amrel), Neil Wilmot (financial director, Afcol), Ian Somerville (group financial controller, SA Breweries), Solly Tucker (chairman, Yorkcor), Evert Groeneweg (financial director, Barlow Rand), Peter Beningfield (financial director, Malbak). Front: Aaron Searl (chairman, Seardel), Sally-Ann Pinks (group accountant CG Smith Foods), Paul Dreyer (president SA Institute of Chartered Accountants), Trevor Wagner (financial director, Anglo-Alpha), Wally Holmes (financial director of an operating company in the Adcock Ingram group).

Business Times Reporter
ANGLO-ALPHA has won the CA-Business Times award for financial reporting for the sixth time in 10 years

The cement-maker is in a class of its own in reporting to shareholders. No other company has won the award more than once and there is great mobility into and out of the top 10 financial reporters.

The award, designed to improve reporting to shareholders by companies, is organised by the SA Institute of Chartered Accountants and judged by practising chartered accountants.

Banquet

Anglo-Alpha financial director Trevor Wagner received the award from Paul Dreyer, president of the SAICA, at a banquet in Johannesburg this week. The banquet was sponsored by Investec Bank.

Second came SA Breweries, third Amrel, fourth Seardel and fifth Adcock Ingram.

Completing the top 10 reporters in alphabetical order were Afcol, Barlow Rand, CG Smith Foods, Malbak Group and York Timbers.

Seardel has been in the top 10 nine times, SA Breweries and Malbak seven and Barlow Rand six.

Newcomers to the top 10 are Amrel and CG Smith Foods. The judges singled out Lebowa Bakery, a newly listed black-controlled company, for the quality of its reporting.

Six out of 10 *S/Times 11/3/90* (193) for A-Alpha

The only previous winners of the award in the top 10 this year are Malbak and Seardel.

The judging panel excluded mines and financial institutions because they lack standard accounting procedures. The only bank included in the first round of judging was First National, which was commended for its disclosure, which goes further than any other banking group.

Screening

Only 80 industrial companies were selected for the first round after initial screening. Only 39 made it into the second round.

Special recognition was given for companies adjusting their figures for inflation.

The judges say 'Inflation continues to distort company results, particularly in capital-intensive industries. An ironical position has been reached in that even one of the companies in the top 10, Barlow Rand admits that financial statements prepared on the historical cost basis do not disclose true profits. However, Barlow Rand has not attempted to

measure the impact of inflation on results.

"There are still fewer than 15 companies listed on the JSE that give any consideration to the needs of users as regards reporting about the effects of inflation."

Apart from the 15 companies which do account for inflation, about 24 mention its effects but make no adjustments.

The judges say cash flow information gives users the only real measure of the quality of earnings. Three indicators should be provided: cash generated by operations, cash retained to expand operations and residual cash after expansion.

All top 10 companies gave value added statements. But only two gave a meaningful explanation of the statement and only one showed trends.

The adjudicators say that if not properly applied, equity accounting can give misleading impressions. They call for a clear distinction between dividends received and the company's share of its income.

Where an associate constitutes a significant portion of the net assets or income of

the investor, separate disclosure should be made of the associate's material fixed assets, long term liabilities, current assets and liabilities.

Not one company was awarded full marks for this item.

The judges believe segmental reporting could be improved. Attributable earnings a sector were not always identified. Few companies presented a trend of segment information. Barlow Rand scored highest in this area.

Deferred

Several companies have switched to the partial method of providing for deferred tax.

Some, paying no or little tax, provide a notional deferred tax charge or tax equalisation reserve. The judges say assessed losses brought forward confer real benefits and criticise tax equalisation reserves as cosmetic. One culprit using the method is Premier.

They say the tax equalisation reserve is used to smooth the income statement, negating economic reality. SA Brew is an example.

B/Day 12/3/90 (193)

US ban on asbestos challenged

EDWARD WEST

THE ban on asbestos in the US could be overturned, asbestos producers Gefco and Msauli chairman Pat Hart said last week.

The decision to ban asbestos was being contested in court, he said.

Even if the ban took effect, it would not have a direct impact on SA asbestos exports and production as the US was a minor market. However, a total ban would eventually have a spinoff effect on all producers, he said.

In spite of political pressure to ban asbestos because of its health risk, Gefco and Msauli's year end results — 80% and 58% annual earnings increases respectively — showed the asbestos industry in SA to be very much alive.

But their good results were not reflected on the JSE. On Friday, Gefco's shares fell 5c to 230c after its results were published on Thursday.

A similar picture occurred with Msauli when its shares dropped 10c to 660c after its results were published.

Health-related pressures had whittled away about 10% of the market to asbestos-free materials and some SA companies, which had used asbestos, were introducing asbestos-free products, said Hart.

For example, in April last year Everite decided to close a factory in a R35m capital expenditure programme to convert its building materials from asbestos cement to non-asbestos fibre cement.

However, Hart was confident about the long-term future of asbestos as there were certain products, such as high-pressure piping and certain types of friction brakes, for which there was no substitute for asbestos.

SA ranked fourth in terms of world asbestos production, most of which was exported. Russia led the way, producing 2-million tons annually. Of this, 1,5-million tons was used in the Soviet Union while the rest was exported.

Canada ranked second, producing about 0,75-million tons of asbestos annually. From January 1989 to November 1989, SA export sales volumes came to 152 234 tons, according to Standard Bank statistics.

Showing the limited size of the SA market, SA asbestos sales volumes in SA from January to November 1989 amounted to 8 378 tons.

Gefco and Msauli were SA's largest asbestos producers, Hart said.

Kudu earnings drop by 17,7%

EDWARD WEST

193

KUDU Granite's half-year earnings have dropped 17,7% in spite of a 19% turnover increase, but the directors are confident about prospects for the next six months

BIDCUM 143190

Kudu's earnings dropped to 18,5c a share (from 22,5c at the same stage last year) for the six months to end-December while turnover increased to R13,4m (R11,2m)

An interim dividend of 4c has been declared, 1c down on the previous payout.

Kudu financial director Andre Dry said yesterday the drop in earnings was due to reductions on the sales volumes of Rustenburg materials because of international price pressures

Decreased effectiveness of Durban harbour due to strike action during October and November, a shutdown in December and a poor rand exchange rate all negatively affected earnings, said Dry

But he said the company was positive about prospects over the next six months. Its Parys quarry, which is to produce multi-coloured granite, came on stream on February 10.

He said the multi-coloured granite had attracted great interest from overseas buyers

And the Belfast quarry production capacity had been improved, he said

Kudu's shares closed unchanged at 160c a share on the JSE yesterday

Italtile acquires interest in CTM

Biday 23/3/90
CERAMIC tile manufacturer and distributor Italtile has acquired the minority interests in the Ceramic Tile Market (CTM) companies for R630 000, to be settled by the issue of 140 657 Italtile shares at R4,50 each, it was announced yesterday.

The CTM companies operate from Port Elizabeth, East London and George.

They are low cost warehouse operations stocking tiles, sanitaryware and accessories.

NEIL YORKE SMITH

The acquisition will have no material impact on Italtile's earnings or net asset value. The company earned 44,2c a share for the six months to August.

Italtile shares have been trading at about R4,50 recently. At this price they offer earnings and dividend yields of 18,6% and 3,6% respectively. With over 60% of issued capital, directors have strong control.

(193)

Slower on cement

Activities: Produces and distributes cement, other building materials and industrial minerals
Control: Holderbank Financière Glaris of Switzerland holds 34%

Chairman: P Byland, MD J Pretorius
Capital structure: 30,1m ords Market capitalisation R692m

Share market: Price 2 300c Yields 5% on dividend, 16% on earnings, PE ratio, 6,3, cover, 3,2 12-month high, 2 450c low, 1 850c

Trading volume last quarter, 78 000 shares

† Year to Dec 31	'86	'87	'88	'89
ST debt (Rm)	68,1	67,3	50,3	42,6
LT debt (Rm)	203,5	150,8	80,8	72,9
Debt equity ratio	0,46	0,28	0,23	0,19
Shareholders interest	1,28	0,73	0,68	0,69
Int & leasing cover	2,7	4,5	8,3	10,5
Return on cap (%)	9,9	11,4	20,9	23
Turnover (Rm)	346,6	418	522,2	612,2
Pre-int profit (Rm)	86,2	101,5	155,1	179,8
Pre-int margin (Rm)	24,1	23,7	28,1	27,3
Earnings (c)	142,3	185,5	324,6	367,2
Dividends (c)	60	70	95	115
Net worth (c)	1 436	1 633	1 893	2 069

* On partial deferred tax basis
 † Historical cost basis used throughout

A slackening in new housing starts resulted in lower sales of cement and a mediocre earnings increase from Anglo-Alpha last year. No improvement is in sight because high interest rates will continue to retard house building. And, though construction contractors, the other large consumers of cement, are reporting full order books to about mid-year, the scenario beyond is uncertain.

Cement accounts for about 50% of Anglo-Alpha's turnover and earnings and 62% of its assets. These percentages have not changed much in the past three years.

The cement division operated at about 75% of capacity last year. Though turnover rose 19%, the division's income after tax, excluding finance charges, fell marginally. The stone division fared much better after some acquisitions but was hit by almost doubled tax.

The lime and industrial divisions, which contributed only about 14% of earnings ex-



Anglo-Alpha's Pretorius... expects cash flow to improve

cluding finance charges, are targeted eventually to reduce the group's dependence on building and construction. Lime is used extensively in the gold and uranium industries.

Medium term, Anglo-Alpha expects growth to come more from improved efficiencies and modernised facilities than higher capacity. Capex and investments, mostly for replacement and upgrading, is budgeted at R338m in the next four years.

Last year the tax rate, adjusted for the partial basis of deferred tax, rose to 33% (30%). Financial director Trevor Wagner says it will rise to almost 40% this year, boosted by the new straight-line tax allowances on investment in plant and equipment. Without that, the group would expect to produce a 16% earnings increase this year, with it, the prediction is for only 1%. This compares with the 13,1% increase in EPS on an historical cost basis achieved last year, or 8,1% on a current cost basis.

Risk ratios look strong enough to handle the downturn. Gearing declined to 0,19 (0,23). Cash flow weakened because of large tax payments last year but MD Johan Pretorius expects it to improve significantly from 1991 as the high capex begins to pay off.

Some financial directors complain that the revaluation of assets necessary for inflation accounting costs millions. Anglo-Alpha's engineering department revalues its assets every five years, between valuations, an escalation index is applied. Wagner says the process is expensive to start but becomes routine thereafter.

The performances of building materials

suppliers have been much more stable than building and construction companies, partly because of cartel arrangements. But, as with some construction companies, Anglo-Alpha is likely to return to high growth when the housing shortage is tackled. It is estimated that 1 000 houses need to be built a day, so the backlog is enormous — the only question is when it will happen.

Anglo-Alpha's earnings increases, meanwhile, are likely to be moderate. Shareholders will be consoled by the fact that the group's policy to raise dividends at least in line with inflation is intact, though dividend cover has declined from 3,8 to 3,2 in the past three years.

Teigue Payne

Critical mass

Activities: Makes diesel engines and abrasives, distributes these, bearings, and other engineering consumables

Control: Directors hold 16%

Chairman: B McInnes; Group CE K Clarke

Capital structure: 22,7m ords Market capitalisation R250m

Share market: Price 1 100c Yields 4,4% on dividend, 9,8% on earnings, PE ratio, 10,3; cover, 2,2 12-month high, 1 125c, low, 650c

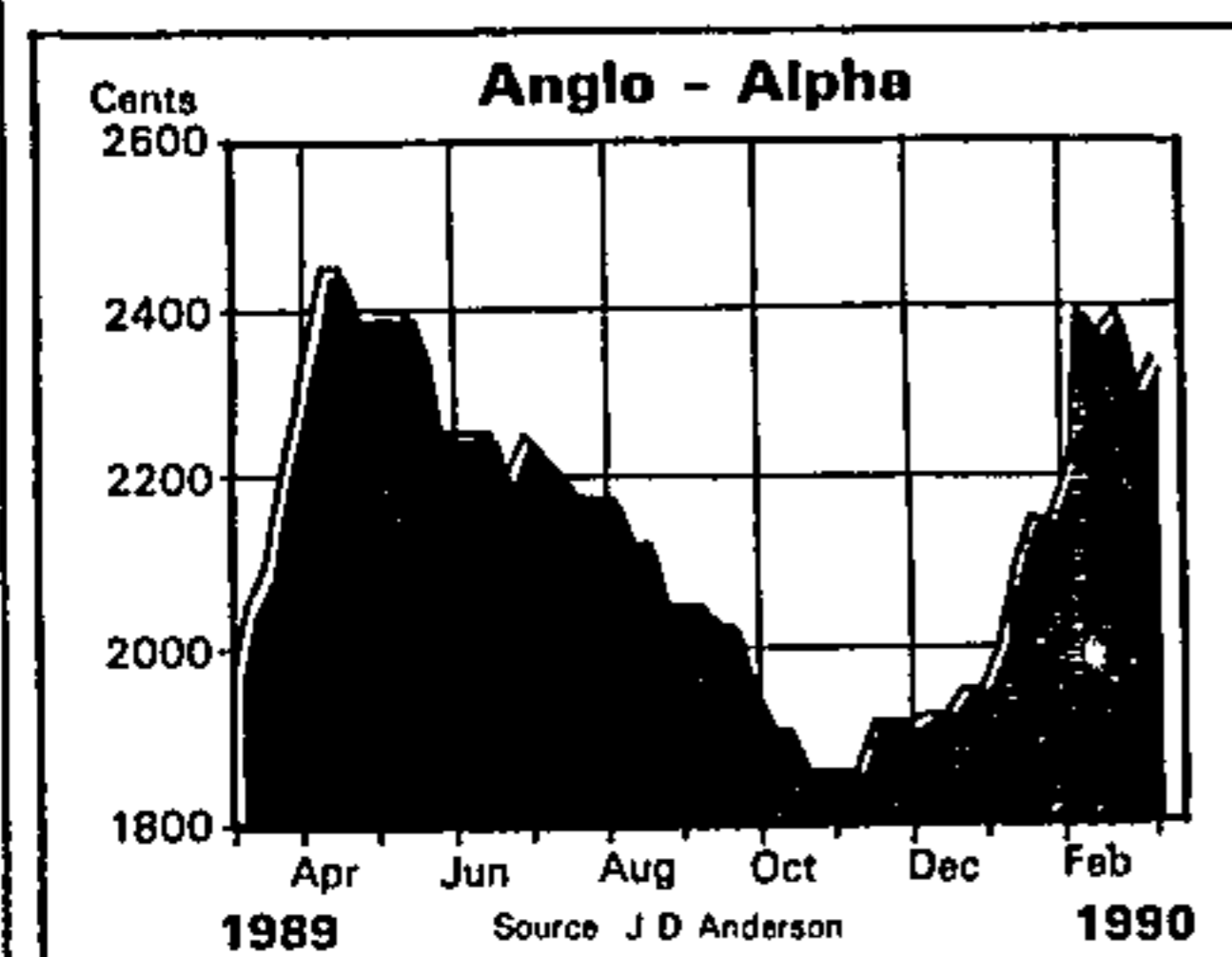
Trading volume last quarter, 377 000 shares

Year to Nov 30	'86	'87	'88	'89
ST debt (Rm)	—	1,0	11,4	15,3
LT debt (Rm)	4,0	8,4	6	20
Debt equity ratio	—	0,14	0,02	0,43
Shareholders interest	0,40	0,42	0,32	0,32
Int & leasing cover	1,14	20,7	8,7	6,1
Return on cap (%)	18,4	26,0	20,8	20,0
Turnover (Rm)	155	208,4	252,1	384,7
Pre-int profit (Rm)	16,3	22,2	27,8	43,6
Pre-int margin (%)	10,5	9,5	11	11,9
Earnings (c)	44,2	61,7	85,4	107,3
Dividends (c)	20	28	38	48
Net worth (c)	132	150	192	168

* On basis of proportionate consolidation of 50% holdings

Textbook management of Hudaco has prompted analysts to watch it closely — evidenced by a packed audience at a presentation of the annual results by CE Kevin Clarke recently. If Clarke meets his forecast of real earnings growth this year, Hudaco's credibility will be further advanced.

Clarke says Hudaco has reached a "critical mass" which should sustain its momentum in 1990. Last year, it acquired Norton Abrasives, merged from July in the 50/50 Abcor venture with M&R, and 66% of Angus Hawken, SA's largest maker of oil seals. These cost R30,7m cash and issue of 2m shares for R14,7m. The cost is being borne in 1989 and 1990, but some benefits should



Marlin rights offer aims to secure Marhold cash resources

MARLIN Corporation's rights offer of 10,8-million shares to raise R37,8m -- announced earlier this year -- is aimed mainly at ensuring a major portion of the cash resources of new pyramid Marhold will be invested in Marlin.

The offer will also afford Marlin shareholders an opportunity to take up additional shares in Marlin similar to those which selected in-

LIZ ROUSE

stitutions and investors acquired in Marhold at an effective price of 350c an ordinary share.

Thirdly, the offer will enable Marlin to expand its traditional business of quarrying, trading and processing granite and to pursue opportunities for acquisitions in these areas, says issuing house

Board of Executors.

Marhold, which will hold 60% of Marlin, has cash reserves and investments of R37,8m and will be underwriting the rights offer.

The terms of the rights offer are 30 new ordinary shares for every 100 ordinary shares and 15 new ordinary shares for every 100 convertible preference shares held in Marlin.

Seidle's fledgling Minaco heads for the JSE

BARNEY Seidle's fledgling Minaco Granite & Marble Limited is to be listed on the JSE *B10m 4/4/90*

Its prospectus was published today. Seidle has been in the natural stone industry since 1956 when Murray & Roberts Investments purchased granite quarries in Brits and other stone operations in SA and Zimbabwe.

Minaco is involved in the mining, beneficiation and marketing of granite from known reserves near Mooketsi in northern Transvaal, Parys in the Free State, and travertine from reserves

BRENT MELVILLE

near Port St Johns in Transkei *(193)*

In terms of the prospectus Minaco, incorporating Seidle's Marble Lime beneficiating operation as the major contributor, will come to the JSE on an offer of 189 200 linked units, each comprising six ordinary shares of 1c each issued at 175c a share.

On 28,5-million shares in issue for the current year, earnings are forecast at 12,1c a share, with a dividend of 8,1c

declared. For 1991, directors estimate earnings at 17,1c with a dividend maintained at 8,1c *(193)*

In addition, 8-million convertible preference shares, most of which reside with African Exploration Company (Afex), are convertible or redeemable for 215c each at the option of the holder on 30 June 1993.

Afex entered into a nine-year contract from July 3 1989 agreeing to manage the affairs of Minaco and subsidiaries and to provide technical expertise and capital project management.

(Faint, illegible text, likely bleed-through from the reverse side of the page)

Dutton gets default judgment set aside

FORMER Interboard chairman Ed Dutton yesterday obtained a Supreme Court order setting aside a default judgment for R61 000 granted against his company E Dutton Holdings (Pty) Ltd in December. (193)

The default judgment was obtained against E Dutton Holdings by National Airways Corporation (Pty) Ltd for chartered flights from February to July 1989. BDM 4/4/90

In an affidavit in support of his application to have the judgment set aside, Dutton said summons of the original application was served on a domestic servant at his home while he was overseas in October. He said he was unaware this had taken place.

"I am the only employee (of E Dutton Holdings) and I was the only person who could have dealt effectively with the summons," he said.

Dutton said he was arrested for alleged forex offences on December 28 last year and given bail on February 23.

He said while in jail he heard that

SUSAN RUSSELL

National Airways had tried to execute a warrant of execution against his company.

Dutton said his company's failure to enter an appearance to defend the action was not due to any wilful default on its part, but due to circumstances outside its control.

He said his company had a bona fide defence to the claim.

It denied it was obliged to pay for any services rendered by National Airways, had never contracted for such services and had never made use of such services.

Dutton said it was Interboard Ltd which had requested and made use of National Airways' services.

"At the time when the flights were requested I made it very clear to the employees (of National Airways) that I was contracting on behalf of Interboard Ltd," he said.

Final sequestration of Agliotti estate

THE estate of Hyde Park businessman Norbert Glenn Agliotti, whose debts total approximately R2m, was finally sequestrated in the Rand Supreme Court yesterday. BDM 4/4/90

His half-brother Sydney Mason Baker brought the application for sequestration.

In an affidavit Baker said he was owed R970 000 by his half-brother.

SUSAN RUSSELL

Baker said Agliotti's debts also included R400 000 owed to First National Bank. Agliotti's liabilities exceeded his assets by about R1 350 000, Baker said.

The final sequestration order was granted by Mr Justice Flemming. (S)

Cement industry 'on par with best'

B/D 91 5/4/90 193

THE SA cement industry is one of the most successful in the world, outgoing Portland Cement Institute (PCI) executive director Dean Norton said in Johannesburg yesterday.

Norton was speaking at a lunch to mark his retirement at the end of April. He will be succeeded by Graham Grieve.

"The SA cement industry has shown the greatest expansion rate over the past 21 years in comparison with other major growth countries such as Australia, Argentina, West Germany and Switzerland," Norton said.

"There is no area in the usage of cement in the world where we are not in the forefront or ahead."

Norton said the local cement industry had been so successful because of the consistent quality of SA cement and because the price was competitive with alternatives such as bitumen for roads, clay for bricks, or steel.

Cement was readily available and although the material itself was not

CHARLOTTE MATHEWS

"magic" it was backed by technology and engineering.

The only area in the cement industry where SA had fallen behind the rest of the world was in the transfer of technology, Norton said.

"SA has to build 23 houses an hour to keep up with demand, which is still better than 900 houses an hour in India."

He said the majority of houses in SA had been built with self-help methods.

"The greatest contribution we can make as a major industry in SA lies in the transfer of skills and technology."

According to a statement by PCI, in his 21 years as executive director Norton was responsible for the introduction of the PCI Urban and Rural Development programme.

The programme provides teams of instructors in SA and the independent states to introduce black entrepreneurs or the self-help housing market to the manufacture of concrete products.

Stone cartel goes, but cement, lime ones stay

THE stone industry cartel has been disbanded, but in spite of continuing resistance to cartels in the construction industry, the cement and lime cartels will remain in operation.

Competition Board chairman Pierre Brookes said although legal cartels like the cement cartel were not an ideal situation, the disbanding of the cement cartel would create "spatial monopolies" because of great distances between producers coupled with high transport costs.

Unlike the stone industry, the capital expenditure needed to start a green-field cement operation was very high, thus limiting potential competitiveness of newcomers to the industry.

A factor which led to the disbanding of the stone cartel was that there were a number of independent stone producers

EDWARD WEST

and there were newcomers to the stone industry when demand was high. Brookes said some stone businesses opened and closed almost on a seasonal basis.

The Stone Association — using centralised computer systems — was the cartel's marketing arm, said Brookes.

Its members included Ready Mix Materials, 60% held by Blue Circle and 40% by Murray & Roberts, Anglo Alpha subsidiary Hippo Quarries and W G Wearne, newspaper reports said.

Brookes said the two remaining known cartels in the building industry, the cement and lime cartels, would continue to operate under exemption and would be monitored by the board on an annual basis

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He said the stone cartel was dismantled in December after being given a year's exemption by the board so it could split up its activities among its members

The main consumers of lime are the mining and manufacturing industry sectors, while cement and crushed stone are used in the building and civil engineering industry sectors.

Erosion

Anglo Alpha chairman Peter Byland said in the company's 1989 annual report the cartel's disbanding was not expected to result in any market instability or price erosion.

Building Industries Federation of SA economist Charles Martin forecast an 18% building material price increase during 1990

He said prices were still increasing above inflation targets which were a reflection of the non-competitive nature of the industry

With falling building material demand due to overall declining economic trends, one expected building material price increases to be less, he said.

Medium-Term Forecasting Associates director Johan Snyman said oligopolies between some building material manufacturers could be traced back to price controls imposed on manufacturers after the Korean War.

The price control system, which allowed for a 15% return on assets, was disbanded between 1982 and 1983, he said

The abolition of price controls had led to many mergers and takeovers, Snyman said.

6/10/91 514190

GFC factory
to cost R10m
to 10/19/90

EDWARD WEST

CEMENTATION Company subsidiary GFC Mining has invested R10m in a dimension stone factory in Newcastle — the first of its kind in SA — and is assessing different areas with a view to quarrying its own stone

GFC Mining divisional director Ron Simons said in a statement the investment involved buying 3,25 ha in Newcastle, buildings, a railway siding, services and granite cutting and polishing machinery (193)

The machinery, being imported from Italy, was expected to arrive in SA by September. The factory was expected to be fully operational by 1991.

The new factory would be supplied with stone from established quarrying operations in the area. Yesterday Simons said black granite from the Belfast area was among the best in the world.

Granite was, to a large extent, replacing marble in tile manufacture, he said.

DIAGONAL STREET

New dawn for Aurora

S/T was 15/4/90. (193)

A DEAL has been struck at 33c a share between Basil Read and Kudu Granite whereby Kudu has bought control of Aurora Granite

Trade in Aurora was suspended at 45c pending negotiations for a change of control. The fledgling Belfast black-granite producer was listed on the JSE last June after a placing of shares at 200c. The price hit 265c before declining.

This capitalised the company at more than R50-million. Manager Basil Read held 24%, with an option to buy another 6 800 001 shares from original partner Charter and other associates.

INDEPENDENT

Another partner in the venture was Aurora Exploration & Development, an independent exploration company in which Aurora Granite chairman Ted Grobicki has an interest.

Mr Grobicki resigned as managing director of Randex and bought into the existing Aurora Exploration in late 1988.

Aurora Granite was formed from the merger of the dimension stone interests of Aurora Exploration with

the interests and expertise of Basil Read and Charter.

Although it had limited granite quarrying experience, Basil Read's main strength lay mainly in earthworks, construction and plant handling. When Aurora was formed, all parties were satisfied that there was enough experience to succeed.

Yet this week's deal values Aurora at below R8,6-million. It has devalued by more than 80% in under a year.

BEATING

Basil Read will accept one Kudu deferred ordinary share for every seven Aurora. The deferred shares will not rank for dividends until April 1991.

Kudu is obliged to make an offer to the Aurora minority, which will be for ordinary, not deferred, shares in Kudu in the same ratio.

Kudu managing director Pierre du Toit says the offer terms were arrived at after consideration of several points. The parties believed that Kudu was undervalued, and that the Aurora shareholders had taken enough of a beating.

Mr Du Toit is happy that Kudu is getting a good buy, and pays tribute to Basil Read for the infrastructure it put in at the quarry site.

Kudu was listed in 1987

after issuing shares at 200c. It touched 445c in June 1989, just as Aurora listed, but has since retreated to 165c.

Its principal product is grey granite from the Rustenburg area. There has been something of a price war among the producers in that area. All the granite-share prices have weakened as a result.

Already active in Belfast, Kudu now has access to a proven and developed black-granite operation producing 165 cubic metres a month. Control of Aurora also brings other granite rights to supplement the colour range.

Basil Read said in its interim report this year that it would not put any more money into Aurora.

DEVELOPED

Aurora's balance sheet is clean, and it adopts a conservative accounting policy whereby it does not write capital development costs below the line, but incurs them as operating expenses. This accounts partly for the size of the operating losses to date.

The low share price precludes a rights offer, and Aurora needs a senior partner if it is to grow, hence the deal with Kudu.

The suspension on trade in Aurora was lifted this week with the shares bid at 23c, offered at 40c.

Good returns on Anglo Alpha over next two years ¹⁹³analyst

^{31/1/90 19/4/90}
THE Anglo Alpha share price is expected to offer a total return of 24% a year for the next two years

This means it can be bought at up to 2470c a share, Frankel, Kruger, Vinderine analyst Michael Haworth says in a March report

The share is trading at about 2350c

Haworth says the projection assumes a 20% re-rating of the share, dividend growth of 14% in 1990 and 13% in 1991, and that the dividend yield of the industrial index stays constant.

He says that despite poor growth in the cement market in 1989, Anglo Alpha generated current cost earnings growth of 8% and dividend growth of 21% which highlights operational diversity and strong cash flows.

PIERRE DU PREEZ

In the year to end-December, the building materials manufacturer produced earnings of 234,3c (216,8c) a share and a dividend of 115c (95c) a share was declared

Earnings a share are forecast at 241,2c in 1990 and 288c in 1991, while dividends are forecast at 131c and 148c

Dividend

"Dividend growth of 14% in 1990 and 13% in 1991 is forecast due to poor fundamentals in the building and civil engineering markets in 1990," Haworth says

"An economic upturn combined with lower interest rates will benefit earnings in 1991 and largely offset the negative effect of

the rise in group tax rate

"The group has a low debt-to-equity ratio and it is therefore forecast that the strong cash flow is likely to increase the possibility of forward integration through acquisition"

Management is instituting productivity improvements at the cement factories and stone aggregate plants, acquisitions of stone interests and forward integration in the industrial mineral sector in plastics

Haworth says these strategies should boost sale volume growth and improve margins this year in what he expects will be a very low growth market.

"These strategies should boost the growth in sales volumes and improve margins in what is expected to be a very low growth market in 1990," Haworth says

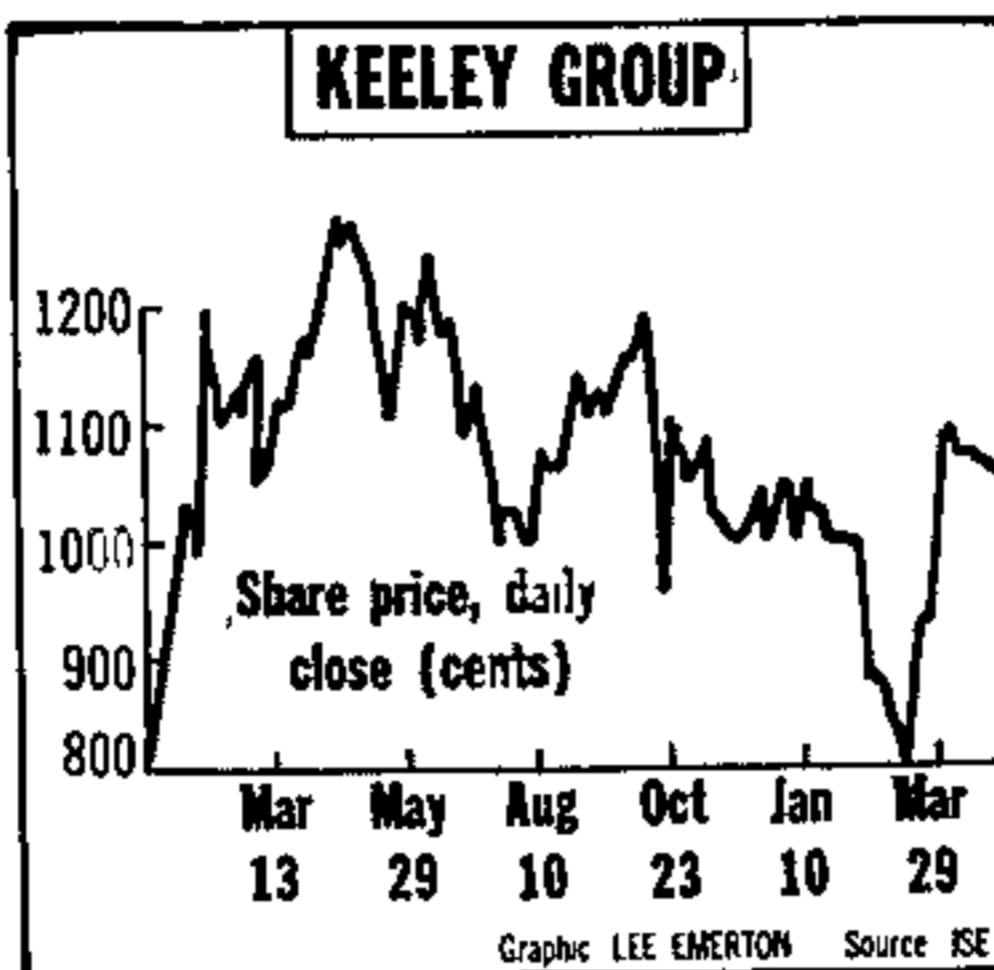
Keeley shares get 'good buy' rating

EDWARD WEST

KEELEY'S results for the year to February 1990 should be good, a Davis Borkum Hare (DBH) analysis of the group said, because of the world trend towards the use of granite instead of marble and the otherwise firm demand for granite

It recommended that Keeley's share be bought or held. Keeley's major business activity was granite quarrying and processing, stevedoring and warehousing.

Keeley's earnings grew 116,2% for the year to February 1989 and showed a further 43% growth in the six months to August 1989, DBH said. Though there was an easing of



earnings growth, results were achieved through a combination of increased quarry activity, intensified market penetration and a weaker ex-

change rate, the report said

From operating 50 mines in October 1987, the group now operated 80 mines. Demand for most products remained buoyant and Keeley was expanding in areas of exclusivity, particularly coloured stone, and the development of a new tile factory in Ciskei would raise the profit margin, the analysis said

Keeley sold 10% of its product locally, which accounted for around 70% of the SA market. The group exported to 25 countries and this comprised more than 50% of total SA exports in this sector, the report said

Davis Borkum Hare forecasts Keeley will achieve earnings of 122c (91,9) a share to February 1990

Deccon laminate plant capacity doubles

RVD on 19/4/90

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ACHMED KARIEM

LAMINATE Industries, manufacturers of decorative surfacing materials for the furniture and construction industries, has embarked on an R8,5m expansion programme in doubling the capacity of its Deccon Continuous Laminate plant

The company's range of products includes the high pressure decorative laminate, Formica, Melawood and melamine faced board

Marketing director Andrew Gilbert said yesterday the continuous pressing process

was suited to vertical and light horizontal applications, ranging from light desk tops to partitioning, window sills and wall panelling

The new plant would double capacity to 3,5-million square metres a year

"Excess capacity will allow the company to concentrate to a greater extent on new product development," Gilbert said

Sale of Aurora Granite to Kudu cleared by JSE

Blom
2014/190 MERVYN HARRIS

193

THE JSE has cleared the sale of Aurora Granite to Kudu Granite after an investigation into the circumstances surrounding the deal.

In a statement issued yesterday, JSE president Tony Norton said after reviewing the circumstances in which control of Aurora passed at a fraction of the original listing price, the JSE had satisfied itself that all relevant parties had acted correctly and in good faith.

"The unforeseen decline in the fortunes of Aurora has been solely due to commercial factors beyond the control of the company," he said.

The investigation came after Kudu acquired control of Aurora from controlling shareholder, engineering group Basil Read, for an effective 33c a share in the form of one Kudu share for seven Aurora shares, with no dividend payable until September 1991.

Aurora was listed on the JSE in June last year in a private placing at 200c a share. The prospectus forecast net profit of R7m and a 9c dividend for the year to June 1990. But the low granite recoverability resulted in Aurora posting a R2,48m loss in the six months to December.

Basil Read financial director Dave Wassung said yesterday. "Some people have queried the price at which control of Aurora passed to Kudu. But we believe the price reflects the future profitability of the existing operations.

"The price of 33c is equal to the net asset value of the company, and, furthermore, additional finance was required as stated in the quarterly report published in February," he said.

Italtile still sticks to its growth record

BRENT MELVILLE

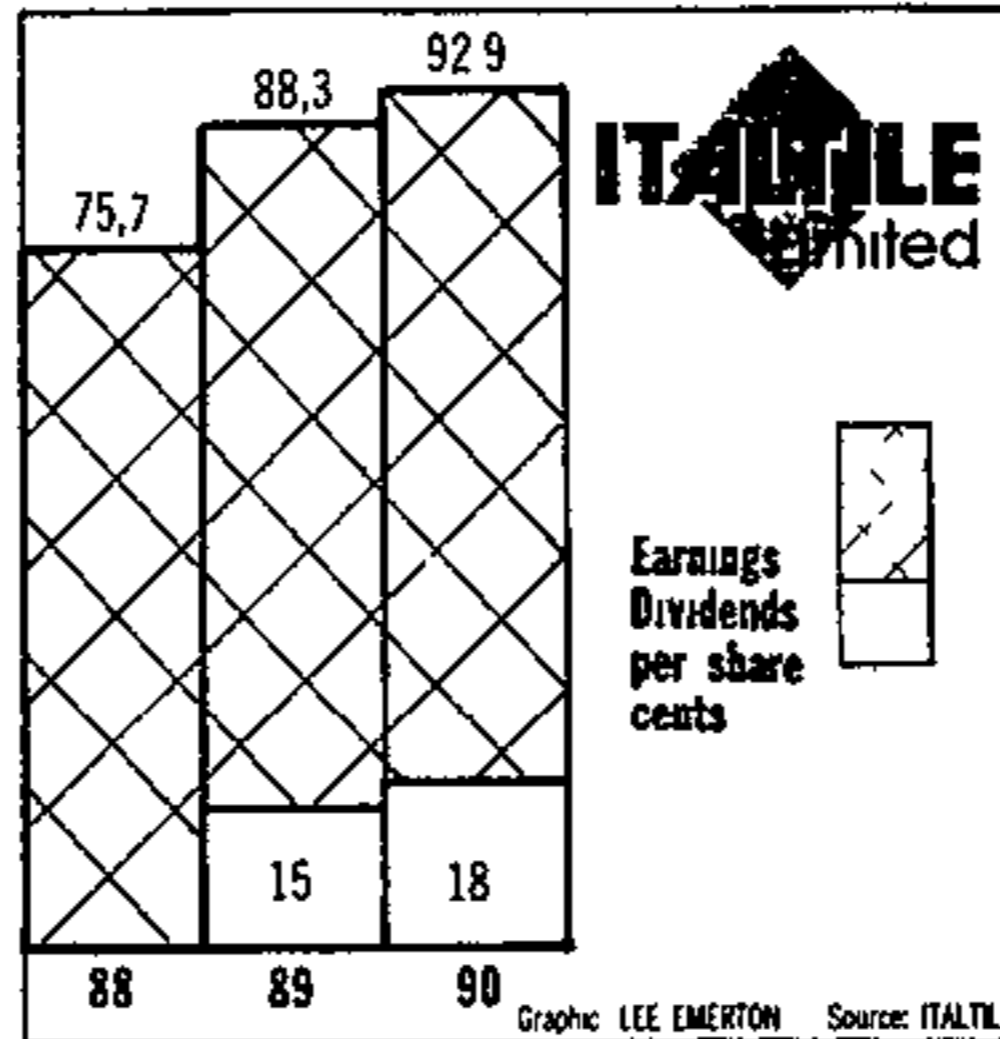
CERAMIC tile and sanitaryware group Italtile has continued building on its strong growth performance since its listing two years ago — despite what directors describe as deteriorating trading conditions.

Improved productivity in the group's manufacturing division bolstered production by 10% over the comparable period in 1989, and turnover grew 26,2% (no figures were given) over the same period.

Operating profits climbed by a commensurate amount to R23m (R18,4m) with interest from investments adding R2,7m (R2,1m) After accounting for a tax charge of R9,7m (R5,7m) — after utilising all assessed losses — attributable earnings were 8,5% up at R15,8m (R14,6m)

Earnings were at 92,9c (88,3c) a share and a dividend of 18c (15c) was declared, covered 5,2 (5,9) times However there are signs of sickness on the balance sheet, where the current ratio fell to 1,2 1 (2,0 1) and cash in the bank dipped to R2,8m (R5,3m)

Directors say there are plans to expand the group further into manufacturing with the construction of a new factory in Lawley for industrial and commercial extruded punched tiles at its National Ceramic Industries operation



Earnings
Dividends
per share
cents

Grey hairs (193)

Kudu Granite is setting itself up to be an important player in the granite market, but getting there could be a slog. On May 1, the company is due to acquire 50,01% of Aurora Granite from Basil Reed at 33c per share in a R4,3m deal involving 6,2m shares and 6,8m options expected to raise Kudu's net worth to 148c from 139c. But before that happens there is the JSE's probe into the deal and demands that the same offer be extended to Aurora's minorities.

Basil Reed initially paid 62c for its Aurora shares (last May's private placing price was 200c) and, as a result, will suffer a net worth drop to 400c from 427c

Strategically, the deal is expected to benefit Kudu but in the short term the group will

91

have to cope with its new subsidiary's disappointing performance. At the interim stage, Aurora's rock conditions were poorer than expected, recovery grades were well below expectations, tonnages were lagging predictions and expenditure was well ahead of estimates as a result of a change to the original mining plan.

Aurora's pre-listing statement forecast net sales revenue of R14,7m for this financial year and a pre-tax profit of R7m. The actual figures for the six months to December 1989 were a turnover of R1,5m and a loss of R2,5m. Clearly, the mine has no hope of coming anywhere near its profit target for the year as a whole.

The deal makes a lot of sense though Kudu's strength lies in its production of grey granite in the Marikana area — its output of black granite is far less important. Kudu produces about 31 500 m³ of grey a year and 1 200 m³ of black. Aurora, on the other hand, produces only black granite, currently at an annual rate of 2 000 m³, though it is scheduled to have a capacity of 8 500 m³. This deal will, therefore, significantly increase Kudu's black production.

Over half of SA's granite production is grey and the sector is over-supplied. Everyone is discounting with Kudu and Keeley, its principal competitor, at each other's throats. Discounting is so intense that Keeley (which produces about 58 500 m³ of grey and 10 500 m³ of black a year) has told its customers that if they want black or other colours they also have to take grey. As most of Keeley's customers are large manufacturers, they generally want a range of material anyway. With Aurora under its belt, Kudu could follow suit.

By contrast to the greys, the market for black remains strong at present. The granite market as a whole is at a low ebb as it undergoes a shift. The producers were initially able to boost turnover by raising prices, but when the limits of that were reached they started chasing volumes. Now, even that has reached its limit and the larger producers are planning to add value by beneficiating their product. In other words, they are starting to cut granite tiles in direct competition with customers abroad. As Keith Bright of Franke, Kruger says "The producers may have been prodded into this as a result of the Margo Commission Tax incentives now favour the export of a beneficiated product."

Marlin Granite, through its subsidiaries Marble Pentelic (a granite and marble processor for building contracts) and Marble Lime, is in the forefront of beneficiation while Keeley has set up a small tile factory in the Ciskei. The other producers have yet to enter the processing field.

Keeley is currently rated above the other listed granite producers with a dividend yield of 6,5% against Marlin's 8,1% and Kudu's 8,8% on the back of its exposure to the coloured granite markets and its initial step into processing.

The sector's outlook depends heavily on the rand-dollar exchange rate and the extent

92

to which the producers can increase beneficiation. Neither is likely to generate significant profit growth in the immediate future.
Gillian Findlay

20/4/90

(193)

(193)

F11

Portland Holdings shows 20% increase in profit

PORTLAND Holdings, the Zimbabwean cement group, posted a 20% rise in profit on a 66,4% jump in turnover in the six months to February 1990

Taxed profit amounted to Z\$1,4m (Z\$1,05m) on a turnover of slightly more than Z\$44m (Z\$26,4m) The interim dividend is unchanged at 2,25c paid out of earnings of 7,1c a share (5,9c)

Portland directors reported that cement sales of 311 542 tons in the

LIZ ROUSE

past six months were 40% above the 1989 figure of 220 827 tons The benefits which should have accrued from these sales were eroded by the massive increases to input costs and the price adjustment awarded in September 1989 was insufficient to cope with the current trend

Increases in rail rates, coal and paper sacks, coupled with the intermittent supply of essential raw mate-

rials, were the main contributing factors to a 4% reduction in profits experienced by Unicem for the six months Considering the sharp rise in turnover, this was an unacceptable result, the directors said

Demand for cement remains at a high level and Portland will try to maintain the current sales level The ex-works price of cement, however, is controlled by government, and price increases have lagged way behind input costs

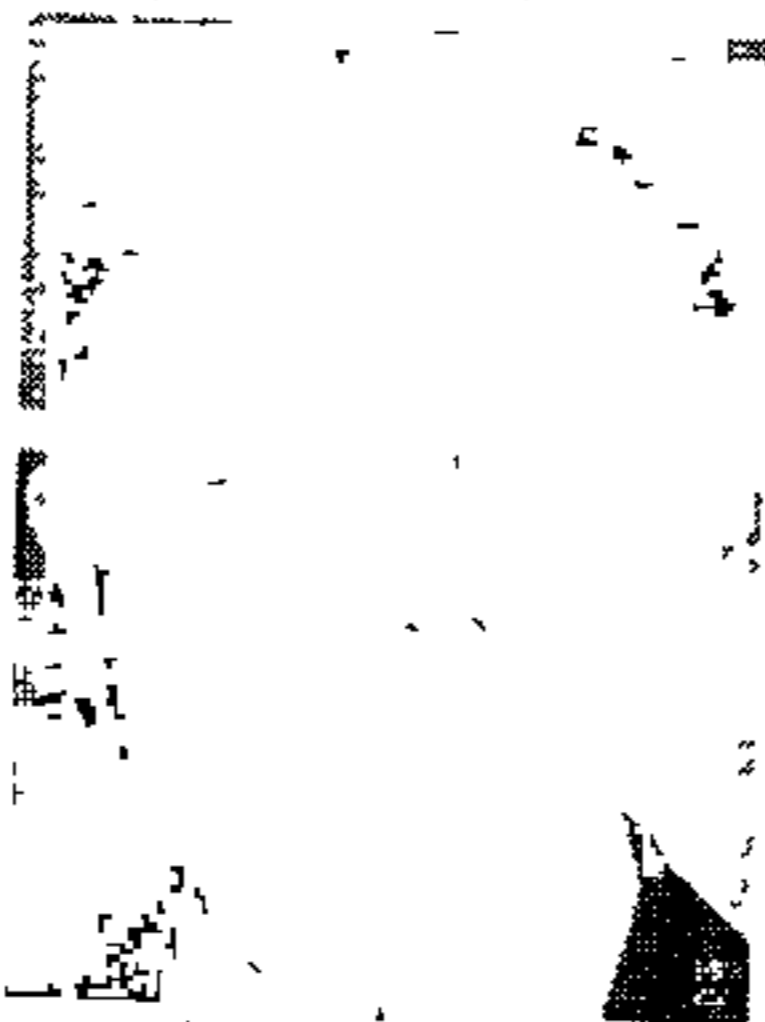
Italtile ^{CRK}
^{11/15}
increases ^{23/4/90}
profits ⁽¹⁹³⁾
by 25%

ITALTILE lifted operating profit by 25% to R23m in the year to February 28, on a 26,2% rise in turnover

On a fully taxed basis, earnings rose by 27,8% to 93,8c a share

The dividend is 18c a year

The directors say that in spite of deteriorating trading conditions they expect to maintain earnings in the coming financial year



Michael Myers has been appointed a divisional board member of Cater Plus (Cape) — Bakery Supplies.

By JULIE WALKER



Italtile paves the way for exports

S/Tues 22/4/90

193

ITALTILE, manufacturer of tiles and bathroom ware, started 21 years ago as a tiny importer of ceramic tiles from Italy

"A coincidence," says executive chairman Gianni Ravazzotti, who also hails from the big boot. There was no intercontinental family connection to the fledgling business.

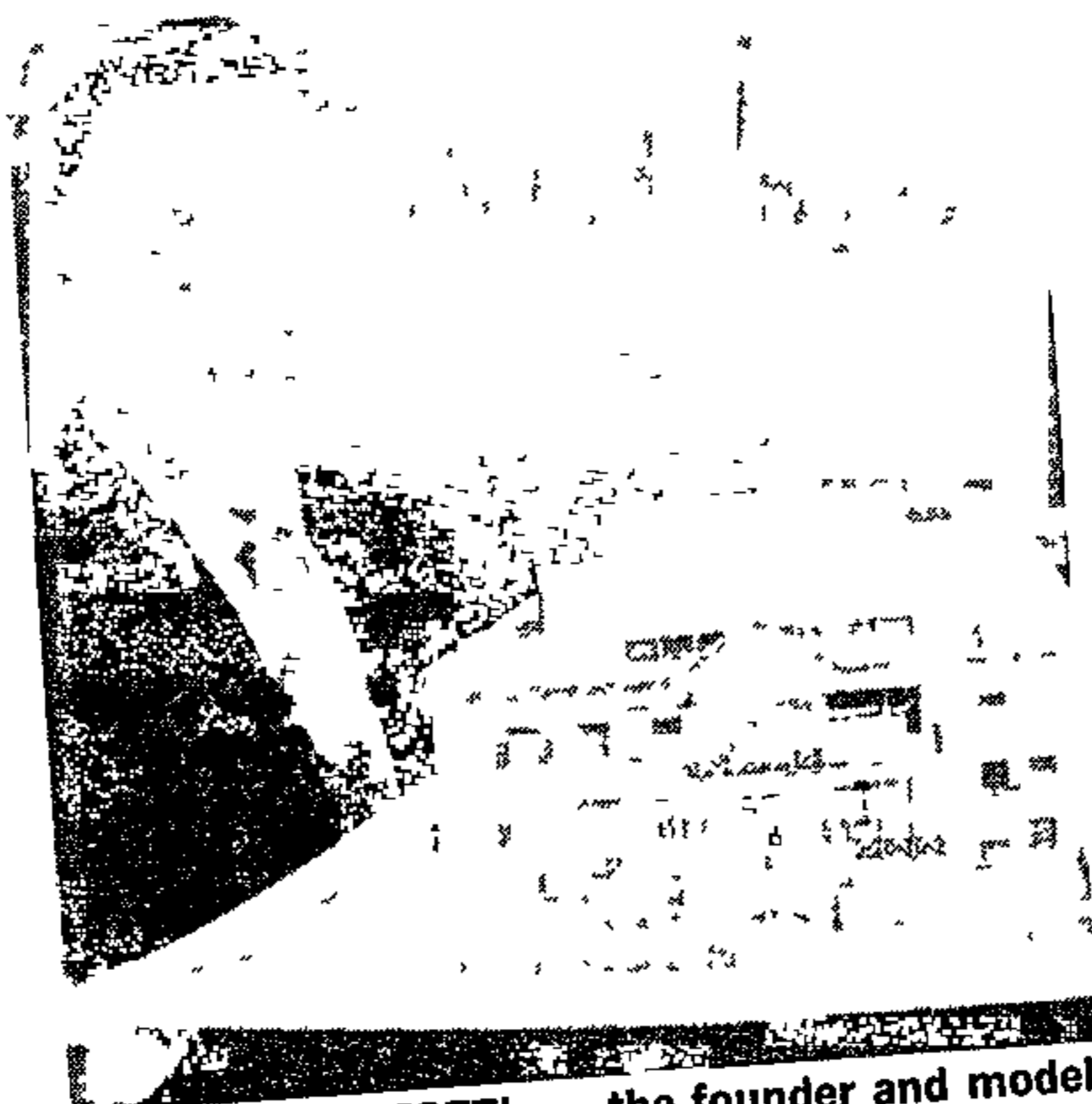
Italtile grew from Johannesburg to branches in Cape Town, then Durban and Pretoria. After a few years of importing, Mr Ravazzotti realised that SA manufacture was the way to go.

BLANKS

In 1976 he and a partner bought a stake in Samcatile, in which the Bophuthatswana National Development Corporation had a share. The other shareholders were bought out in 1980.

Manufacture was expanded from 10 000 or 11 000 square metres of tiles a month to 140 000. The tiles were not made initially — blanks were imported and glazed at Samca.

Full production from clay preparation through pressing, glazing and firing is now carried out at the Samcatile



GIANNI RAVAZZOTTI... the founder and model of Italtile's showpiece Randburg head office

factory at Babelegi near Pretoria.

Samca was the first factory to introduce the cost-saving once-fired technique of tile-making in SA.

CHAIN

Capacity will be doubled when a second factory is completed at a cost of R25-

million. High-quality wall tiles will be the main product and will compete favourably with European and South American imports.

The Babelegi plants will employ 500 at full capacity. A second expansion phase is likely in 1993.

Mr Ravazzotti says that as long ago as 1983 Italtile saw the need to move into the lower end of the market. It

established CTM (Ceramic Tile & Sanitaryware Market), an 11-strong chain of low-cost warehouses selling Italtile's products to the trade and public.

Last month Italtile bought out the minority shareholders of the last three CTM outlets not wholly owned. Two more are planned for this year. The swing to do-it-yourself should help CTM's growth.

Italtile bought Betta Sanitaryware after the manufacturer had been through provisional liquidation in 1986. It turned out to be a good investment, but carried a risk at the time.

Strong management improved the quality and the product range. Productivity was boosted from 100 000 pieces a year to 232 000 pieces in 1989 from the same equipment.

BORROWINGS

Betta's share of the fashionable bathroomware market has increased to 40%. Mr Ravazzotti says that there is an oversupply of sanitaryware in SA, but Betta has room to grow at the lower end of the market.

The last arm is National Ceramic Industries, trading as Gail Ceramics. It makes extruded — sort of back-to-

back split — tiles for floor and wall to SABS standards.

Italtile is averse to debt, although some borrowings will have been incurred through IDC loans to put up plant at Babelegi.

I asked Mr Ravazzotti why Italtile was listed — it came to the JSE through the Jabula cash shell in 1988 without raising a cent. He explained that over the years shares had been issued to key management and in payment for acquisitions.

WHEEL

When shareholders came to retire, it was difficult for them to sell out at a price agreeable to both parties. A market rating on the stock exchange eliminates all those problems. Shares could be made available to all the staff.

Mr Ravazzotti says Italtile is undertaking an export drive. It has sent only a few boxes so far, but has the capacity to meet orders.

So the wheel turns full circle. Italtile started as an importer of tiles, now it has become an exporter.

The shares at 450c are 4 1/2 times earnings of 93c, announced on Friday. The dividend was raised by 20% to 18c.

I like the company and prospects.

Interboard announces developments in probe

B/Pay 24/4/90

INTERBOARD announced yesterday that significant developments had occurred in investigations into alleged exchange control contraventions surrounding the company.

"These developments will enable the SA police and the SA Reserve Bank to focus their investigations on the activities of outside parties, with the assistance of the company," the announcement said.

Interboard has been surrounded by controversy since its founder and ex-MD Ed Dutton resigned as a director.

Dutton was later arrested in connection with

B/Pay 24/4/70

NEIL YORKE SMITH (193) an alleged forex fraud involving R130m He was released on bail of R0,5m.

In yesterday's announcement the company said it was now in a position to enter legal action locally and abroad for the recovery of assets of which it was allegedly defrauded.

In the same announcement the directors said plans were under way to restructure the group and ways to reduce interest-bearing debt were being discussed.

Also, "a court of law in the Netherlands has

ordered the removal from office of the MD of Interboard Holdings BV, the company's majority shareholder."

The management change had had a positive effect on Interboard's activities, the announcement said.

Shareholders were advised the company is to apply to the JSE for approval of a share incentive scheme to encourage the long-term participation of senior employees.

The above developments could have an impact on the company's share price, the announcement said.

Minaco to be listed on the JSE today

MINACO Granite and Marble, with assets of almost R100m, is to be listed on the mining — metals and minerals sector of the JSE today under the abbreviated name Mingran

This follows the successful placement of 189 200 linked units, each of which consisted of six ordinary shares issued at 175c a share, plus five 17,5% unsecured convertible redeemable debentures at 215c each, at a subscription price of R21,25 a unit.

Edward West
B Day 25/4/90 (193)

The JSE granted the listing of 28 482 479 ordinary shares and 946 000 convertible redeemable debentures, the company and sponsoring brokers Frankel Kruger and Vinderine said in a statement to Sapa.

From April 25 1989 to end-December 1990, earnings of 12,1c a share and an 8c dividend in real terms were expected, equal to an earnings yield

of 10,3% and a dividend yield of 6,9% on the issue price on an annualised basis.

In the year to December 1991, earnings a share were forecast to rise to 47,9c and the dividend to 32c a share, giving an earnings yield of 27,3% and a dividend yield of 18,2% on the issue price in real terms

For 1992, real earnings a share of 47,9c and a dividend of 31,9c a share were targeted

Star 27/4/90

Tableware market is worth R60-m

The total value of the ceramic tableware consumer market in South Africa is estimated at about R60 million

And holding the largest slice of the ceramic tableware cake is Continental China Holdings (CCH)

The company was established in South Africa in 1959 and at the time it relied on on expertise and know-how from its German part owner Rosenthal Porzellan

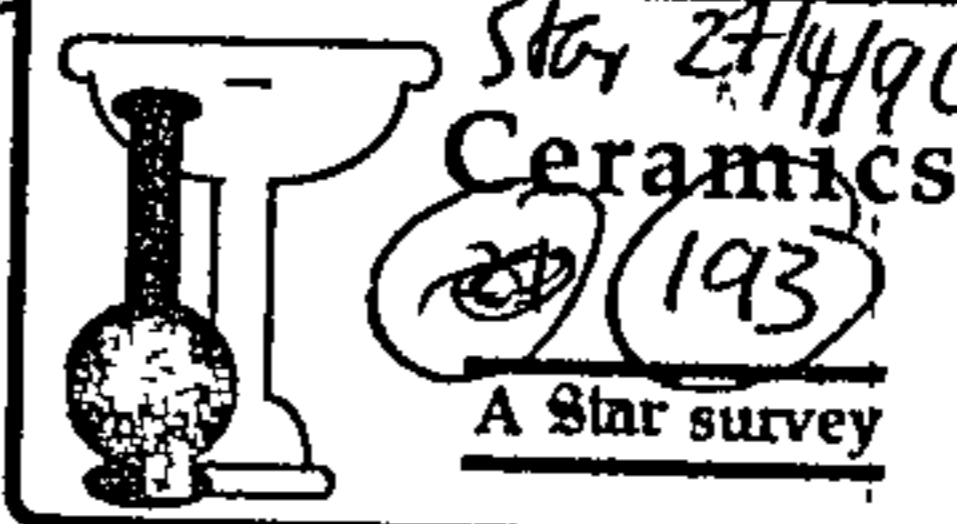
Today the company is wholly South African owned, though the links between the two companies are still strong and enable CCH to keep up with the latest overseas developments

The group has three plants at Rosslyn, Blackheath and Atlantis. It employs 1 600 people and produces about two million items each month

CCH manufactures three brands of tableware for the consumer market as well as three purpose-designed ranges for the catering industry. The group produces a large range of coffee mugs, and a giftware range

Group managing director Mr Bill Paverd says that as the group is the largest local tableware supplier in a market and must meet the needs of a number of different population groups, its product range is extremely wide

"Our design and modelling studios maintain constant product development programmes and the chief designers travel abroad at regular intervals to keep abreast of international design and colour trends," says Mr Paverd



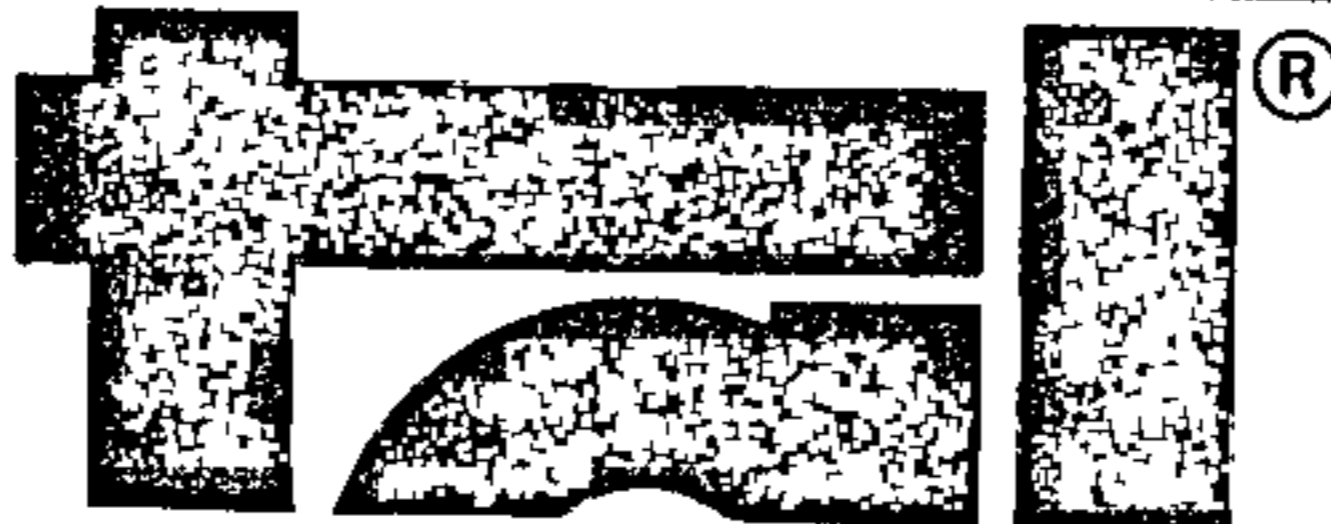
Brick-making is now a high-tech process

Brick-making has become a hi-tech art requiring enormous capital investment but, producing finished items in a fraction of the time needed in the past.

Clay is delivered to the factory from the quarry and reduced to granules about 1,5 to 2 mm in diameter. Water is added and the clay is pushed through an extruder. The semi-solid clay comes out in a long column which is sliced into brick-sized blocks called green brick.

In the past the green bricks would be dried in the sun for about three weeks and then fired in a clamp kiln. The clamp kiln is created by piling up a mountain of dried bricks and sealing the mountain using old bricks. The "mountain" is then set alight.

The firing takes between a week and two months depending on the size of the brick mountain. Using new technology the whole process can be reduced to less than four days.



Cement industry set for tumble

The cement industry, which has only recently recovered to 1984 levels, looks set to take another tumble

Hit by the 1985/86 recession, demand fell, but it recovered to about 8 million tons during the period 1987-1989. Growth continued until December but since then demand has dropped.

Pretoria Portland Cement (PPC) financial director Mr Chris Wrogemann says the company is hoping that the faltering demand may be caused by adverse weather conditions. However, he says market conditions in the building and construction industry seem to indicate the fall is market related.

But, he says: "During 1988 we experienced a 15 percent increase in demand but the gross domestic fixed investment only increased by seven to eight percent. This indicates an unrecorded demand for our product, either there is an error in the figures or there was a large call on cement from the informal sector. The same degree of difference did not show up in 1989," says Mr Wro-

gemann.

Plant replacement costs in the industry are high. The smallest new practical plant — starting from scratch as opposed to expanding an existing facility — would have a capacity of about 600 000 t a year and would cost about R500 million at today's prices.

However, PPC is not concerned. Mr Wrogemann says the company is operating at about 70 percent of its existing capacity.

"There would have to be a sizeable increase in demand before we need more capacity. We believe the existing plant will be sufficient for some years to come," he says.

Apart from one year cement prices have held to below the official inflation rate for the past eight years.

Cement is priced according to the buyer's nearest railway station. The cement producers PPC, Anglo Alpha and Blue Circle form a cartel and cement is delivered from the plant nearest to the buyer.

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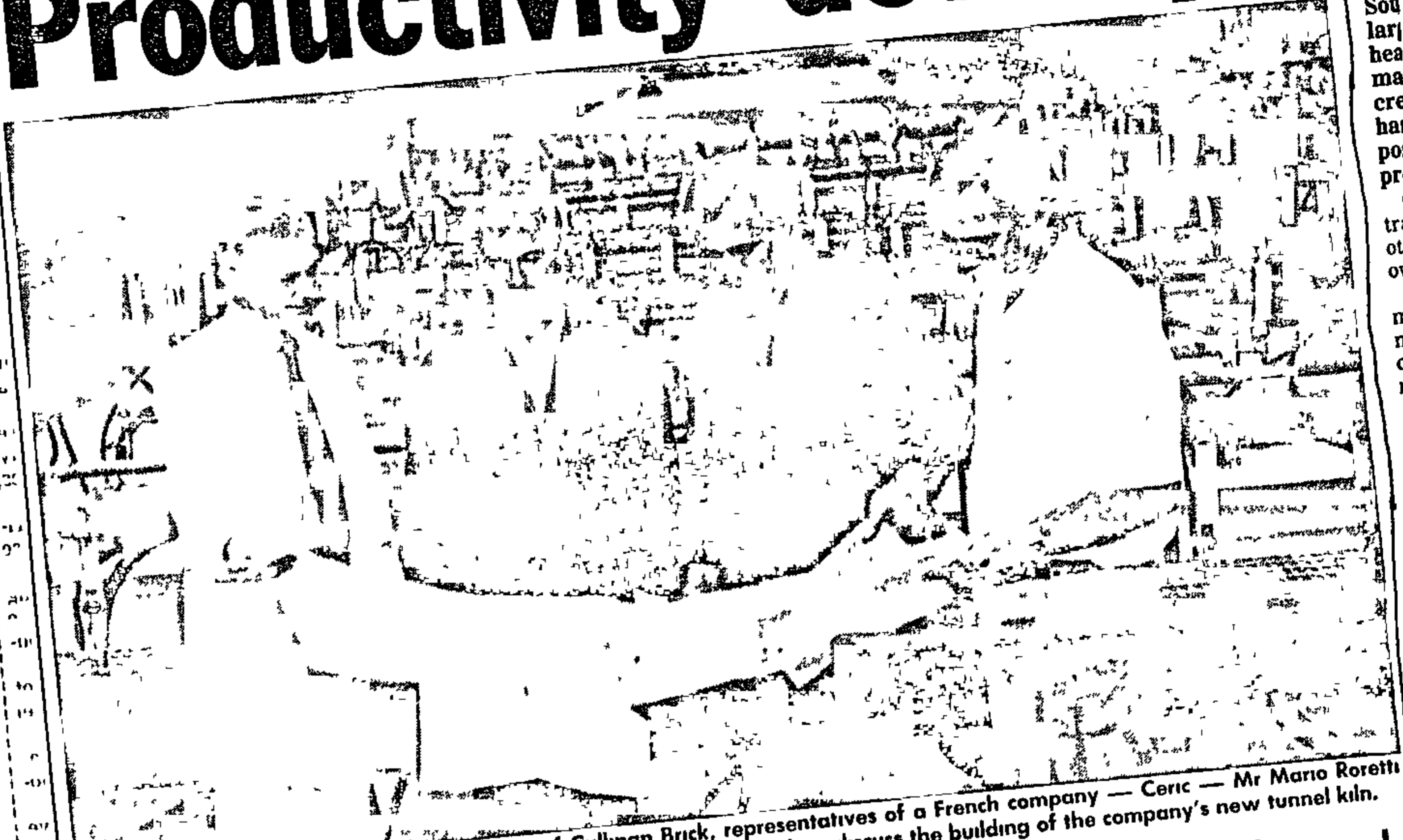


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OF
ART AND DESIGN
CERAMIC

DEPARTMENT

Productivity development



Mr Peter Sneddon (from left), chief executive of Cullinan Brick, representatives of a French company — Ceric — Mr Mario Roretti and Mr Angelo Rubli and Cullinan production manager Mr Kurt Mathes discuss the building of the company's new tunnel kiln.

R30-m brick-manufacturing plant for Midrand

Cullinan Brick is spending more than R30 million on a new hi-tech brick-manufacturing plant situated at Midrand

The new plant will come into operation this year and features a revolutionary steel-cased tunnel kiln which will form the core of the plant

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The facility will offer the company a number of significant benefits for its investment. The process will result in less wastage enabling better use of valuable clay reserves. The high degree of mechanisation and the low energy consumption required to operate the plant make it extremely economical

to run

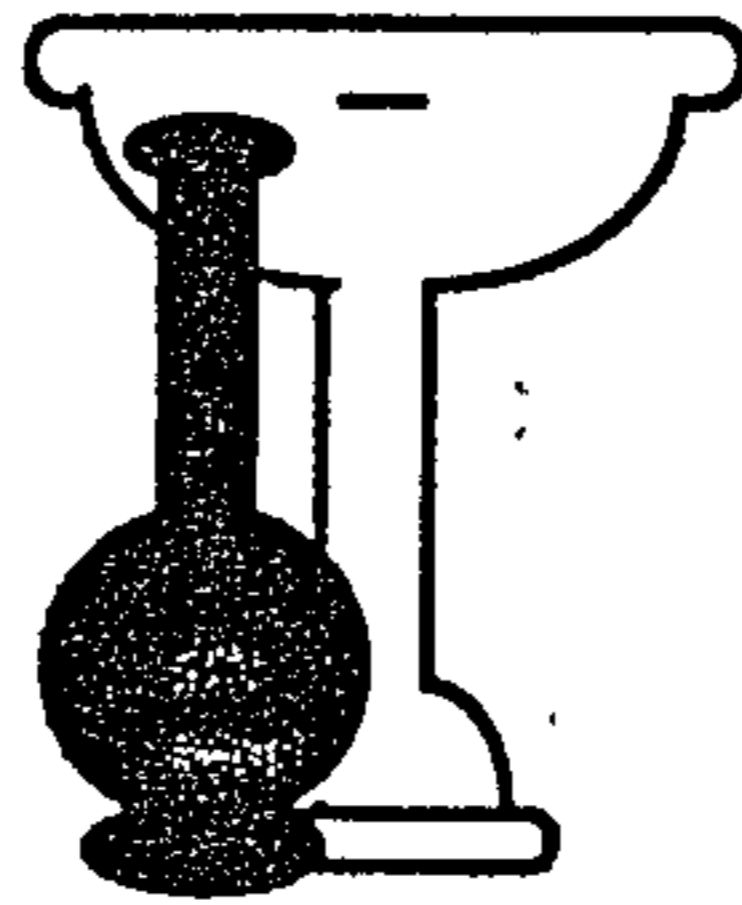
Company spokesman Mr Dan Retief says the plant will be able to make products of superior quality and consistency over an extended range, thus allowing available clay deposits to be fully utilised.

The plant will use clays found in the Midrand area.

Other divisions within the group will carry out the site excavation and reticulation work. Refractories from Cullinan Refractories will be used to line the kiln

The new plant has the capacity to produce about 60 million bricks a year

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Step 27/4/90
Ceramics

193
A Star survey

Diverse sectors call on ceramic services

The ceramics industry cannot be considered as a single consolidated industry but must be regarded as being made up of about 13 different industries.

Coming together under the ceramics banner are: abrasives, cements, clay bricks, glass, heavy clay, pottery, porcelain, porcelain enamels, refractories, sanitaryware, tableware, tiles and whiteware.

Much of the raw material is obtained in South Africa and the ceramic industry serves clients as diverse as the building sector, Eskom and housewives.

Those sectors of the industry supplying the building industry, such as cement and sanitaryware, have been hit by falling demand for that industry's products.

Others, such as refractories, are back on a path of steady growth after a fall in demand from the steel industry.

Sectors such as porcelain, in its electrical applications, has had to change products to fit new technologies.

Industries catering for the consumer markets have had to compete with strong overseas competition and adapt to changing fashions.

Skills are in short supply across the board and the industry believes that the low profile it has kept in the past has resulted in it failing to attract the graduates it needs.

Industry's ^{Star 27/1/90} problem is ¹⁹³ lack of skills ^(scribble)

The shortage of skills is a problem which seems to beset all industries in South Africa, and ceramics is no exception.

Cullinan Refractories chief executive Mr Ed Harbuz says there is a shortage of skills worldwide in the refractories industry

Mr Harbuz says: "The raw materials we use are dug from the earth and either modified or used in the raw state. We control the process which produces the end product and various industries use the products under a variety of conditions slowly destroying the product and returning it to the earth.

"Producing our products requires a complex range of skills and while there are BSc degrees in subjects such as physics and chemistry, there is none in refractories.

"This means we have to take a graduate with a basic degree in one of the sciences and train them in the range of different disciplines required to function in our industry

"It takes about three years for the graduates to build up the necessary pool of experience and become productive

"The refractories industry is a challenging career with lots of research and development involved

"This would suggest that there is little trouble attracting the right people to the industry. However, in the past the industry has kept a low profile and people have not known about the opportunities

"This will have to change as I estimate there is a need for hundreds of graduates. Joining the industry is not something they are likely to regret, most of the people stay with it throughout their lives"

Johnson Tiles managing director Mr Keith Dixon says there is a very small pool of skills available in South Africa

This survey was written and compiled by Charles Louis

"Skilled ceramic technicians are like hens' teeth. Even fitters and turners who are used to working with ceramics are rare

"We have picked up a number of the people we needed from the UK and we are always on the look out for people from overseas

"The company also has a training programme to upgrade the skills of our black staff

"This has proved successful and we now have a number of skilled people such as fitters who have been developed in-house," he says

Ferro Industrial Products group divisional manager Mr George Duncan says the shortage of qualified ceramic personnel has only really developed as a major problem in recent times

"In the past, glaze manufacturers were able to import skills from the UK or Europe. Recently it has become more difficult to recruit staff from the overseas market.

"However, the Pretoria Technikon has, for some time, been trying to bridge the gap by offering a three-year ceramics course," says Mr Duncan.

Continental China Holdings group managing director Mr Bill Paverd says one of the problems behind the shortage of necessary skills is the diversified nature of the industry

"It is made up of a number of small sectors each with different skills demands

"Consequently there is not a very large skilled and trained labour pool, both at operational and managerial levels," says Mr Paverd

Refractories

INTERBOARD F/M 27/4/90

Staying hopeful 193

Interboard shareholders will probably have to wait until June for the end-February results. The directors hope that legal actions in SA and abroad will by then have resulted in the return of large amounts said to have been defrauded.

Recovery of these should allow the bal-

FINANCIAL MAIL APRIL 27 1990

F/M 27/4/90

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ance sheet to look "respectable" after some massive write-offs, according to director Mike Clemitson, but the income statement is likely to remain in the red.

Barrie Jones, who was appointed MD by chairman David Olsen after former chairman Ed Dutton was ousted, has left. He was employed on a temporary basis, says Clemitson.

Interboard hopes the legal actions will be undefended. Clemitson says there are liquid assets available for attachment in the event of favourable judgments.

He believes Interboard's own investigations into the ultimate controlling shareholders of the group and its affairs have come "close to the heart of the matter." Another important factor has been the removal, by order of a Dutch court, of Joost Versluis as MD of Interboard BV of the Netherlands, which controls the SA company. New shares that he caused Interboard BV to issue to an unnamed holder, purportedly changing its control position, have been frozen.

The high cost of the actions will affect Interboard's income statement but Clemitson believes they will be justified. He believes Interboard will be in reasonable shape by June and profitable in the current year. Meanwhile, radical restructuring is still contemplated: some assets will be sold, though not necessarily the chipboard division.

Teigue Payne

Plate Glass seals big European deal

B10 am 4/5/90 (193)

LINDA ENSOR

PLATE Glass and Shatterprufe Industries (PGSI) has withdrawn from the UK building glass market, selling its UK operation and its Solaglas name to the world's second largest glass manufacturer, French group Saint-Gobain, for £100m

This gives Saint-Gobain a captive glass market in Britain with sales worth more than £170m, while PGSI becomes the dominant player in the European automotive glass fixing business by purchasing Saint-Gobain's automotive glass fixing networks in Germany and France for £16m

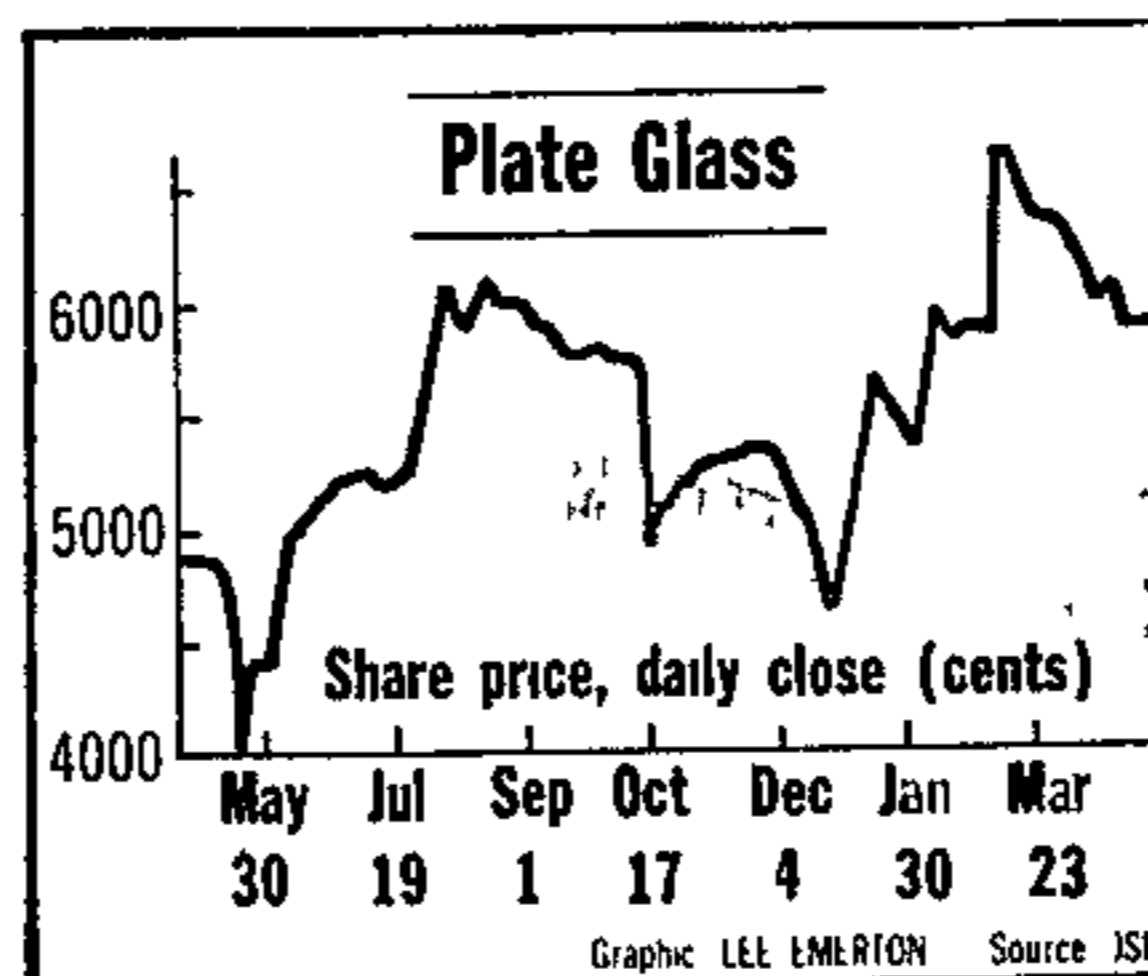
Yesterday trading in the shares of PGSI and its holding company Placor were suspended on the JSE

The acquisition will result in the addition of 95 outlets in Germany and 50 in France to PGSI's Autoglass International Holdings, making it the largest chain in France, Germany, Belgium, Holland and Italy with a market share of about 12%. It will continue with this business in the UK where it has 156 fitting shops and claims about 50% of the market

Autoglass will be well prepared for European integration in 1992, says PGSI chairman and CE of the group's glass interests, Ronnie Lubner

The recapitalisation of the offshore operations will provide Solaglas with the means for considerable expansion in the automotive glass replacement business in Europe and the US.

As a result of the deal, Solaglas International's heavily overgeared glass operation (63%) will be relieved of its debt and



interest burden, leaving it in a net cash position which will make possible a strong flow of dividends to SA PGSI owns 74.3% of Solaglas International, the name of which will be changed

About R40m of the remaining cash from the deal will flow back into SA

Considering this liquidity and the heightened confidence about the group's future, Lubner says PGSI's dividends for the year to end-March will be maintained at 222c despite the expected 30% decline in earnings from last year's 482.7c

The effect of the deal on earnings for the year to end-September 1989 would have been a 14% (67c) increase in earnings to 551c (484c) and a 35% (827c) increase in tangible net asset value

Lubner said it was the strategic implications of the deal for Saint-Gobain, which has a market capitalisation of R17.5bn, rather than the profit history of Solaglas's

□ To Page 2

Plate Glass

B10 am 4/5/90 (193)

building glass business, which enabled PGSI to demand a price with a price-to-earnings ratio of about 25 times

He said capital would be required to turn around and rationalise the acquisitions which have been making losses for Saint-Gobain, which was reported yesterday to have made a successful \$2bn bid for US abrasives group, Norton

Losses in the international timber trading division of the wood group since November meant the group has had to revise earnings forecasts downwards

A downturn in the SA market, substantial management restructuring in a falling European market, a severe downturn in demand and development problems in Australia and economic restructurings in Brazil had contributed to the losses

"Corrective actions to reverse these losses continue and the overall viability of certain operations is under review," Lubner said

The SA Reserve Bank has approved the deal but approval is still awaited from regulatory authorities in Europe.

In a £100m deal . . .

PGSI sells UK operation

CMAA Trip
4/5/90
193

Own Correspondent

JOHANNESBURG — Plate Glass and Shatterprufe Industries (PGSI) has withdrawn from the UK building glass market, selling its UK operation and its Solaglas name to the world's second largest glass manufacturer, French group Saint-Gobain, for £100m

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Lubner said it was the strategic implications of the deal for Saint-Gobain, which has a market capitalisation of R17.5bn, rather than the profit history of Solaglas' building glass business, which enabled PGSI to demand a price with a price earnings of about 25 times

He said capital would be required to turn around and rationalise the acquisitions which have been making losses for Saint-Gobain, which was reported yesterday to have made a successful \$2bn bid for US abrasives group, Norton

Losses in the international timber trading division of the wood group since November meant the group has had to revise earnings forecasts downwards

A downturn in the SA market, substantial management restructuring in a falling European market, a severe downturn in demand and development problems in Australia and economic restructurings in Brazil had contributed to the losses

"Corrective actions to reverse these losses continue and the overall viability of certain operations is under review," Lubner said

The SA Reserve Bank has approved the deal but approval is still awaited from regulatory authorities in Europe

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Penpin seeks R10m

CAPE-based building materials group Penny Pinchers Holdings is to raise R10-million through a rights offer to fund development and growth after a 56% increase in turnover last year.

SITING 615170
The Penpin offer will be 34-for-100 shares at 170c. It will be underwritten by P G Bison, which holds 28% of Penpin.

Acquisitions are not a priority. Chairman and chief executive Servaas Malherbe says although the group has had many approaches from companies wanting to sell it does not need to buy or open stores to provide sustained real growth.

Turnover of the Transvaal operation was R4,7-million in 1988, increasing to R40,1-million last year (193)

The group's turnover in the year to last December was R172,5-million, up from R110-million previously.

"Emphasis has been put on strengthening management throughout the group to ensure we serve our market efficiently," says Mr Malherbe.

IT is not all gloom and doom for South African groups operating in tough foreign environments. Plate Glass & Shatterprufe Industries' R500-million offshore deals this week have at a stroke wiped out the international glass operations' heavy debt burden and rescued the group's yearend dividend from a projected 30% decline in earnings.

At the same time PGSI has jumped out of the highly competitive building glass industry in the UK and repositioned itself as the major player in Europe's fast-growing automotive glass fixing industry

From the original SA investment of £7.4-million PGSI has acquired £100-million and still retains more than half of its UK business. It also has a big foothold in the automotive glass industry in France, Germany, Belgium, the Netherlands and Italy

Ronnie Lubner, PGSI chairman and chief executive of the group's glass interests, says the £100-million paid by French manufacturer St Gobain for the UK building glass subsidiary and its Solaglas name represents a considerable premium on actual worth

"We were able to negotiate this price because we were giving St Gobain a strategic position in the UK market which it would have found difficult to build"

Downturn

After clearing debt of some £70-million in the UK, continental Europe and the US there will be about R40-million to be brought back to SA

It could not be more fortuitous. In spite of the group's forecast last November that earnings in the year to March 31 would be in line with the previous year's, it now appears that they will be 30% down on the 482.7c a share in 1989.

Several factors combined to produce "material and un-



RONNIE LUBNER worms in the wood division

budgeted" losses in some divisions of the wood group, says Mr Lubner

These include high development costs, management problems, a market downturn in Australia, Europe and SA, and supply difficulties

"Corrective actions to reverse the losses continue and the overall viability of certain operations is under review"

But the European glass deal has improved the group's liquidity

The improvement and the board's confidence that attributable income will show a "meaningful" advance mean that the total payout to shareholders should remain at last year's 222c a share

There is no doubt that the European transaction has gone through on favourable terms, but that does little to reassure investors about the group's wood operations

An analyst says "There must be concern about the

By Ian Smith

management problems overseas and the prospects for earnings in the next year"

The group announced in January that a consortium of US and European investors, Whitestone Investments, had agreed to pay \$55-million for half of PGSI's international wood operations

But the deal is subject to a suspensive condition, which will be settled only in June. The fear must be that it could be renegotiated on less favourable terms because of the downturn

Mr Lubner says projections for the year just ended have not taken account of the Whitestone transaction — "although we have no reason to believe it will not go through"

Outlets

"Our expansion has been largely funded by retained earnings and borrowings. The sale enables us to virtually eliminate debt throughout the offshore glass companies"

The other side of the St Gobain deal enables PGSI to buy the French group's automotive glass fixing networks in Germany and France for £16-million

PGSI's Autoglass International Holdings gains another 95 outlets in Germany and 50 in France

It already has more than 50% of the UK market and the group hopes to dominate the EEC's by 1992

Mr Lubner says it took four years to bring the UK motor business to maturity, but it is now highly profitable. A new branch can expect to break even in three weeks

PGSI starts lift R500m debt

STI
15/190

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Quagga has plans for expansion

EDWARD WEST ¹⁹³

THE proceeds of a private placing of 9-million ordinary Quagga Holding shares at 75c each would be used to bring at least four granite mines into production and to increase capacity at its processing plant with five granite saws

The 51-million shares in issue after the completion of the private placing would be listed on May 16, depending on whether the JSE accepted Quagga's application for a listing, Quagga's prospectus said.

Quagga's quarries at the Witkrans farm near Duiwelskloof produce a dolerite similar to the granite which had established itself in the world market as the Mooketsi Black, it said

Witkrans has produced nearly 300m³ of exportable granite selling at an average price of \$1 100m³. Smaller blocks were processed to improve the recovery rate, the prospectus said. *8/11/90 915/90*

Demand

Permission had been granted in principle to quarry multi-colour granite in Natal. Here, recovery rates of 70% were expected. Full production of 400m³ was expected by August 1990.

Mining rights had been acquired to mine other coloured granites such as Juparana, a type of granite found near Paris green granite near Garies and other colours.

The Leyden operation in Lebowa was being set up to produce a red granite which was in great demand in the Far East, said chairman Rudolph de Bruin.

The group had patented a granite saw which it would sell internationally. An order for the saw had already been received by a Scandinavian country and Quagga hoped to realise R1,5m annual profits from sales.

Plans to expand Marble Pentelic

EDWARD WEST

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MARLIN Corporation, SA's largest processor of granite for the construction industry, plans to expand Marble Pentelic by about 80% *B10am 10/5/90*

This increased capacity is expected to be on stream by July this year, Marlin MD Graham Treagus said yesterday

The Marlin Group, which owns 95% of Marble Pentelic, is a processor and exporter of granite and marble for the construction industry. It has been involved in such construction projects as Mobil House and JCI's corporate head office

The 27-year-old group had perceived beneficiation to be a major growth area in both domestic and international markets and was assisting in fulfilling contracts, including Bank City and the US embassy in Pretoria, Treagus said.

The group recently appointed Colin Human as an executive director of Marlin and of Marble Pentelic, to concentrate on its expanding beneficiation activities which include specialist contracting, flooring and cladding.

Marlin chairman Peter Gain said he was optimistic about future demand on both the international and SA markets, where the use of granite was making inroads into other construction materials

Marble Pentelic, which was acquired by the Marlin group last year, has developed a dry system of stone cladding whereby the stones are continuously supported along their edges by a braced framework consisting of extruded structural graded aluminium sections

F/M 11/5/90 (193)

Minaco has no trading record but on a pro forma basis, beneficiation of granite and marble accounts for just over half the group's pre-tax profits, quarrying a third and financial operations, the balance

Growth is predicated on greater activity at the four quarries when the other granite groups are hoping to raise profits by moving into beneficiation. By 1993, 22% of the pre-tax profit is expected to come from beneficiation, 65% from quarrying and 13% from financial operations

This is likely to result in a decline in margins as beneficiation generates higher profit margins. Curiously, in the five-year profit history of Marble Lime disclosed in the prospectus, operating margins slipped from 12,9% to 5,2%. Inexplicably, the margin is forecast to rise to 28% in the year to February 1990

This is the only forecast given and the prospectus fails to provide potential investors with a pro forma income statement

Afmin Holdings (the former Rogold) holds 4,55m voting Minaco shares, equal to a 16% interest, while African Exploration (Afex) holds a further 11,94m. Afmin is to buy 7m convertible, voting, non-participating prefs and 3,5m Minaco ords from Afex and thus control about 45% of Minaco. No standby offer is being made to minorities

Afmin itself plans to raise R4,3m through a rights issue and, at the same time, will consolidate its shares one-for-five. With over 50m shares in issue and a current price of 24c, this seems a sensible move, but also highlights the fact that the group has been making acquisitions with scrip and not cash

Gillian Findlay

MINACO F/M 11/5/90 (193)

Unfortunate timing

Minaco's JSE debut was as good as could be expected given the market's present state. The shares, placed privately at 175c, opened at 200c but have since dropped back to their placing price

Then, Minaco wanted to raise R4m "for the purpose of covering expenses of R500 000 and working capital for future expansion". This year's working capital requirement is estimated at R1,7m, while capex during the year is put at R5,9m. Also, the company has to shell out R7,5m for acquisitions and restraint of trade agreements

The principal subsidiary, Marble Lime, was acquired in January from Barney Seidle and Joseph Wolpe, of Linksfield Investments, for R9m. An issue of Minaco shares accounted for R4m and the remaining R5m has still to be paid. Marble Lime is principally involved in sawing, cutting and polishing building stones

Other amounts to be paid include R1m for SF Granite, which quarries granite at Mooketsi in the northern Transvaal, R200 000 for Minaco Transkei and R1,25m on Seidle's restraint-of-trade agreement. He gets another R1,25m in a year's time and R550 000 remains outstanding on the SF Granite purchase for a year, until certain conditions have been met. All in all, most of Minaco's R16m cash resources will be swallowed

F/M 11/5/90 (193)

F/M 11/5/90 (193)

construction-related glass interests in Britain to St Gobain, a major world glass manufacturer, is timely as construction activity is reported to have turned down sharply. But the £100m price, representing an earnings multiple of 25, seems to indicate St Gobain is counting on reasonable recovery prospects. Still, it represents a large profit on the £7m originally invested, even if it cuts the group out of a major post-1992 market.

In part exchange, PGSI is paying £16m for St Gobain's auto glass fitment chains in France and West Germany, giving the group 375 outlets across the Continent and a dominant 17% of a fragmented market.

The deal also refinances the international glass operation by eliminating its gearing and leaves R40m in small change to be repatriated soon to SA. It has also allowed the group to maintain its dividend despite fiscal 1990's profit crumble. Glass division chairman Ronnie Lubner says the refinancing should allow more dividends to be remitted from overseas in future. In January, PGSI went into a R140m refinancing of its overheated wood division with an international consortium called Whitestone, and the present glass restructuring indicates that foreign developments will now be less precipitate.

Nonetheless, there has been little respite for the international wood division. Its chairman, Bertie Lubner, says it has been hit from three sides. An expected gradual trend by hardwood producing nations to restrict export of raw timber in favour of downstream products became a sudden reality, causing problems in the European operations and prompting deep rationalisations, the Australian operations were also cut right back after a sharp downturn in the economy, and bank accounts were frozen in Brazil. This combination resulted in large abnormal costs in the income statement and write-offs in the balance sheet.

Bertie says Whitestone's agreement to take half of the international wood oper-

ations is still on track. But in view of the changes in the industry, the parties have agreed that they must agree on the operation's future direction by end-June. That is likely to include co-operating with wood mills in upgrading technology for downstream production. He says more detail on strategy and the announcement of a new CE for the international wood division should accompany PGSI's results in early June. Lubner will retain ultimate management control and is confident the division will eventually turn around.

Even if that does not eventuate this year the new financial year's results should improve, with no repeat of last year's abnormal costs and write-offs and some growth likely in the international glass division.

Teigue Payne

PLATE GLASS F/M 11/5/90 (193)

Out of the woods?

The new direction and refinancing of the international glass division of Plate Glass & Shatterprufe Industries (PGSI) make near-term financial sense. The group is struggling abroad where slithering revenues are slated to slash the wood division's contribution to earnings from 26% in fiscal 1989 to next to nothing in 1990.

The overheated glass division's sale of its



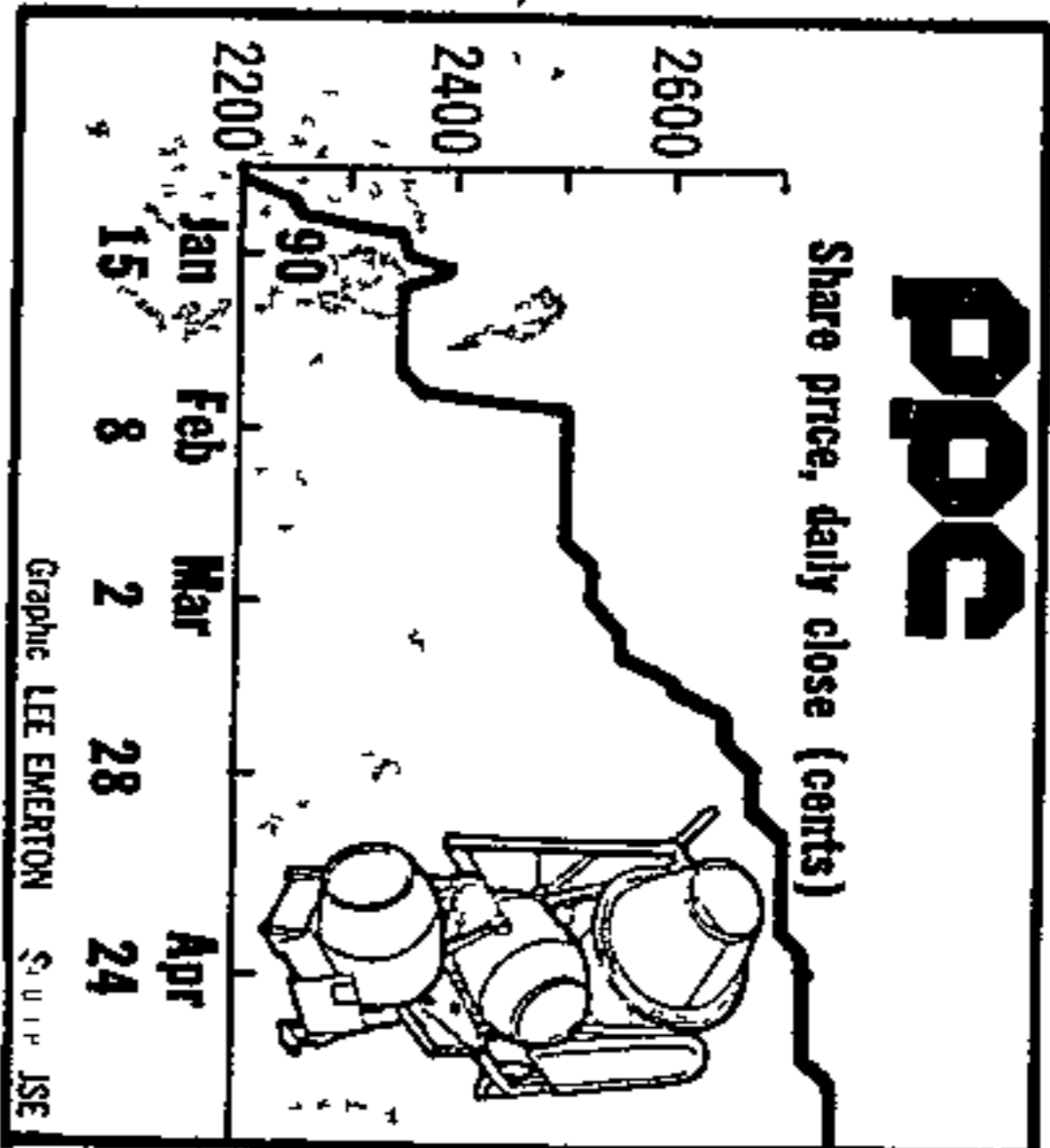
PGSI's Ronnie Lubner ... more dividends from overseas

PPC produces solid results for the half year to March

By Dan 19/5/90

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COMPANIES



SA'S primary cement producer PPC has produced a solid set of results for the half year to end March, bolstering attributable income by 16% to R47m (R40,5m) and earnings to 117,3c (102,5c) a share.

The interim dividend of 42c (36c) represents a 17% improvement and leaves dividend cover at 2,8 times. Financial director Chris Wrogemann said the results were especially gratifying in light of difficult conditions towards the end of the half year.

However, he said, the slowdown was expected to continue and forecast full year earnings at much the same level as last year. For the six month period, PPC was adversely affected by lowered cement volumes and the cost of major repair work on

BRENT MELVILLE

the group's largest kiln, located in the Western Transvaal.

Wrogemann said that activity in the building and construction industries had declined quite substantially in the past few months and reduced cement sales volumes were expected for the rest of the year.

In the lime division operating profit improved by 30% to R28,2m (R21,6m) due to an increase in volumes as well as increased efficiencies in both production and asset management.

Group MD Ted Hodgkiss is optimistic about the outlook for lime saying that recent environmental concerns and pres-

ures for flu-gas-desulphurisation on power plants could double sales.

Net investment income was up by 47% to R10,6m (R7,2m). Wrogemann warned however that interest in the second half was not likely to be as high as substantial tax payments had taken a bite out of available cash resources.

"Proposed changes in income tax legislation relative to wear and tear allowances, consumable stores and LIFO reserves adversely affected the bottom line by R4,4m," said Wrogemann.

At half-year end, capital expenditure commitments amounted to just over R100m, the bulk of which will be directed at improved operating efficiencies.

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By Day 18/5/90. (193)

Italtile's pre-tax profit up by 25% to R25,4m

ITALTILE performed well during the 12-month period ended February, 1990. This was in spite of the relatively high interest rates prevailing within the country during the past year which had a negative impact on the construction sector.

Group pre-tax profit increased by 25% to R25,4m from the R20,4m earned during the previous financial year. But because assessed losses were fully utilised during the previous financial year, the company became liable for full taxation. This reduced the

STEPHEN RICHTER

increase in EPS to 5% or 92,9c (88,3c).

Italtile is recognised in the marketplace for its locally manufactured ceramic tiles, sanitaryware and bathroom accessories. New products and colour range launches occur every year enabling Italtile to have the most comprehensive colour range of sanitaryware and tiles in SA.

Although trading conditions deteriorated during the second half of the financial year, this operation achieved a 35,8% turnover increase from the previous year, thus meeting budget.

Effective September 1, an agreement was reached between Italtile and three different Ceramic Tile Market (CTM) operations to acquire the minority shareholders' holdings and claims against the CTM companies. The purchase consideration of R632 957 was settled with the issuance of 140 657 Italtile shares at 450c each. This transaction will make the CTM companies a wholly-owned subsidiary of Italtile.

Looking at prospects, management is reluctant to provide an earnings forecast for the current financial year due to the unstable political situation.

BIDM 28/5/90

Boumat buys building merchant W Miller

RENT MELVILLE

193

EXPANSION-happy building materials and sanitary-ware merchant Boumat has shown no let up in its acquisition trail, with the purchase of Somerset West-based building merchant W Miller

The purchase, worth R6.1m in cash, marks Boumat's entry into the affordable homes market which executive chairman Irvine Brittan believes has "exciting" growth potential.

"In the new SA, as more and more South Africans enter the housing market, there will be considerable scope in providing products and services for those first-time home owners," said Brittan

Millers, well known for its merchant business, its roof-truss fabricating plant and its DIY retail outlet, would dovetail with, but remain independent of its recently opened Cape Town Builders' Market

"Builders' Market and Millers carry very similar product ranges and operate in similar markets but will compete for business and we expect them to make a real impact on the Western Cape market

"These moves signal our clear intention to establish a countrywide chain of general builders' merchants and to provide the full range of products and services needed by this market," said Brittan

The acquisition would not affect Boumat's earnings or NAV for the year to end-March

PP Cement fears poor second half

S/Times 20/5/90

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By Dirk Tiemann

PP CEMENT shareholders should treat the good interim results with circumspection because a sharp drop in growth is forecast for the second half

Turnover increased by 14,8% to R358,8-million and pre-tax profit rose 18,3% to R96,3-million in the six months to March. Earnings a share rose by 14,4% to 117,3c and the dividend was 16,7% up at 42c a share

Lifo

The year's results are not expected to improve on the 1989 figures. PPC will feel the pinch as the economy moves into recession.

Group financial director Chris Wrogemann says investment income is up by 47,2% at R10,6-million, mainly as a result of higher interest rates and larger amounts invested.

Mr Wrogemann says this

will change in the second half because higher tax has reduced cash available for investment. The change in depreciation write-offs and the taxing of consumable stocks and lifo reserves increased the tax charge by R4,4-million.

Mr Wrogemann says "Cement sales are down and, combined with the cost of major repair work on the largest kiln in the country, has reduced margins in the division.

"Activity in the building and construction industries has declined in the past few months."

Mr Wrogemann says PPC is looking to the lime division for growth. Its operating profit rose by 30% to R28,2-million on the back of larger sales and increased efficiencies in production and asset management.

The political uncertainty in the black homelands also

contributed to a decline in sales. One week's cement use in the homelands equals the total bought for the Johannesburg-Pretoria highway.

The Government's fight against inflation and the resulting economic downturn mean fewer civil construction projects.

Roads

Group managing director Ted Hodgkiss says that Government work accounts for much of PPC's business. Both private- and public-sector construction activity has slowed.

Mr Hodgkiss says "Black tops are preferred to cement roads because of their faster pay-backs. We are adversely affected by this."

"PPC has 600 000 tons overcapacity and will be able to meet any medium- to long-term increases in demand. SA uses 8-million tons of cement a year.

"There is great potential for growth in the African market. We are waiting for contracts from the Lesotho Highland scheme to boost demand."

Shortage

Mr Hodgkiss says that when the economy turns good again and capital spending rises, the shortage of skilled manpower will inhibit growth in the cement industry.

Mr Hodgkiss says that when cement demand reaches 85% of production capacity, expansion will be necessary. PPC expects to spend R3,8-billion by 1994 on new plant — assuming that

- A stable economy is maintained
- Growth in demand for cement remains about 5% a year
- There is no dramatic reduction in the population
- The cement cartel remains in operation

Granite product demand will increase ¹⁹³ — Keeley

KEELEY Group Holdings has maintained its excellent earnings and dividend growth and is confident demand for its granite products will show good growth over the next five years

Earnings a share for the year ended February 1990 were up 34% to 122,8c from 1989's 91,9c and the final dividend has been raised to 40c (35c), lifting total distribution by 36% to 75c (55c)

Turnover rose by 33% to R192,3m (R144,5m) while improved margins accounted for a 36% increase in operating profit to R52,4m (R38,5m). Attributable income amounted to R43,1m (R32,3m)

Chairman Fred Keeley says in the preliminary report the group has improved output and productivity at all quarries in response to increasing international demand. Total production increased by 18% to 335 000 tons

Rustenburg and Bophuthatswana quarry operations have been expanded to meet international construction

LIZ ROUSE

and monumental market needs

The group has sufficient capacity in this material to meet expected future increase in demand

Production at the green granite quarry in Natal is developing well, and the market has responded favourably to this new material, says Keeley. Exceptional demand for the red granite quarried in Lebowa has led to an increase of 50% over the past year, and the group has provided for a further increase this year

Output

A new quarry will be established in the Transkei to produce a low-cost Belfast black-type granite to supplement supplies for the construction industry

Processing of granite tiles at the new factory is proceeding on schedule and it is planned to double output by the introduction of additional machinery by the end of 1990

International opinion of the group's tile quality has been excellent and the group has a full order book, he says

The new Durban granite terminal is working at full capacity and lading rates have improved up to 60% with resultant cost savings. Stevedoring and warehousing operations have achieved expectations in the past year and assisted the export of many SA commodities. Turnover has improved 17%

The granite group is well positioned in terms of production capacity and resources to meet increasing demand. It will continue to source and exploit new coloured granites

Keeley assures shareholders the group expects to maintain a favourable dividend policy. Keeley's strong cashflow has enabled it to build substantial cash reserves — R32,8m at the end of February — to maintain a liberal dividend policy

Keeley shares rose 125c to a new high of R11,50 on Friday. At this price historic earnings yield is 10,68% and dividend yield 6,5%. P/E ratio is 9,3

FIM 25/5/90 193

PPC FIM 25/5/90

Demand cracks (193)

PPC's interim results reflect the cement industry's sensitivity to volume changes. With the pace of building and construction activity expected to slow even more, the outlook for all members of the cement cartel — PPC, Anglo-Alpha and Blue Circle — looks dim.

For the six months ended March, PPC increased its operating profit by 15,5% over that of the comparable period 1989. The lime division benefited from a relatively small volume increase, but this translated into a 2,4% margin rise. Cement turnover rose 15,6% on higher prices but volumes were down and R4m worth of kiln repairs caused margins to fall to 25,7% from 26,9%.

The differing fortunes of the two divisions reflect waning fixed investment activity as compared to relatively steady demand for lime from the gold, uranium and steel industries. MD John Hodgkiss says the informal sector is providing some support to cement sales.

Softer volume sales

Higher interest rates and cash balances lifted interest income to R10,6m (R5,6m). But tax payments on March 31 depleted cash balances by R78,4m, presaging a fall in interest income in the second half. Changes to taxation of wear and tear, consumable

stocks and lifo reserves increased the tax rate and limited the rise in attributable profits. But EPS still rose to 117,3c from 102,5c.

Hodgkiss says he expects the slide in cement volume sales to continue in the second half. Residential and commercial building activity will remain slow and civil activity benefit only once confidence improves. The awarding of cement contracts for the Lesotho Highlands Water Scheme in September should also improve matters.

PPC continues to look at export possibilities particularly into neighbouring states. Excess capacity still exists and the Dwaalboom plant is likely to remain mothballed for

EARNINGS THRESHOLD

Six months to	Mar 31 '89	Sep 30 '89	Mar 31 '90
Turnover (Rm)	312,6	376,5	358,8
Trading profit (Rm)	74,2	90,2	85,7
Attributable (Rm)	40,5	59,9	47,0
Earnings (c)	102,5	150,1	117,3
Dividends (c)	36,0	94,0	42,0

some years. The prospect of lower volumes indicates a further erosion of margins in the cement division which contributed 62% to operating profit at the interim stage.

Demand for lime in the second half is expected to remain flat. Hodgkiss says if flue gas desulphurisation is adopted to limit pollution at thermal power stations, lime de-

FIM 25/5/90 (193)

mand could double — but the possibility seems remote. Additional nuclear power could lift demand for uranium and hence for lime.

Reduced investment income and high tax charges will further limit attributable profit growth. Hodgkiss expects earnings for the full year to be similar to the 252,6c for 1989. This means a fall in earnings in the second half from 150,1c to about 135c, a 10% drop.

The market seems pleased with PPC's interim results — the share is trading at a 12-month high of 2 785c.

Pam Baskind

Gaining share (193)

Keeley's results for the year to February 28 show that the days of heady growth are over, even though turnover grew more rapidly in the second half than in the first. Overall, sales were 33% higher. Meantime, there has been a narrowing of the discrepancy between the interim and final dividends. The past year's interim was lifted to 35c from 20c, while the final was raised to 40c from 35c.

The group balance sheet, while still strong, has weakened during the year. Net current assets fell from R17,5m to R16,7m, while the current ratio slipped from 1,44 to 1,27. The quick ratio dropped even further from

FIM 25/5/90 (193)

FIM 25/5/90 (193)

1,33 to 1,05 as stocks were built up.

Granite production rose 18% last year while turnover was 33% higher. This compares favourably with the performance of Kudu of which the half-year turnover to December rose 19% and earnings dropped by 17%. As Keith Bright of Frankel Kruger puts it "It seems that the growth in Keeley's turnover has been at the expense of the rest of the market." This is backed up by director Rob Brown who states, "Keeley has always had a good market share which it is at least maintaining and probably increasing."

The new tile factory, which currently contributes some R9m to annual turnover, is operating satisfactorily. Plans to double ca-

all types of granite. The expansion of the tile plant will also provide a useful contribution to the group's results. With the days of vigorous growth in the granite industry behind us, Keeley is the one producer still showing good performance for the present.

Gillian Findlay

SLOWER GROWTH

Year to 28 Feb	'88	'89	'90
Turnover (Rm)	66,0	144,5	192,3
Pre-tax profit (Rm)	15,8	38,5	52,4
Attributable (Rm)	13,3	32,3	43,1
Earnings (c)	42,5	91,9	122,8
Dividends (c)	11	55	75

capacity by the end of calendar 1990 are under way with another plant of equal size on order. Of the R9m, the raw material accounts for roughly 25%, the remaining 75% being the value added in the processing.

Stevedoring is a cut-throat business with slim margins. Even so, it pays Keeley to operate its own stevedoring company. With the new granite terminal in Durban now working at full efficiency, loading rates have improved by 60%.

Future developments will emphasise production of coloured granites — both new and existing colours. Growth is, however, seen in

Possible cement gift for Lesotho could cost SA industry R100m

SA's cement cartel could be left high and dry after the disclosure that an outside government is considering donating the full amount of cement for the Katse Dam — the largest single component of the R6bn Lesotho Highlands Water Project (LHWP).

The industry will lose a deal worth at least R100m if the foreign donation materialises.

An industry spokesman said there was strong speculation that the full requirement of cement — about 650 000 tons — would be supplied by a Scandinavian country as a measure of foreign aid to Lesotho.

"Assuming some producer, rumoured to be Sweden, wants to export that amount of cement and donate it to an international consortium, then it would be quite a knock to the industry, which is already suffering from depressed market conditions."

Although PPC MD Ted Hodgkiss said the tonnage did not represent overly much of its yearly production, the cartel had largely been counting on the order. Pegging the lowest base cost of cement at about R110/ton, the order represents about R100m.

The cement was originally expected to be supplied by Blue Circle's Lichtenburg plant. A Blue Circle

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BRENT MELVILLE

spokesman discounted the suggestion of the cement being shipped from overseas. "The logistics of importing the cement and transporting it to Lesotho would prove too big a hurdle," he said.

Demand

Hodgkiss agreed. "As there is no rail line into Lesotho the largest cost factor would be transport. The cartel is able to find a closer source for the cement, keeping rail costs (to Ficksburg) to a minimum."

He admitted, however, the industry was suffering. "We are being kept afloat mainly by work in office

construction and demand from the informal sector," he said.

However, based on forecast demand, the three-member cartel of PPC, Anglo Alpha and Blue Circle, representing 45%, 35% and 20% of the market respectively, are planning capex in the region of R1,5bn over the next four years.

They are producing about eight million tons a year, with the potential to produce 12-million tons. Hodgkiss said even taking the LHWP into account, it was likely cement demand would fall next year.

However, he said, demand was expected to increase over the next several years and the cartel was budgeting capital

expenditure of about R1,5bn on expansions and the building of new plant by 1994. Based on cartel agreement, the three producers have to increase plant production levels after reaching 85% capacity.

In addition, based on forecast demand and as part of its agreement with the cartel, PPC would be bringing its mothballed Dwaal Boom plant — built in 1986 at a cost of R230m — back on line.

PPC financial director Chris Wrogemann said the plant was built on an expected upsurge in demand which never materialised.

Hodgkiss believed there were several export opportunities in Africa, notably Botswana.

By William Melville

Boumat plans for growth

By IAN SMITH 193

BUILDING supplies company Boumat is not daunted by the pressure on its earnings and share price as the construction industry feels the effects of high interest rates and the economic slowdown.

It is aggressively expanding its builders' merchant operations in the expectation of rapid growth in the "affordable" homes market.

Two months after the launch of Boumat's chain of general builders' merchants under the Builders' Market banner, the group has bought Cape-based W Miller for R6,1-million.

Builders' Market has operations in the Western Cape, Northern Transvaal and Northern Natal. Miller has a merchant operation in Somerset West, a roof-truss fabricating plant and a do-it-yourself retail outlet.

Boumat executive chairman Irvine Brittan says "These moves signal our intention to establish a countrywide chain of general builders' merchants which will be aimed at the affordable home market and the renovator and improver."

Scope

Mr Brittan says there will be more scope in providing a full range of products for first-time home-owners for more South Africans buy houses.

"This is where we see growth and we want to be strongly placed to grow with that market," grow with

The purchase of Miller for cash will not affect on Boumat's earnings or net asset value for the year which ended on March 31.

Earlier this month the group bought Power Industrial Centre for R1,32-million, strengthening its position in the supply of portable power plant for industry.

The group reported greater pressure on margins in the first half to September 30, and earnings dropped from 50c a share to 46c.

At the same time, Mr Brittan revised his earnings forecast for the year, reducing it from 114c a share to 81c.

The share price has hovered around 450c for most of this year, well down from its peak of more than 700c a year ago.

S/Times 27/5/90

Keeley Granite steady as rock

(193)

KEELEY showed battling granite producers the way to profit with a 34% jump in earnings to 122,8c a share in the year to February — matching turnover growth.

Although still below its 12-month high of R12,75 reached in June, the share price is higher than the March low of 810c. Management is confident of good growth in the next five years.

Turnover at star trucker Unitrans rose by only 17% to R216-million in the year to March, but improved margins and a sharply lower tax bill led to a 43% rise in earnings to 78c a share. The dividend was lifted by 39% to 19,5c.

Gearing was reduced to 10% after the issue of 16% convertible debentures. The debentures are trading at a high of 520c, yielding 12,3%. Unitrans shares at 420c are close to the year's high.

Setback

The picture darkened at Teljoy. In spite of writing 29% more business at R120-million in the year to March, earnings grew by only 1% to 30,4c a share.

Finance charges rose because new televisions and recorders were bought. Gearing fell to 88%.

Fedvolks — now a major shareholder of Teljoy — suffered a setback in its re-

By JULIE WALKER

covery from the dismal past. In the year to March its earnings were clonked by the unlisted Fedmech and Tek, as well as the economic slowdown.

Barlows suffered in the six months to March. Turnover rose by 11% to R13,8-billion, but earnings shed 9% to 218,4c a share. The dividend was maintained at 51c. The share price eased to R38,60 from R54,75 in February.

Dorbyl's operating divisions and its customers were almost all affected by the economic slowdown and labour unrest.

Turnover topped R1,2-billion — 13% up — and pre-tax profit was 18% higher at R69,6-million. But because tax losses were used up, the bill leapt from 24% to 29%, restricting growth at the bottom line to 12%.

Interboard results to contain 'nasty' figures

INTERBOARD's results to year-end February, to be released soon, will contain some "nasty" figures, executive director Mike Clemitson said yesterday.

"But the net result of a finely honed strategy will see Interboard paying dividends in 18 months' time."

Clemitson states that certain extraordinary write-offs in the results to end-February "should not cloud the fact that after restructuring Interboard will be placed on a sound footing for a return to profitability." He confirmed speculation that Interboard is negotiating the possible sale of part of its assets

BARRY SERGEANT

to end-August 1989 (profit of R16,8m), after attributable profits of R24,5m for the year to end-February.

Its interims disclosed for the first time its divisional operating profits: building materials R5m, audio (manufacturers of the Tempest, Omega, Supersonic, Marilyn and Silver brands) R12,4m, flatboard R2,2m, and other (including forestry and Truckor) at R2,6m, totalling R22,1m.

The divisional information on the 4 500-employee company illustrated that its flatboard division, long thought to be its most important profit contributor, was in fact posting only 11% of operating profits. In the interims to end-August, the flatboard and building materials divisions reported substantial losses. Clemitson says the latter was largely due to poor performance by tile manufacturing, now discontinued.

Clemitson says "The problems are not insurmountable and solid progress has been made towards turning the group around by making use of existing assets."

Interboard has decided to write off completely losses occasioned by alleged "round-tripping" and over-invoicing. Clemitson says the full year results will include two losses; one operating and the other a large asset write-down.

He adds that the write-offs include all possible losses. One example is Interboard's George plant, the subject of an investigation by Interboard's auditors, Ernst & Young.

Resigned

Analysts say the poor results expected next week will present no big surprise after the cautionary notice issued a month ago warning as such. But Clemitson argues the company is now set for a medium-term consolidation phase.

Management problems appear to have settled down. Doug and John Dutton, brothers of ousted chairman Ed Dutton, have resigned as directors. Dutton is currently on bail, facing charges on alleged foreign exchange dealings of about R130m.

The sheer variety of problems surrounding Interboard has seen the market cut its share price down from a 190c high to as low as 25c, though it is currently at 50c. Poor results in the latest reported figures compounded the market's poor view of the share.

The company posted a R7m loss for the six months

Drop in earnings per share for Kudu

B1.2m 307 5790
KUDU Granite's earnings a share have dropped 13,7% against the previous nine months to March, but the group expects earnings to at least match those of financial 1989

Kudu's quarterly results released today showed turnover up 19,7% from R18,8m in March 1989 to R22,5m in March 1990. However, reflecting falling operating margins, pre-tax

EDWARD WEST

income dropped from R5,49m to R5,04m

Kudu financial director Andre Dry said profit margins dropped mainly because of increased costs and the exchange rate

A further R264 000 was paid in tax. Attributable earnings for the nine months fell 12,9% to R4,8m

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(R5,9m) Earnings a share were 30c (34,8c). A dividend of 4c a share was paid out, 1c less than the dividend paid at the end of the quarter to March last year

He forecast Kudu to at least match the 49c earnings a share achieved at June 1989. Kudu's recent purchase of control over Aurora Granite from Basil Read at 33c a share would not affect earnings

PENNYPINCHERS F/M 1/6/90

Cash squeeze (193)

Activities: Building materials retailer
Control: Directors 55%
Chairman: S van B Malherbe
Capital structure: 17,7m ords Market capitalisation R31m

Share market: Price 175c Yields 5,1% on dividend, 11,7% on earnings, p/e ratio, 8,5, cover, 2,3 12-month high, 180c, low, 135c Trading volume last quarter, 250 100 shares

Year to Dec 31	'86	'87	'88	'89
ST debt (Rm)	0,2	0,3	8,3	18,4
LT debt (Rm)	0,9	1,7	5,3	5,7
Debt equity ratio	0,49	0,23	1,26	1,42
Shareholders interest	0,12	0,26	0,19	0,22
Int & leasing cover	11,8	8,7	5,8	2,9
Return on cap (%)	12,9	12,9	10,7	13,0
Turnover (Rm)	40,8	64,3	110,3	172,5
Pre-int profit (Rm)	1,4	2,7	5,5	9,1
Pre-int margin (%)	3,5	4,2	5,0	5,3
Earnings (c)	4,35	10,95	16,16	20,5
Dividends (c)	—	4,0	7,0	9,0
Net worth (c)	10,2	39,1	59,9	78,2

Since its inception as a second-hand building materials supplier in 1979, Pennypinchers has demonstrated a spectacular growth pattern in turnover and earnings. But even a cursory glance at the financial ratios suggests that perhaps the time has come to pause and consolidate.

In the company's 10th year of operation, growing pains caused a cash flow deficit of R10,6m. That is why management is again turning to the market with the third rights issue (Fox May 11) since 1987 to raise R10m.

Last year saw yet another leap in turnover, this time of 56% (71%) and group net operating income before interest also rose steeply to R9,1m from R5,4m. Margin strength is part of the reason for success in this area. However, this growth was not without cost. The interest bill rose to R2,9m from R800 000 in the previous year. By itself the interest burden is not bad. It represents just under one-third of operating income, an acceptable ratio in these days of high interest rates. But it has acted to curtail EPS growth to 27% in place of the heady rates highlighted by the accompanying table.

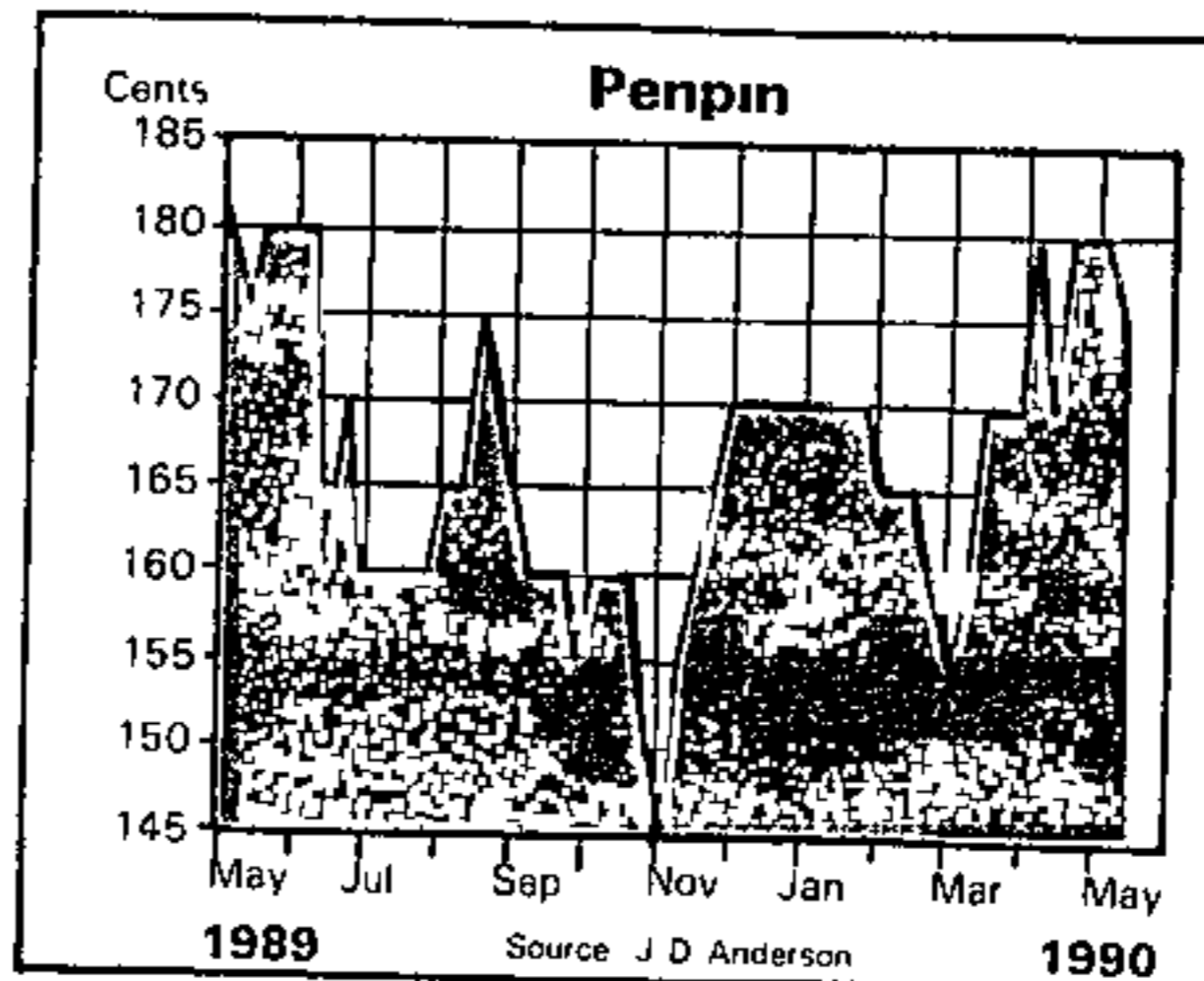
An increase in working capital of R12,5m over the year largely explains how the cash flow deficit arose. Stock is up to R26,9m from R22,8m but the big jump appears in accounts receivable which moved to R22m (R13,2m). These additions were financed respectively by increases of R10m and R2,5m in bank overdraft and acceptances, and in

F/M 1/6/90 (193)
 accounts payable. Nevertheless, tight control has been kept on working capital management as evidenced by a small decline in net working capital.

Of more significance, is the decline in the already low current asset ratio from 1,07 to 1,04. Such a low ratio may be justified in a cash based retail operation but it is hard to do so when accounts receivable are 43% of current assets. More important still is the steady erosion of both interest and leasing cover and the deterioration in the debt equity ratio to 1,42. It should be pointed out that were it not for a revaluation of buildings the latter ratio would be even worse.

The rights issue should rectify this situation. Indications are that if earnings per share are again to grow by 27% this year — attributable earnings will have to increase by about 70% to R6,2m — the debt equity ratio could fall to a fairly acceptable 0,5.

In his chairman's statement, Servaas (Fasie) Malherbe comments "Steady growth



will be sustained in the building supply sector of the economy over the next five years." This may be so. Particularly because the group is such a large supplier to the DIY market it might also be well able to grow at a rate well above that of the building sector. But these are parlous times and prudence could be advisable instead of trying to finance runaway growth. Shareholders might appreciate the chance of catching their breath between putting their hands into their pockets to fund repeated capital demands.

Gerald Hirshon

Boumat reaches R1bn turnover but gross margins dip

BUILDING supplies group Boumat has breached the R1bn sales mark for the first time, bolstering turnover by a healthy 19% over the R842m figure recorded for the year to March 1989.

However, the prevailing climate of pessimism in the building sector was reflected in operating profits, which showed negligible improvement to R57,8m (R57,2m). Margins dipped to 5,8% (6,8%).

Executive chairman Irvine Brittan attributed the dip in gross margins to increased competition in the sector and a 22% increase in operating costs.

He said salaries and wages, property

BRENT MELVILLE

rentals and transport costs accounted for the biggest increases.

At the bottom line, earnings dropped by 18% to R18,5m (R22,7m), translating into earnings of 82c (110c) a share (on a weighted average 2-million additional ordinary shares in issue). A final dividend of 22,5c was declared, bringing the total to 45c (38c) a share.

However as part of normal Boumat policy, shareholders have the option of receiving one bonus ordinary share for every 20 ordinary shares held, in lieu of the divi-

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On Boumat's prevailing share price of 460c, shareholders electing the bonus offer will effectively receive a premium of 10c on each share.

At the group's interim juncture, 87% of shareholders, representing nearly 20-million shares, opted to accept the offer. The 460c price puts it on a P/E of 5,6 and a dividend yield of 9,8%.

On the balance sheet total assets increased by 15% to R407,9m (R355,8m), although interest-free liabilities decreased by 4% to R222,5m (R231,3m), due to a reduction in creditor funding.

COMPANIES

Capital employed increased by 49% to R185,4m (R124,5m), financed by additional fixed capital of R16,8m, and borrowings of R44,1m. The increased borrowing interest payments to R19,5m (R10,4m).

Brittan said that the results were slightly more favourable than anticipated, though the group is anticipating a fall-off in new housing starts in the year ahead.

He added, however, that prospects for low cost housing were looking promising and finance was more freely available. Retail construction would also increase.

B 1024 5/6/90

Cement counters seen as aiding the construction sector

R100M 316(90)

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BRENT MELVILLE

THE market resilience of the building and construction sector against the severe downward swing in the industry has surprised analysts who expected the bottom to fall 2000 to 3000 points ago.

The shares have continued to buck the trend of a generally lethargic and softening market. Reflecting this, the building and construction index reached a high of 2096 last Friday and is currently at 2083.

Analysts attributed the strength of the sector mainly to the cement counters.

Pretoria Portland Cement (PPC) has risen 32% since last November to R26,50, nearing its high of R27,85c reached last month. Anglo Alpha is at a high of R25 and Blue Circle has risen from a low of R11 last November to a high of R17.

Analysts said cement shares were traditionally bought on a long-term basis. However, one analyst said cement shares were overrated on its history of poor projections

on future demand and performance.

"In addition there is the question hanging over the supply of cement to the Lesotho Highlands Water Project," he said. He was looking for unchanged earnings across the cement board this year.

Group 5 was also performing ahead of expectations. The group was currently only 10c off its May high of 520c — 55% ahead of last November's low of 330c. An analyst said there was optimism in the market that Group 5 would land the major contracts for the LHWP.

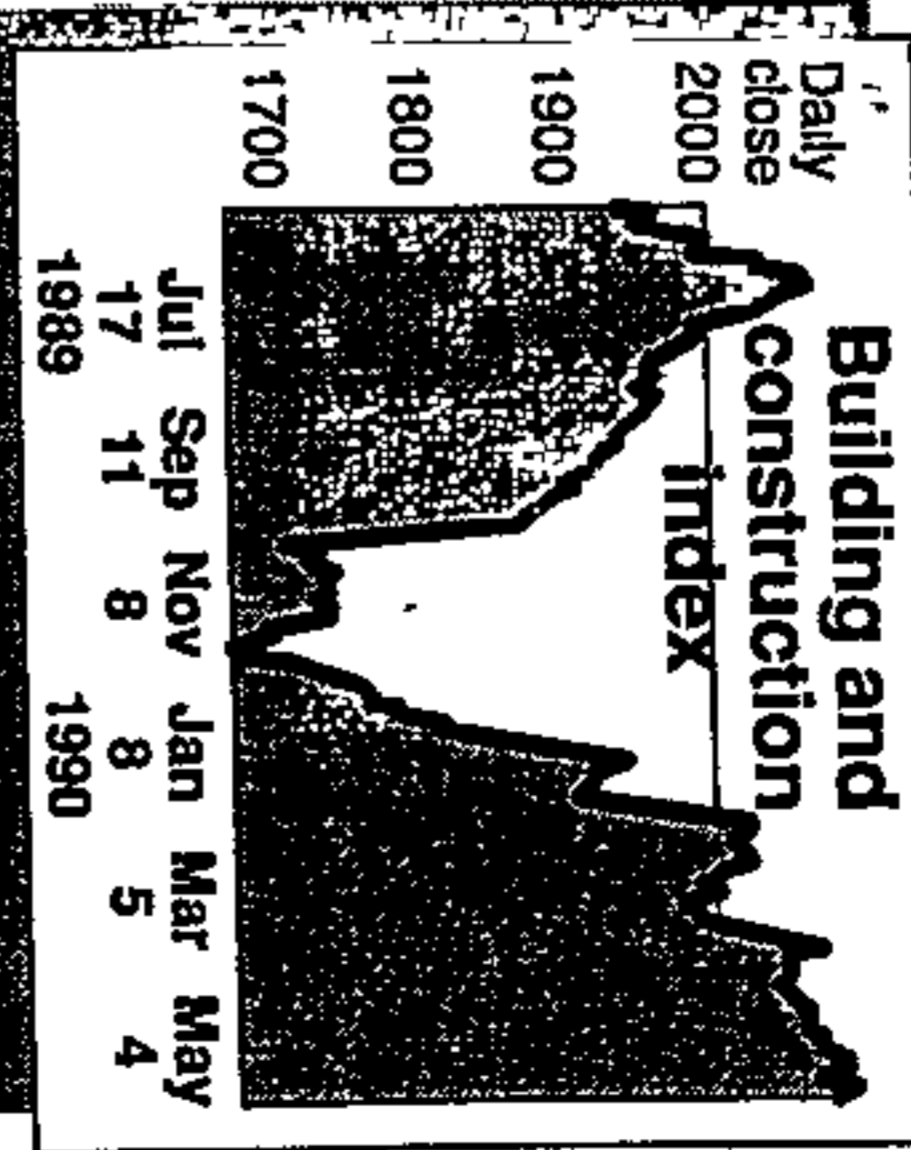
According to J D Anderson analyst Malcolm Basford investors were "stubbornly" hanging onto extremely expensive and overrated shares. Although it was obvious the normal construction cycle had hit a wall, investors were refusing to wake up. Basford pegged Plate Glass as one of

those "overrated" shares. Based on earnings to March 1990 of 340c a share, its R59,50 current share price puts the group on a whopping forward p/e of 17,5 times, and a dividend yield of only 3,7%. Plate Glass was incurring massive development costs especially in America and Australia.

Basford forecast a 16% growth in earnings for Murray & Roberts (M & R) to 495c (426c) a share. With a dividend of 125c (110c) a share, its R22,75 share price puts the group on a p/e of 4,6 and a dividend yield of 5,5%.

Bonmat, for its part, has seen its margins crumble and was concerned with the fact that government was dragging its feet on its commitment to spend R4bn on low cost housing, he said.

It was also expected the industry as a whole would be adversely affected by the withdrawal of the tax concession relating to valuation of stock.



Basford said the extent of the downcycle was not being reflected on the building and construction market. He said his advice to investors would be to lighten their share loads in this sector.

Loose tiles

(193)

Building material supplier Boumat is feeling the squeeze. Though it has managed to increase sales by 19% to top the R1bn mark (mainly because of price rises as opposed to volume increases), operating costs rose 22% because of salary, rental and transport cost increases. As a result, operating profit rose only 1%, squeezing the margin of operating profit to sales — it dropped to 5,8% from 6,8%.

To make matters worse, the pre-tax profit was chopped by sharply higher interest payments. Interest-bearing debt shot up from just R1,8m in 1989 to R45,7m and higher interest rates added to the misery. Chairman Irvine Brittan attributes the debt increase mainly to a drop in creditor days and lower funding from interest-free debt. Despite the jump, Boumat's 25% gearing is still within its 40% self-imposed limit.

Equity earnings have also been adversely affected. Bonus shares, which the group offers in place of dividends, have helped dilute EPS which fell by 25% to 82c as shares on issue increased 9% to 23,8m. Shareholders have again been offered the option of taking one bonus share for every 20 ordinary shares held in lieu of the 22,5c final dividend.

However, the group's results could have been worse bearing in mind the slowdown in residential building activity on which the group is largely dependent. It supplies building materials such as sanitaryware, bathroom fittings, plumbing materials and tiles among others. But, as is common in such times, the alterations and renovations market remained steady. A buoyant informal

FIM 8/6/90

market also helped boost sales.

Brittan says the product range will be increased, for example, to include timber and roof trusses. Last month's acquisition of building merchant W Miller continues Boumat's development of a chain of builders' merchants.

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Brittan does not expect an improvement in this year's results but hopes to maintain earnings. The share could lose some of its lustre if the dividend is merely maintained. But there seems little likelihood of a dividend increase this year as cover already looks too low for comfort after the past year's payout increase on lower earnings. There is little to choose between the final dividend and the bonus share option.

Heather Formby

SAFICON F/M 8/6/90

Losing power

(193)

Saficon has failed to achieve its revised earnings forecast for the 1990 year. Turnover in the second half grew marginally and, as expected, higher interest charges and a lower contribution from Boumat combined to depress earnings.

Turnover for the full year grew by 18,7%, rising 29% in the first half but only 4% in the second. Chairman Sidney Borsook says that, though the order book indicated strong growth was possible and demand remained strong, vehicle shortages prevented the group from achieving substantial turnover growth.

A shortage of vehicle supplies was expected but not to the extent of 3 500 vehicles —

RUNNING DOWN

Year to March 31	1989	1990
Turnover (Rm)	1 298,4	1 540,7
Operating profit (Rm)	71,2	84,2
Attributable (Rm)	36,8	37,4
Earnings (c)	147	149
Dividends (c)	42	43

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(193)

or 19% of total new vehicle sales — in 1989 Borsook says the shortages arose due to strikes and stoppages at suppliers' plants. He adds that the situation has improved recently but the used-car market remains soft.

At 5,5%, the operating margin remained virtually constant throughout the year and was in line with the level of the previous year. Other factors that restrained growth in attributable income included a 58% rise in interest costs to R19,8m, and a R1,3m decline in income from the associate, Boumat, in which Saficon has a 35,9% interest.

The result was an advance of only 1,6% in attributable earnings, even though trading profit was up by 18,3%. The revised forecast for EPS was 161c but in the event the increase was only marginal. And, again, it was in the second half that things went off track. At the halfway stage earnings were up by 27%, but they declined in the second six months by 12%.

Borsook expects earnings and dividends to fall in the 1991 year to 108c and 30c respectively — these figures should be compared with diluted earnings and dividend of 130c and 34c assuming all convertible debenture holders convert in July. He expects new vehicle sales to shrink about 10% this year but feels Saficon will be somewhat protected in view of the present weight of its order book. Availability of new vehicles will also continue to affect the group's performance.

Pam Baskind

Cement producers expect homes decline to continue

Blom 12/6/90 12/6/90 (193) 12/6/90

THE downswing in the residential cycle is not expected to improve in the short term due to "unsatisfactory" conditions in the private residential market, declining investment in housing by authorities and continued high level mortgage rates

This view, expressed by the SA Cement Producers Association (Sacpa) in its annual review, is in spite of the R3bn trust to be formed and regarded as part of a bigger sum to be invested in social upliftment and low-cost housing

The report notes that although the level of non-residential building activity in the private sector continued to be satisfactory, the level of activity in the public non-residential market sector would be adversely affected by expected cutbacks in government expenditure.

Sacpa says although there was a large leap in the value of civil engineering con-

BRENT MELVILLE

tract awards for January — to R358m from R95m last January — the awards related to tenders which closed in 1989 and were not indicative of tender activity for the full year.

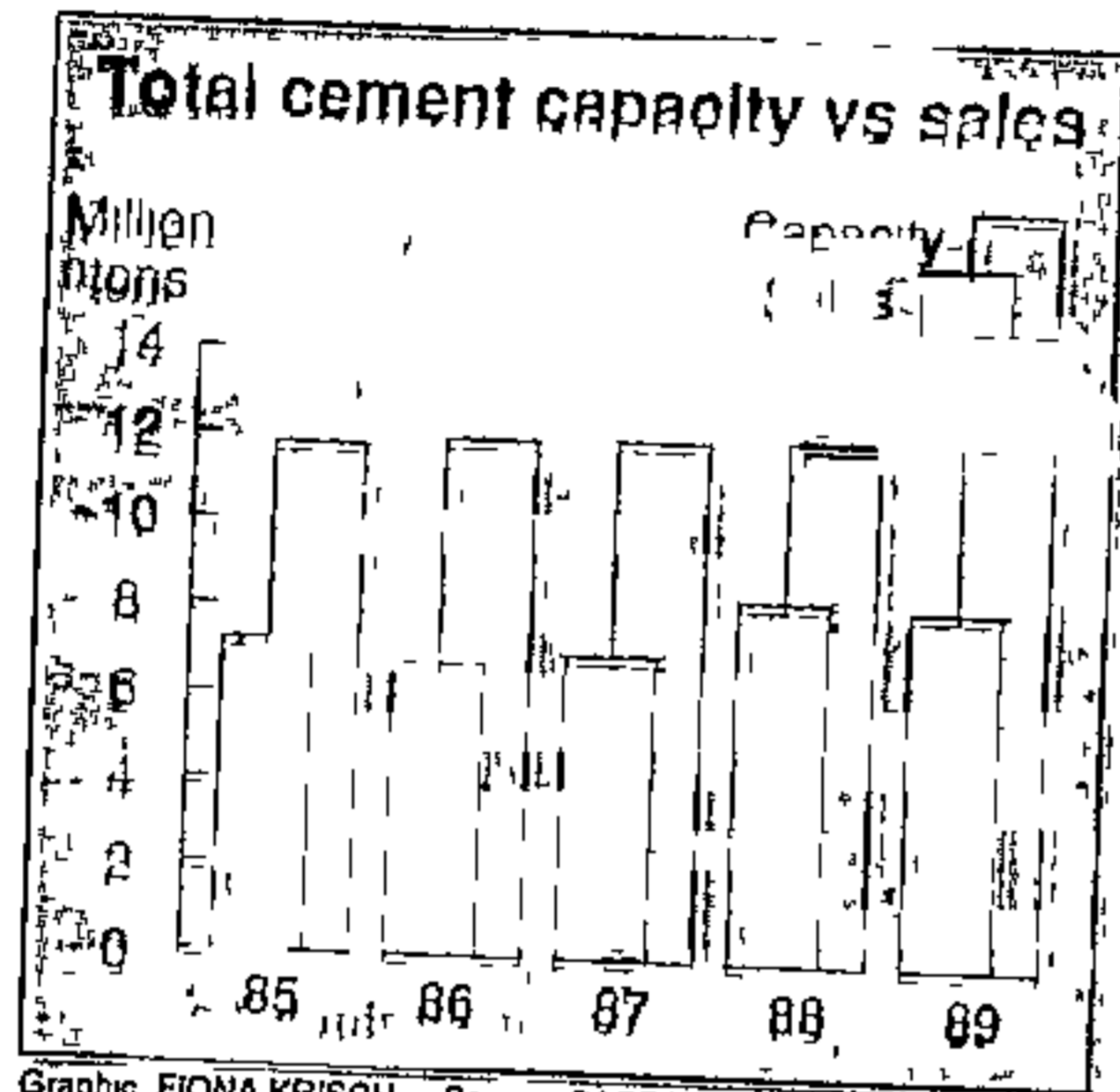
Echoing this the SA Federation of Civil Engineering Contractors (Safcec) reports that prospects for the year remain uncertain. Taking cognisance of this, Sacpa is anticipating the marked deterioration in business conditions to reflect on the industry as a noticeable drop in sales for 1990

For 1989 the total value of building plans passed and buildings completed in the private sector increased by 18,6% and 27,1% respectively. In terms of value at constant 1980 prices the increases were 3,8% and 10,9% respectively.

There was a slowdown in the intake of new work in the construction industry in 1989. Contracts awarded in SA and the TBVC states and notified to Safcec declined against 1988 awards by 28% in monetary terms. Before adjusting for an inflation rate of between 15%-20%, last year's total was 16% below the previous year's

Sacpa notes that with the Lesotho Highlands Water Project (LHWP), Mossgas and the Richards Bay Harbour upgrading underway, the days of the mega-projects have passed and the development of major civil engineering projects over the next decade, which will influence and support the demand for cement, seems unlikely.

Sacpa cement sales figures for the year dropped by 2,3%, or 190 000 tons, to 8,2-million (8,4-million) tons. Cement capacity stayed at 12,2-million tons.



Graphic FIONA KRISCH Source SACPA

PGSI's R140m deal may be called off

THE R140m deal between Plate Glass & Shatterprufe Industries' (PGSI) and Whitestone Investments may be called off following setbacks experienced in PGSI's Wood International (WI)

The deal announced in January involved the formation of Luxembourg-based Wood Products International (WPI) which would acquire WI

Whitestone Investments, a consortium of European and US investors brought together for the deal, was to pay R140m for its 50% stake in WPI.

However, major problems at WI dented PGSI's attributable earnings for the year to March, announced today, by 27%.

Setbacks include a major restructuring of management, a downturn in various

ZILLA EFRAT

national economies and an unexpected curtailment of timber supplies

As a result, PGSI financial director Mike Read says there is a strong possibility that the deal in its present form will not be fulfilled

A clause in the agreement says the two groups must agree on the strategy of the merged group.

However, in view of WI's poor performance, PGSI has introduced a new strategy which directors believe Whitestone may not accept.

The matter will be discussed at a meeting of the parties on June 24

● See Page 8

Wood business sets back PGSI earnings

BIDAY 15/6/90 (193) (427)

PLATE Glass & Shatter-prufe Industries' (PGSI) attributable earnings fell 27% in the year to end-March after major setbacks were experienced in Wood International (WI).

In May directors warned earnings could drop by as much as 30% because of these problems

Earnings are down 27% to 354,8c (482,7c) a share despite a 14% rise in turnover to R3,2bn

However, the dividend has been maintained at 222c a share

The setbacks at WI led to a loss for the wood division as a whole of 79,2c a share

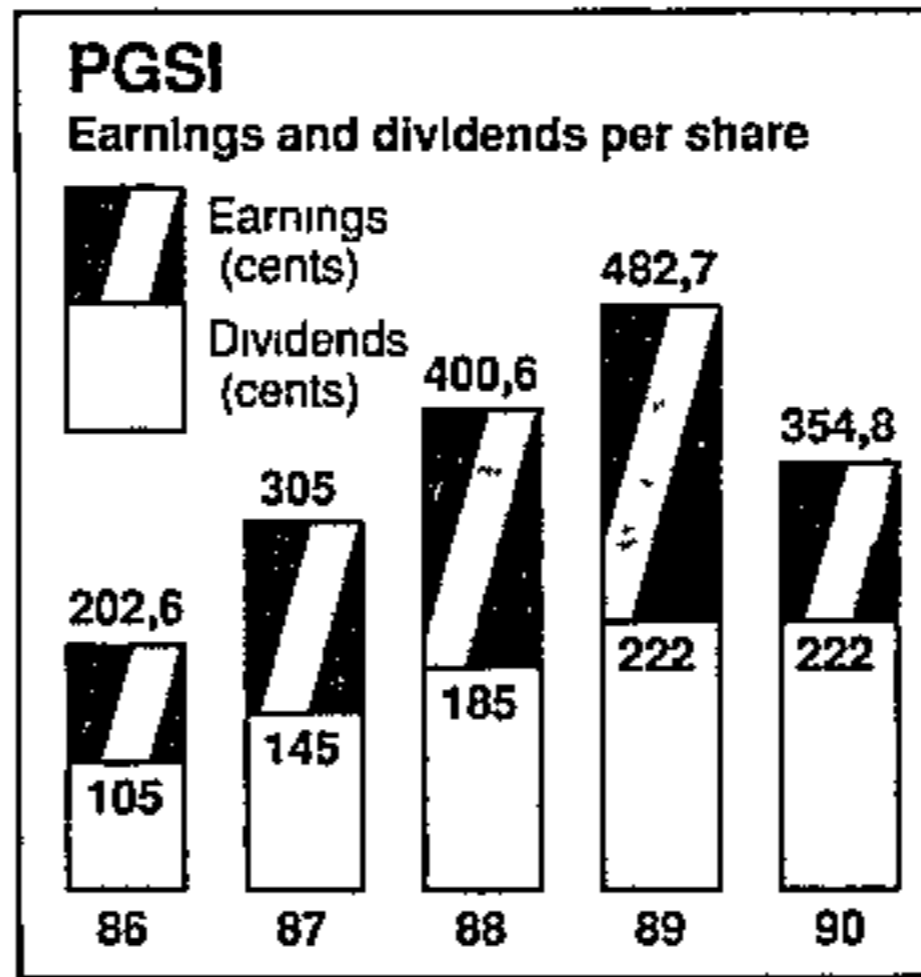
While PG Bison and Central Africa met forecasts, WI faced a management re-structure, a downturn in

various national economies and a curtailment of timber supplies

Directors say management has already taken corrective action to stem losses in Australia, South America and Europe, closing some operations R29m has been provided to cover rationalisation costs

The glass division performed satisfactorily, achieving earnings of 434c a share While trading in Australia was soft, the SA glass operations turned in an excellent performance

A change in the method of accounting for a minority participation in an off-



Graphic: FIONA KRISCH Source: PGSI

ZILLA EFRAT

shore subsidiary boosted earnings by 24c a share For the same reason, previous years' earnings have been understated by a similar amount

Directors are pleased with these results as the

division had to absorb a trading loss of 74c a share because of development costs in the US

The post year-end sale of the glass division's UK building glass interests to St Goban for R435m puts the group in a strong financial position

Its debt to equity at the year-end of 78% (55%) will be more than halved and shareholders' reserves will be enhanced by about R114m, say directors

The glass division is now well placed to take full advantage of the opportunities offered in the European Common Market in 1992.

Although the next 12 to 18 months will be a period of further investment and consolidation, increasing returns can be expected thereafter, say directors

FIM 22/6/90

Lost in the wood

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Plate Glass & Shatterprufe (PGSI) has run into worsening problems with its offshore wood operations. The foreign contribution to group profit has dwindled and a major deal to help bolster the faltering offshore wood operations looks likely to fall through.

These operations have become a source of considerable problems. The preliminary results for the year to end-March underscore the differing fortunes of the group's two operating entities, wood and glass. Minority shareholders must be keener than ever to see separate listings.

EPS fell 27% to 354,8c on turnover growth of 24% and the dividend was maintained only through a cover reduction to 1,6 from 2,2 times. The offshore wood operations suffered a loss of 209c a share and, despite satisfactory returns from the local and central African wood companies, the wood division lost 79,2c a share.

The poor relative earnings performance is reflected in the wood division's declining contribution to group earnings since 1988, and has contributed to the slide in the total contribution from offshore. Wood made a negative contribution this year compared to 30% in 1988 and the foreign contribution to group earnings has withered. It is now only 3% compared with 50% in 1988 and 35% in 1989.

So much of PGSI's vaunted rand-hedge qualities have all but gone out the window for the present. On that point, financial director Mike Reid stresses the group has large assets abroad, of which wood accounts for only a limited portion. Even so, the foreign earnings have turned uninspiring.

Reid explains that Wood International's

EARNINGS CHOPPED

Year to March 31	1989	1990
Turnover (Rm)	2 045	2 530
Trading profit (Rm)	275	291
Attributable (Rm)	80	58
Earnings (c)	482,7	354,8
Dividends (c)	222	222

problems arose from a change in international wood trading practices and the faltering Australian and UK economies. PGSI anticipated these trends but failed to get the timing right.

Traditional timber sources such as southeast Asia, the Philippines and Brazil now want to benefit at source and have imposed restrictions on exports of raw timber. This has cut deeply into the international division's traditional operations and Reid says it will now refocus on value-added products and reduce its dependence on straight



PGSI's Lubner ... restructuring the wood

timber trading.

Wood International's operation in Australia was expanded earlier in fiscal 1990, but has had to be cut back. Branches have been closed and staff cut in an effort to rationalise the operation in the face of an unexpectedly steep decline in economic activity in the second six months.

In the UK, consumer expenditure nosedived and the wood operation — which is DIY-based — felt the brunt. Excessive stocks and high overheads are adding to the problems.

Now chairmen Bertie and Ronnie Lubner say the agreement entered into with Whitestone Investments in January is unlikely to be fulfilled. According to that agreement, Whitestone would effectively gain joint control of Wood International for US\$55m. It could be cancelled on the basis of the suspensive condition.

Bertie Lubner noted in May that the condition calls for agreement on the strategic future of the company by end June. Because of the poor results, and changes in the nature of the business, PGSI's board is assuming the deal will fall through and it has not been reflected in the results.

Reid says each operation in the international wood division is being closely looked at and further closures and restructuring can be expected. These would be aimed at restoring the division's profitability, reducing the focus on timber trading and generating cash. R29m has been provided in the accounts to cover these costs. 1991 is seen as a year of

consolidation for the international operations while PG Bison, the local operation, will be hard pressed to match last year's results.

The glass division again supported the group, earning 434c a share. The SA operation had an "excellent year" but soft spots were experienced in the US and Australia.

An agreement entered into with St Gobain after year-end almost eliminated debt in the highly geared offshore glass interests and resulted in PGSI becoming a major force in the European autoglass market. The overall effect on PGSI was to more than halve the group's gearing from its present 78% and increase shareholders' reserves by R114m.

The directors have maintained the dividend despite the earnings slide, since they see the causes of the problems as "narrowly based and capable of being rectified in the short term" and for this year they see a return to "previous levels of profitability". This implies a rapid turnaround of the beleaguered wood division can be achieved soon.

Pam Baskind

TGH/ARWA

Sale mooted

Duros and its subsidiary TGH are set to start selling off acquisitions made during their take-over spree launched in early 1988.

The first transaction is likely to concern Arwa, whose sale could be announced this week. A cautionary announcement referring

The worst is over, says CBA chairman

By MAGGIE ROWLEY
Business Staff

THE Clay Brick Association (CBA) of the Western Cape is optimistic that the slowdown in the building industry will be short-lived and interest rates would drop by year end, chairman Mr Harry Voorma, said this week

In an interview following a Press luncheon this week, Mr Voorma said that high interest rates had had a serious impact on the middle to lower income group housing industry

"February 1988 heralded a watershed period for the industry as interest rates started to rise, people stopped investing in housing developments and sales levelled off

"The general level of activity in the past year was about 30 percent lower than the 1987/88 period. However the luxury market was unaffected and there has been more activity in this sector than was seen two years ago"

Mr Voorma said that the worst period appeared to be over

"News this week that South Africa's foreign debt crisis is over and that South Africa will have repaid the last of its instalments under the terms of the second arrangement of standstill of debt augers well for the property industry

"So does the new political climate and the move towards a 'new' South Africa," said Mr Voorma

He said he was optimistic a drop in interest rates could be seen as early as September or October

"Once interest rates drop I have no doubt that the property industry will rebound quickly and we will see spec builders coming back into the market and developments will start snowballing," he said

Mr Voorma, who is also chairman of Corobrik in the Western Cape, said price increases of clay products had been lower than the inflation rate in the past year

The Clay Brick Association, he said, was concerned about the quality of new home building in the Western Cape

"This concern and a growing lobby for better standards, particularly in the mass housing market, has led to a renewed drive by clay brick producers in the region to ensure that the best possible materials are specified

"It has been to the general detriment of the building industry that strident complaints — most of them justified — have been voiced by new-home owners, predominantly in the affordable housing sector

"The material used in the walls of these homes, where there has been premature cracking and other faults, was not clay brick. It must be noted that the dissatisfaction of home buyers has been concentrated on poor workmanship and not materials. Problems arose where alternative building materials were not used in the correct way," he said

Mr Voorma said it was the contention of the CBA that many housing projects in the Cape did not meet the expectations of buyers in terms of investment value and houses could prove a liability as maintenance costs soared

The argument that alternative masonry products were cheaper to use, he said were false

"While specifying bricks other than clay can cost the developer less for their materials, only by complying with strict building procedures can he be sure that the alternative products will perform well

"These strict procedures are expensive and would result in the building costing the same as, or more than, one constructed from clay brick

"Some developers have not observed the construction rules related to alternative products in order to capitalise on the low cost of the materials and the houses have failed to meet basic standards

"So, while the buyer is offered a cheaper home, his long-term costs, both financially and psychologically are high and will far outstrip those of a home built from clay brick particularly one built from clay face brick"

Pennypinchers is recommended

LINDA ENSOR

193

^{1310c}
²⁷⁷⁹⁰
PENNYPINCHERS Holdings offers reasonable relative value at current prices and should be bought, recommends Pieter Steyn, an analyst with stockbrokers E W Balderson

Pennypinchers is a retailer of timber, builders' hardware, sanitaryware and related building materials

"An investment in Pennypinchers provides an entry into the growing building materials and DIY markets

"Both markets will be underpinned by continuing rapid urbanisation," says Steyn in a report on the company.

At its current price of about 170c, the share is

trading on a forward p/e of 6,6 and a forecast dividend yield of 6,5%

The share is trading at more than double the net asset value of 78c

Following the company's success in the western Cape, the Transvaal market was entered in 1988 through the acquisition of Craig Hardware Group. Considerable further growth is expected from the geographical diversification, Steyn says

He says Pennypinchers derives much of its success from its positioning as a one-stop building merchant. Cash sales account for about 50% of turnover

which limits credit risk. "Strong sales growth since inception has increased the buying power of the group. This combined with the additional financial strength that will follow the current rights issue should enhance profitability"

Compound growth in turnover in excess of 35% per annum is forecast for the next three years

Earnings a share (based on the weighted average number of shares following the rights offer of 6-million shares to raise R10m) of 30,4c (25,9c) and a dividend of 14c (11c) are forecast for the 1991 year

This places the share on a prospective earnings yield of 17,9% and 8,2%.

The rights offer, underwritten by PG Bison, a subsidiary of Plate Glass, should result in PG Bison becoming a 45% shareholder in Pennypinchers. Present directors will hold 39%.

Steyn says this will give Pennypinchers access to greater financial resources.

BOUMAT

Low-cost hopes

Activities: Manufactures and supplies building materials

Control: Directors 46%, Saficon 36%

Chairman: I Brittan, MD D J. Gevisser

Capital structure: 23,8m ords Market capitalisation R125m

Share market: Price 525c Yields: 8,6% on dividend, 15,6% on earnings, p/e ratio, 6,4, cover, 1,8 12-month high, 650c, low, 450c.

Trading volume last quarter, 62 000 shares

Year to Mar 31	'87	'88	'89	'90
ST debt (Rm)	—	15,1	—	14,0
LT debt (Rm)	20,2	13,2	26,5	31,9
Debt equity ratio	0,26	0,37	n/a	0,30
Shareholders' interest	0,37	0,47	0,34	0,34
Int & leasing cover	2,2	3,8	5,5	3,0
Return on cap (%)	9,5	17,2	16,1	14,2
Turnover (Rm)	509	618	843	1 002
Pre-int profit (Rm)	21,0	36,9	57,2	57,9
Pre-int margin (%)	4,1	6,0	6,8	5,8
Earnings (c)	35,2	75	110	82
Dividends (c)	28	29	38	45
Net worth (c)	294	380	472	507

Boumat is preparing to weather another year of flat demand and a rising debt burden but expects to maintain earnings in financial 1991. Determined efforts to speed up the development of low-cost housing could bring additional benefits to the company towards year-end.

A 19% rise in turnover in fiscal 1990 exceeded chairman Irvine Brittan's forecast but the fall in the margin and the steep hike in interest payments were unexpected and caused pre-tax profit to drop 18,1% below that of fiscal 1989.

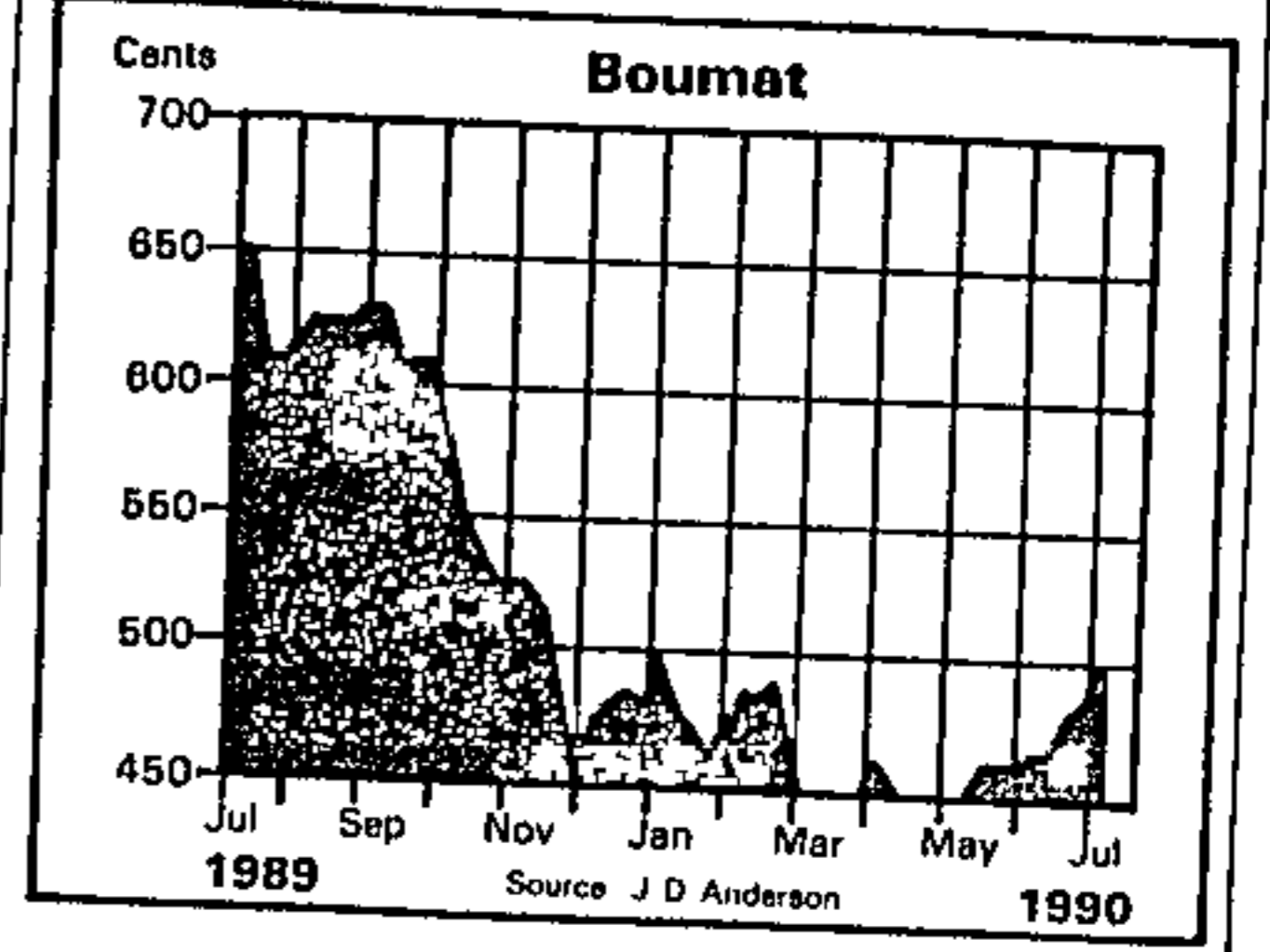
Turnover exceeded R1bn, buoyed by continued strength in non-residential building activity, but home-building declined by more than 5% and, in volume terms, Boumat's turnover was on par with the previous year.

Brittan ascribes the margin decline to a sharp rise in operating costs and heightened competition in a static market.

Interest-bearing debt climbed steeply, causing interest payments to rise to R19,5m from R10,4m. This was apparently due to a "reduction in creditor days, compounded by the higher interest rates." Cash flow was also constrained by the shorter repayment terms of several of Boumat's major suppliers. The overall result was a deterioration of Boumat's liquidity position. The debt equity ratio rose while interest and leasing cover and debt cover fell.

Last year Boumat acquired two roof-truss manufacturing businesses and a tile distributor for R2,4m cash. MD David Gevisser says Boumat is constantly looking to grow through acquisition and, since year-end, has made a number of additional acquisitions for about R12m cash. He reckons good asset management will keep debt and interest payments under control despite cash flow remaining constrained. This year the board is budgeting for a rise in interest payments of only 1%.

A 3% decline in the market for Boumat's products is also forecast by Brittan, but earn-



ings are set to remain virtually constant on a 13% turnover rise. So far this year there has been no revival in residential building activity and the non-residential market is relatively flat. But Brittan believes prospects for the development of low-cost housing are more promising because of the Urban Foundation's new financing scheme and the R2bn allocated to the Jan Steyn Trust for housing. Pressure on margins and high interest payments will continue to inhibit Boumat's performance this year but it is well placed to benefit from a turn in the building cycle.

Pam Baskind

Light at the end of Interboard tunnel

BRENT MELVILLE (193)

THERE is a dim light at the end of the tunnel for shareholders in troubled Interboard which posted a loss before extraordinary items of R21,5m in the year to end-February, with subsidiary Buldcor losing an additional R16,2m 6109207190

They were given the assurance by newly installed CE Mike Clemitsen yesterday that the group should be paying dividends again by the end of 1992

The full year results include two additional forms of losses, the largest being a R98,5m extraordinary write-off to alleged "round tripping" and over-invoicing, and the other involving a writedown in goodwill worth R13,9m to subsidiary Buldcor

Former Interboard chairman Ed Dutton is facing charges related to alleged foreign exchange dealings worth R130m

Clemitsen said Interboard's house was now in order.

● See Page 6

Interboard, Buildcor turn in great losses

(193) B Day 20/7/90

BRENT MELVILLE

THE long-awaited results from both Interboard Limited (IBL) and subsidiary Buildcor reflect an unhappy state of financial affairs.

IBL showed a bottom line loss of R127m with Buildcor into the red a further R39,2m, translating into losses of 13,3c and 7,4c respectively

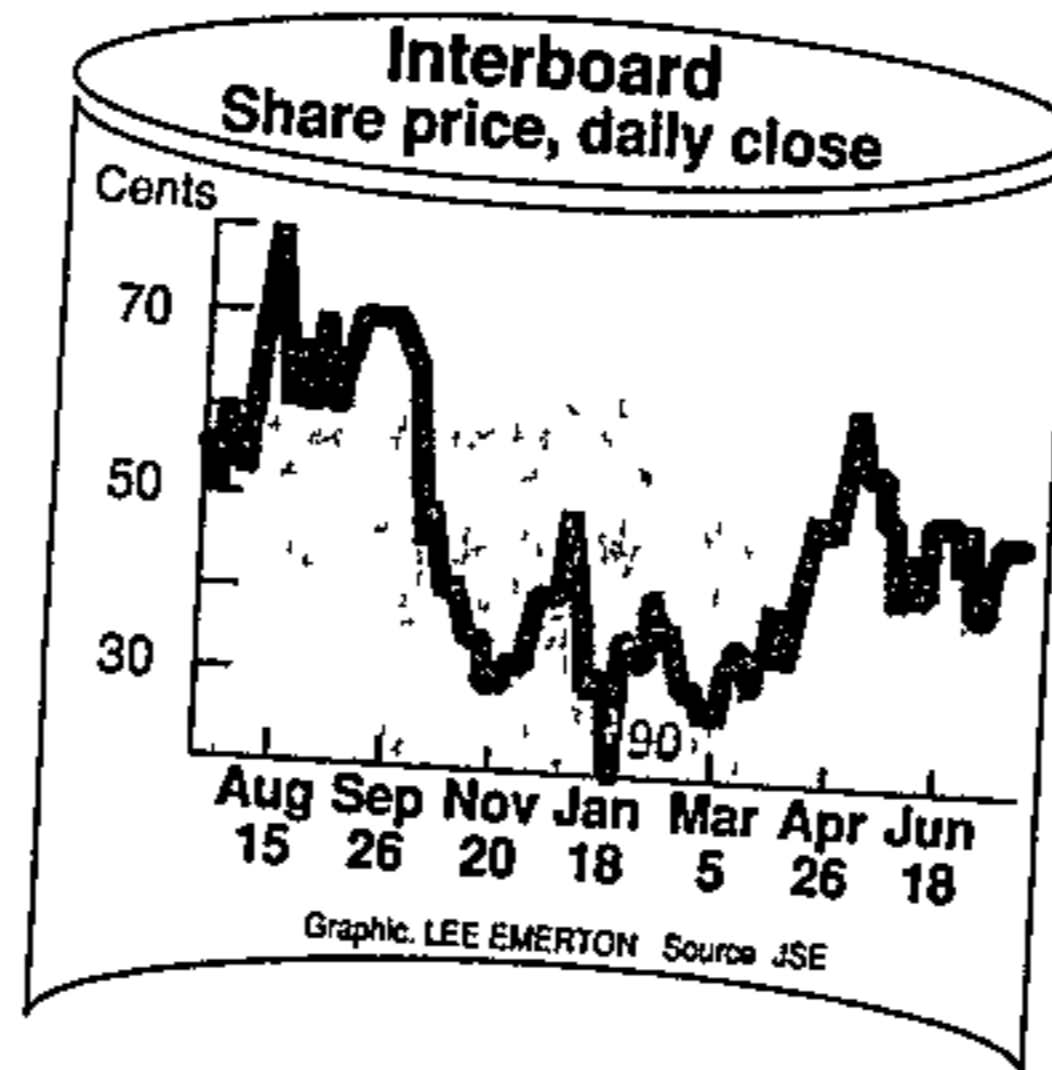
The losses come off a turnover figure for IBL of R227,5m and R68,9m for Buildcor

The groups have now outlined a plan for a comprehensive re-structuring involving the disposal of IBL's flatboard division and the injection of IBL's sole profit-making subsidiary Audiocor into Buildcor

Sources place Audiocor's profits for the year between R7m and R9m from sales of R110m

Explaining the group's distressing performance, newly installed CEO Mike Clemitsen said that a lot of the rot could be related to the fact that certain items of flatboard plant and machinery had been acquired in "questionable" transactions for amounts grossly in excess of market value. Legal actions have been instituted for the recovery of the over-charged amounts, reflected in an extraordinary write-off of R98,5m

Additional write-offs include legal fees and settlements of R3,8m and a provision of R2,4m in respect of an irrecoverable debt



In terms of the restructuring, IBL will dispose of its interest in its flatboard division, including Interboard SA, Interboard Swaziland and Despipe to an independent consortium of investors called Particle Board Investment Holdings (PBH) for a consideration amounting to a 49% interest in PBH, valued at just less than R10m

IBL is to retain a claim on a loan account against Interboard SA of R7,8m. IBL will also sell the entire issued share capital of Audiocor to Buildcor for R35,8m, settled by way of an issue of 715 824-million 5c "A" ordinary shares to IBL. Buildcor will then split its existing ordinary shares at a ratio of two for one, and convert the "A" ordinaries into ordinary shares

The disposal will result in IBL's interest in Buildcor increasing from 80% to about 95%

IBL also intends to raise an additional R14m through a rights offer to ordinary shareholders. Clemitsen said the capital would be used to strengthen Interboard's capital base and ability to develop its role as an industrial holding company

The offer has been fully underwritten by Mercantile Bank, which stands to pick up a maximum 33,3% holding if there are no other subscribers

Reflecting the changed nature of the companies, the names of Buildcor and Interboard are to be changed to Audiobuild Holdings and Abacus Industrial Holdings respectively

Directors said that if the disposal of control of the flatboard division had been effective for the whole of the financial year, the attributable loss before extraordinary items would have been reduced from 13,27c to 7,65c a share

Net asset value of IBL at end-February was 18,9c a share, compared to last year's 107,4c a share

Directors said the disposal of the flatboard business, had it been effective by year-end, would have had no effect on IBL's net asset value a share

Buildcor's net asset value plummeted from 36,18c to 4,3c a share during the same period

If Buildcor had acquired Audiocor on the terms that it intends for the whole year ended February, its loss would have been reduced from 7,4c to 0,14c a share. IBL and Buildcor closed yesterday at 48c and 12c respectively

ANGLO AMERICAN June Quarter	Tons milled 000s	Yield g/ton	Gold produced kg	Costs per ton milled R	Costs per kg gold produced R	Price received R/kg	Net profit R000s	Profit after capex R000s	EPS after capex cents
Fregold June..	6 439	4,09	26 327	121	29 518	31 501	52 715	(14 166)	(12)
March	6 434	4,31	27 727	122	28 399	33 892	184 451	87 820	75
Vaal Reefs	2 700	6,67	18 008	158	23 670	31 422	137 964	31 781	167
Western Deep Levels...	2 684	6,64	17 818	159	23 959	33 610	120 706	60 807	318
Elandsrand	1 616	5,93	9 589	138	23 279	31 301	89 488	21 426	77
SA Lands	1 638	5,69	9 318	135	23 781	33 676	81 235	23 216	84
ERGO	583	6,04	3 521	125	20 703	31 304	37 085	197	—
	497	6,27	3 116	143	22 808	33 495	31 842	15 151	16
	581	0,68	395	18	25 990	31 283	871	834	9
	597	0,62	372	16	26 468	33 664	903	1 146	12
	9 460	0,30	2 844	—	—	31 667	15 633	9 898	22
	9 463	0,32	3 010	—	—	33 818	24 883	15 356	33

Kudu's colour granites in demand

KUDU Granite is experiencing increasing international demand for its products, contradicting the negative forecast for the granite industry in recent months, says MD Peet du Toit.

The company will start production of three or four different multi-colour granites — unique in the world — within the next few months.

Du Toit said samples of the new colours were drawing very favourable reac-

tion from overseas users.

The first phase of Kudu's development programme was launched early this year when it started production of multi-coloured granite, known as Flamingo, at Parys. To date the Parys operation has sold 4 000 tons and demand is exceeding supply, Du Toit said.

Kudu's second quarry to service the market for

coloured stone is being established in the northern Transvaal.

Meanwhile, the output of black granite at Kudu's Belfast operation had increased 140% since 1989. Du Toit said the development phase, which was started at Belfast about three years ago, is now coming to fruition.

Du Toit says early indications are that Kudu will maintain its profits and dividend for the year to June 30 1990.

193
Bloubaai 25/7/90
RIAAN SMIT

HOME IMPROVEMENTS

Corobrik launches new range of clay face bricks

193

Sowetan 26/7/90

By KENOSI MODISANE

HOMEOWNERS and architects can look forward to a new era in building with the launch of Corobrik's new range of clay face bricks, the Nugget range.

The Nugget range - which has no fewer than 38 faces comprising 17 shades with up to three texture choices - has been specifically developed for discerning architects.

It will also suit designers and homeowners who demand individual styles through a combination of aesthetically-pleasing face brick colours and textures.

The Nugget range comprises products drawn from the lower end of the Medallion and upper end of the Gold Reef ranges, as well as some 11 new face bricks including:

1. Seven new face bricks from the recently acquired, high-tech New Era Factory
2. The Satinwood Travertine and Satin face brick, as the replacement to the Eland range from Rietvlei and
3. New upgarded quality Country Cottage Satin and Travertine facings from Rietvlei

The new range compliments Corobrik Transvaal's Gold Reef range of affordable clay face bricks and its Medallion range of premium-quality products, which bear the SABS-mark

Exciting

Marketing manager Mr Chris Dickinson said "This is the most exciting development at Corobrik Transvaal this year. It is ideal for the luxury housing, townhouse and cluster home's residential segment and the smaller but quality-conscious non-residential projects such as clinics and community centres"

Colour tones come in a variety of "flashed", "heart" and "mottled" markings characterising each facebrick type to create the desired aesthetic effect.

Light colour face bricks such as Gold Rustic create a cheerful and relaxed mood. For a more conservative image darker hues such as Pinto Smokey are the preferred choice.

Face brick textures provide another means of mood communication. The heavily-textured rockface and clinker types such as Village Antique Rockface create the most pleasing character for large expanses of uncluttered walling, specially when sunrise strikes at acute angles, creating strong highlight and shadow contrasts.

A rustic face brick such as Russet provides strongly-textured surface but with a less powerful character, and more modulated shadow effects. This texture is ideal for less extensive expanses of unbroken masonry.

The Satin and Travertine finishes are more subdued and create a simple elegance ideally complemented by the use of special-shape bricks to provide subtle relief from what could otherwise be slightly monotonous walling areas.

it is difficult to say how much these claims will amount to and when they will come through, as legal action in UK and Dutch courts could continue for some time "The most likely recovery would be a R20m property portfolio held via Interboard NV (in the Antilles)," Clemitson says

The Interboard intrigue seems likely to remain on the world stage for a while Clemitson says his main concern is to protect minorities It seems shareholders might believe him The Interboard price has risen from its 20c low at the beginning of the year, to 40c That is a far cry from its high of 190c in 1987.

Heather Formby

companies are blocked and shares held cannot be traded Shareholders of these companies in effect have little to say in the current restructuring

This is despite Interboard being held ultimately by Gibbs Industrial and Investment Trust via a 100% shareholding in Interboard NV, which in turn has a 100% shareholding in Interboard BV The Dutch and Antilles companies own 72% of Interboard Ltd in SA

"Shares in the holding companies are being managed by a management company called CITCO which was recently appointed and is controlled by Gibbs trustees," says Interboard CE Mike Clemitson. "Any decisions regarding Interboard will be made here, provided no shareholder could be prejudiced by management's actions"

The preliminary results for the year to end-February for Interboard and subsidiary Building Material Manufacturers (Buildcor), also revealed a restructuring Clemitson hopes this will lead to profitability in the second half of the current year and dividend payments in February 1992 These projections are despite massive losses and write-offs which followed poor performance in the flatboard division and the acquisition of plant and machinery for grossly exaggerated amounts.

Interboard posted an attributable loss of R127m, which includes an extraordinary item of R105,5m. The exaggerated value of flatboard plant and machinery led to a write-off of R98,5m, while legal fees and settlements account for R3,8m and R2,4m has been provided for "an irrecoverable debtor" — an insolvent company, Fasterec, with which Interboard had a loan account

Buildcor, in turn, posted a R39m loss including a write-down of goodwill and investment of R14m

In the reconstruction, Interboard will sell its entire flatboard division — Interboard SA, Interboard Swaziland and Despipe — to Particle Board Investment (PBH), controlled by an independent consortium of shareholders The price is a 49% interest in PBH The consortium will provide R10m new capital for investment in the flatboard division Clemitson does not think the division will be a great loss "as it contributed only around 16% to turnover"

Interboard has also sold its 100% shareholding in Audiocor, one of the more reasonable performers in the group, to Buildcor "It makes financial sense because of tax considerations," Clemitson says "With the write-off of goodwill, followed by a split and consolidation, assets were looking thin"

To fund the Audiocor acquisition, Buildcor intends issuing 716m shares to Interboard This will increase Interboard's shareholding in Buildcor from 80% to 95% Buildcor will be renamed Audiobuild Holdings, while Interboard will be renamed Abacus Industrial Holdings.

The reconstructed group is hoping to increase its net worth by the recovery of assets from overseas shareholders Clemitson says

INTERBOARD FIM 27/7/90 (193)

New start

Despite the immobilisation of Interboard's controlling shareholders in Holland, the Antilles and Guernsey, the SA company intends raising R14m additional permanent capital by way of a rights issue to ordinary shareholders.

The freezing by the Reserve Bank of the shares of Guernsey-based trust company Gibbs Industrial and Investment Trust, Antilles-registered Interboard NV and Interboard BV in Holland, means dividends to the

CHECKERED BOARD

Year to Feb 28	1989	1990
Turnover (Rm)	188,1	227,5
Operating profit/(loss) (Rm)	22,17	(5,4)
Income/(loss) after tax (Rm)	22,15	(23,4)
Attributable income/(loss) (Rm)	24,5	(127,0)
Earnings (c)	13,12	(13,27)
Dividends (c)	7,3	nil

Gypsum answer

AN inadequate transport network has for years forced Natal Portland Cement to import gypsum from Spain

But a R12-million gypsum plant being built in Natal as a joint venture between SA-Tioxide and NPC will end foreign buying and save currency

NPC works manager Eric Crocroft says "The cost of railng gypsum to NPC from inside SA is higher than imports from Spain"

NPC is owned by major cement manufacturers PPC, Blue Circle and Anglo-Alpha

The new plant is the second in SA to use a waste effluent in the manufacture of gypsum, which has a retarding effect on the setting time for cement

Andy Clucas, business development manager for SA-Tioxide, says "We will use waste from our processes to make gypsum for the first time"

LAURENCE M. J. SALES

Revised tax policy aids Blue Circle

The good times enjoyed by most companies in the 80s just couldn't last. Is the good life a thing of the past and are prices beyond the reach of many? *sta 30/7/90*

Companies are struggling to maintain their lavish earnings trends and accounting policies are being examined and changed to raise earnings to look good.

In 1989 Blue Circle changed its deferred-tax policy from the comprehensive to the partial basis, thereby increasing earnings per share from 78,1c to 94,3c.

In a capital-intensive industry operating in an inflationary climate, providing for full deferred tax is impractical as the amount will be considerably less in later years, so why overstate the position now.

Blue Circle celebrated its 75th anniversary with a record performance. All three divisions — cement, materials and engineering — increased sales and operating profits.

But the increase was hollow as sales increased by 40 percent, but the bottom line by only eight percent.

The reason was simple: the boom began in mid-1987, lasted only two years, and in the second half of 1989 came the slide. The cement division is operating at only two thirds capacity.

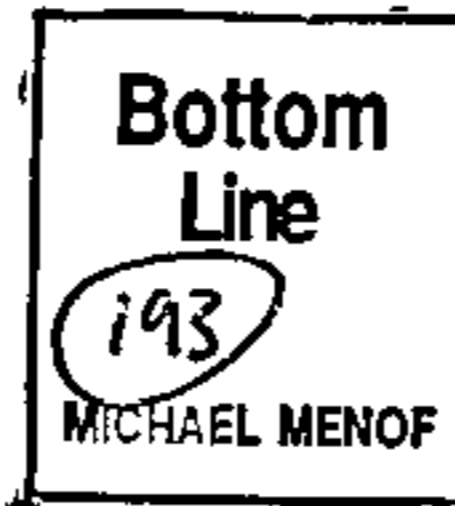
There were no cement imports into SA over the year due to worldwide shortages but, as in the past, Blue Circle was unable to take advantage of export opportunities because of high railage costs from Lichtenburg to the nearest harbour.

What an admission that high railage costs are the sole cause of the company and country not earning much-needed forex.

This is even stranger considering the sorry state of the rand.

The real reason, of course, is that SA cement costs are too high and, what's more, cement prices were lifted 10 percent in January 1989 and a further five percent in July to meet inflation costs, says management — to fuel the inflation rate, I say.

But the Government supports the cement cartel and approves these rises, so one cannot fight the tide.



The merger of Murray & Roberts' quarry operation into the materials division was completed by forming Ready Mix Materials, held 60 percent by Blue Circle.

But rationalisation benefits must still materialise. Sales volumes declined, expenses increased and margins were adversely affected.

The engineering division, although small by comparison, seems to have its act together and should do well in 1990.

Helped by the Murray & Roberts deal, sales climbed to R741 million (1988: R527 million), yielding a trading surplus of R171,3 million (1988: R138,5 million).

After deducting depreciation of R44,4 million (1988: R28,3 million), lower net finance charges of R7,5 million (1988: R17,4 million) and tax of R27 million (1988: R17,8 million), taxed profits were R92,4 million (1988: R75,1 million).

Income from associated companies was slightly lower at R10,7 million (1988: R11,3 million), but minority shareholders' share was R12,24 million (1988: R2,17 million), leaving attributable earnings a shade better at R90,86 million (1988: R84,15 million).

But taking into account 1988's extraordinary items of R11,29 million really showed 1989 lower. Earnings per share were 329,8c (1988: 305,5c), with dividends per share 110c (1988: 100c).

Major contributor to the bottom line was the cement division, with operating profit before interest up from R53,9 million to R58,1 million. In fact cement sales volumes fell two percent in 1989.

Blue Circle holds 33,3 percent in Natal Portland Cement, which produced a further strong improvement in profits over 1988, says management.

The materials division benefited from the consolidation of Murray & Roberts' quarry operations.

Sales increased from R243 to R397 million and operating prof-

its from R39,9 to R50,6 million.

Lower sales volumes were experienced in the latter part of the year. The engineering division's operating profits rose from R16,5 million to R18,3 million.

The balance sheet looks strong, with shareholders' funds of R363,7 million (1988: R302 million) at end-December 1989.

Goodwill on purchase of a subsidiary at R10,6 million (1988: R32,4 million) was not written off, but deducted from the share premium account of R52,4 million, while R20 million on restructuring of a subsidiary was deducted from non-distributable reserves.

Total debt appears to have declined to R55,2 million (1988: R80,6 million), but closer examination reveals that Note 9 — minority shareholders — included an R82,6 million shareholders' loan account, which was interest-free, had no fixed repayment terms and was in the nature of long-term funding.

Does this mean that debt was really R137,8 million?

Working capital improved marginally to R16 million (1988: R10,7 million), but more information is needed for Note 16 which says that an investment of R5 million (1988: R13 million) was pledged to Standard Bank as security for performance guarantees to an unnamed major customer of a subsidiary.

Net worth per share rose to R13,20 (1988: R10,96).

The budgets for 1990 show earnings will be at the same level as those of 1989, says outgoing chairman Trevor Coulson.

This might be hard to sustain as the engineering division expects to improve, but cement and materials appear soft. The interim, due next month, will provide the answers.

Held 84,8 percent by the UK's Blue Circle Plc and D&H (Malak) equally and with less than a million shares in private hands, the group has powerful controlling shareholders.

But fighting the economy in its present mood could be more than Blue Circle is bargaining for.

Stocks & Stocks has maintained dividend

8/04 31/7/90

A REDUCTION in business volumes, continuing increases in the price of basic construction materials and recurring labour disruptions beset construction group Stocks & Stocks in the year to April

Earnings lifted by 10% to 44c (40c) a share and the dividend was maintained at its 1989 level of 10c a share

Turnover improved by 3% to R1,103bn (R1,074bn), but operating income rose faster by 19% to R39,8m (R33,4m) After increased finance charges and a tax rate of 17% (11%), after-tax income of R21,6m (R19,9m) was achieved

On the balance sheet short-term loans more than doubled to R17m (R6,7m) The directors said financing had been raised for property development activities

An extraordinary loss of

CHARLOTTE MATHEWS

R1,16m on the income statement is not explained and no directors could be contacted last night for comment

The directors said the largest contributor to profits were building construction and property development, especially the house building division

But offshore operations were disappointing and a loss of R10m was sustained by the township development and house sales operation

At year-end the group had orders totalling R1 020m compared with R750m in 1989 "This together with prospects currently under negotiation will see the group's workload for the current year at satisfactory levels," they said

193

Cartel blamed for construction crisis

Bl Day 1/8/90

193

THE building and construction industry, already in distressing economic straits, has been dealt another blow in the form of a price increase by the three-member cement cartel.

The 5,5% increase in the general average price of cement was announced in June by the cartel comprising Pretoria Portland Cement (PPC), Anglo Alpha and Blue Circle. The increase took effect on July 1 and is in addition to the January 1 average increase of 9,3%.

A spokesman for a major construction group yesterday criticised the increases as "unjustified and unfair — these constant increases are threatening to grind the entire industry to a halt", he said.

SA Federation of Civil Engineering Contractors (Safcec) CE Kees Lagaay agreed, saying that normally the industry would be forced to buy ahead in anticipation of the increases. "However, with high interest rates companies can no longer afford to stock cement for too long and the increases will only serve to erode industry activity."

He said that with work volume already at extremely depressed levels, and client's budgets not looking too good, anything that served to increase working costs would be immediately translated into reduced orders.

Cement producers argue that the regular hikes are necessary to pass on increasing rail tariffs for cement.

Reflecting the inability of the industry to

BRENT MELVILLE

cope with the spiralling costs, the most recent figures provided by the SA Cement Producers Association (SACPA) show that whereas market hedging before last year's 5,3% July price rise resulted in a 12% upturn in cement sales for May/June, this year's sales figures for May slumped by 34 057 tons and by 12 492 tons for June.

The total for the year has thus far shown a decline in sales of 160 616 tons, representing a 4% drop to 3,86m tons. Production for May showed a negligible increase and June figures nose-dived to 704 625 (778 815) tons.



Kees Lagaay ... cement price increase will erode activity.

SACPA manager Vincent Bray said yesterday that producers were expecting the downturn to accelerate in the remainder of the year, resulting in a total downturn in production of about 5%.

Current SACPA figures show an annual moving total to December of just under 7,9-million tons, a 2% decline over last year's 8-million tons.

Granite growth (193)

Keeley, which claims to be the world's largest granite producer, saw another record year during 1990, though the stronger rand and

Activities: Quarrying, beneficiating and exporting granite

Control: The directors control 66% of the equity

Chairman: M F Keeley, MD M N Riekert

Capital structure: 35,1m ords of 10c each

Market capitalisation: R360m

Share market: Price: 1 025c Yields 7,3% on dividend, 12,0% on earnings, p/e ratio, 8,3, cover, 1,64 12-month high, 1 200c, low, 810c Trading volume last quarter, 350 000 shares

Year to Feb 28	'88	'89	'90
ST debt (Rm)	4,4	10,6	16,2
LT debt (Rm)	3,9	10,5	11,7
Return on equity	56,7	80,2	78,1
Turnover (Rm)	66	144	192
Pre-int profit (Rm)	15,8	39,9	58,3
Pre-tax margin (%)	22,4	26,7	27,3
Earnings (c)	42,5	91,9	122,8
Dividends (c)	11	55	75

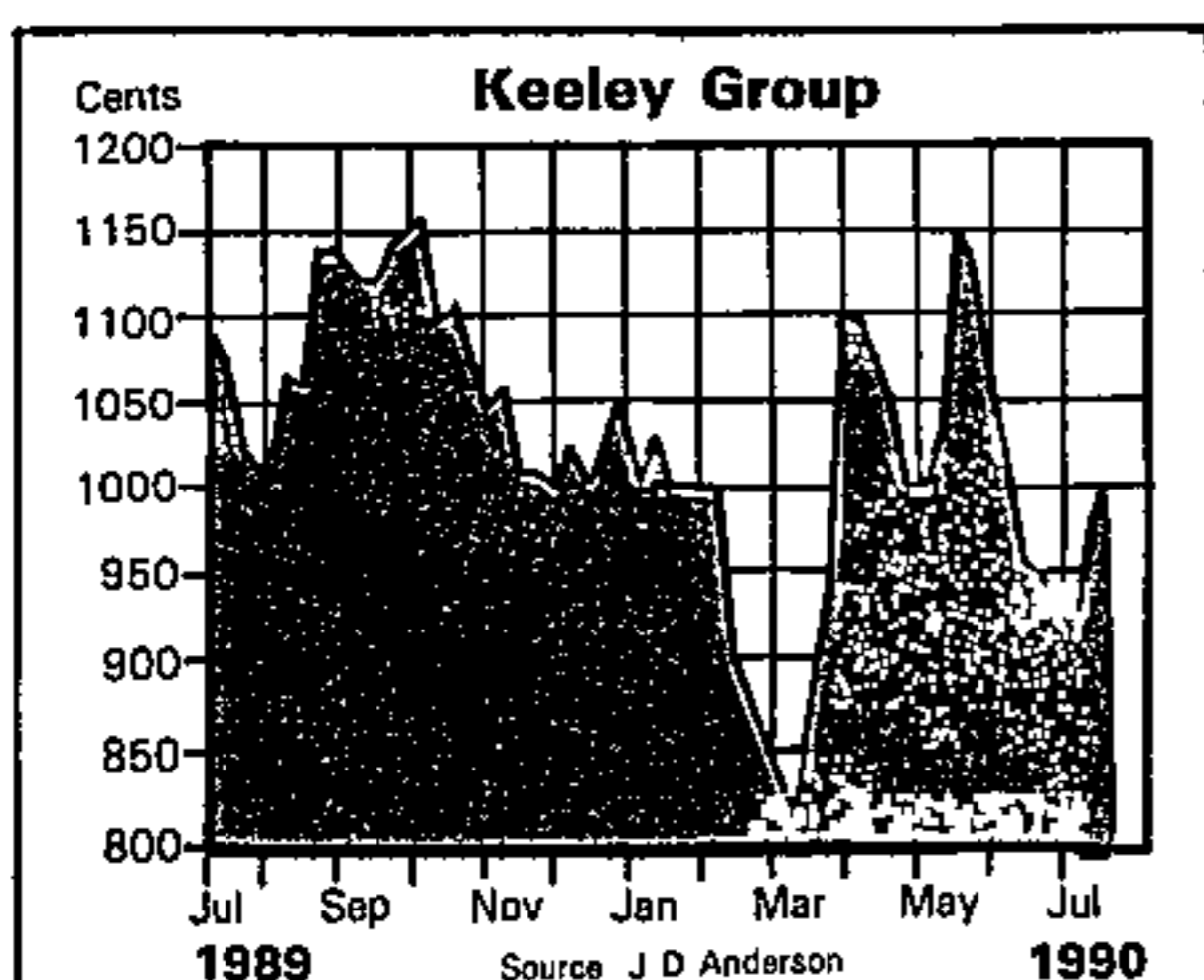
flagging demand for grey granite put a bit of a damper on turnover growth. It dropped to 33% from the previous year's 118%, indicating Keeley is outperforming most competitors

Demand from the building industry has continued to strengthen and remains the core of the granite business, while monumental demand has remained steady Keeley has increased its market penetration largely through its policy of "establishing a variety of granites in colours required by the international market," says chairman Fred Keeley Output was up by 18% during the year to 355 000 t, roughly half SA's export total

Beneficiation of granite has also contributed to the improved performance, though at this stage on a fairly limited scale The Ciskei tile factory is now operating at full capacity with the good quality of output giving Keeley something of an edge on its international rivals — orders are already well in excess of capacity, which will be doubled by year-end

So successful has the venture been that two more plants are on the drawing board, one in Bophuthatswana and the other in Zimbabwe This makes sense as the granite will be processed at source, thereby reducing railage and other costs and further enhancing profitability With an added value in the region of 300%-400%, the move to beneficiate will probably become more pronounced

The group intends to pursue its strategy of raising market share by "increasing productivity and reducing unit costs, while at the



Keeley's Keeley ... tiles giving an edge

same time maintaining a high standard of quality" The new tile factories should go some way to achieving this but the group also has several other plans

A Transkei quarry, now being prospected, will produce a black granite similar to the sought-after Belfast Black at a lower production cost Output of the coloured granites is to be raised substantially, notably the red material mined in Lebowa Demand by the construction industry for this colour is soaring with little let-up in sight

Keeley reckons the group will have to raise grey granite production by about 20% — just to keep pace with the demand — an important increase in the weakest sector of the market

"It is expected that the next five years will see a steady growth in worldwide demand for granite products," he adds One of the advantages the group has enjoyed over local competition is its very active prospecting programme. This should ensure Keeley has adequate resources to meet growing consumption

FIM 318/90 (193)
The share has shown disappointing performance over the past year, having basically fluctuated around the 1 000c mark However, at the current 1 025c, it is on a better-than-average yield with reasonable growth prospects and is offering value

Gillian Findlay

PGSI FIM 3/8/90

193

Touch wood

Activities: Manufactures, distributes and installs flat and automotive glass, procures, manufactures, processes and distributes timber and board products

Control: Liberty Life and directors

Joint executive chairmen B Lubner and R Lubner

Capital structure: 16,47m ords Market capitalisation R785m

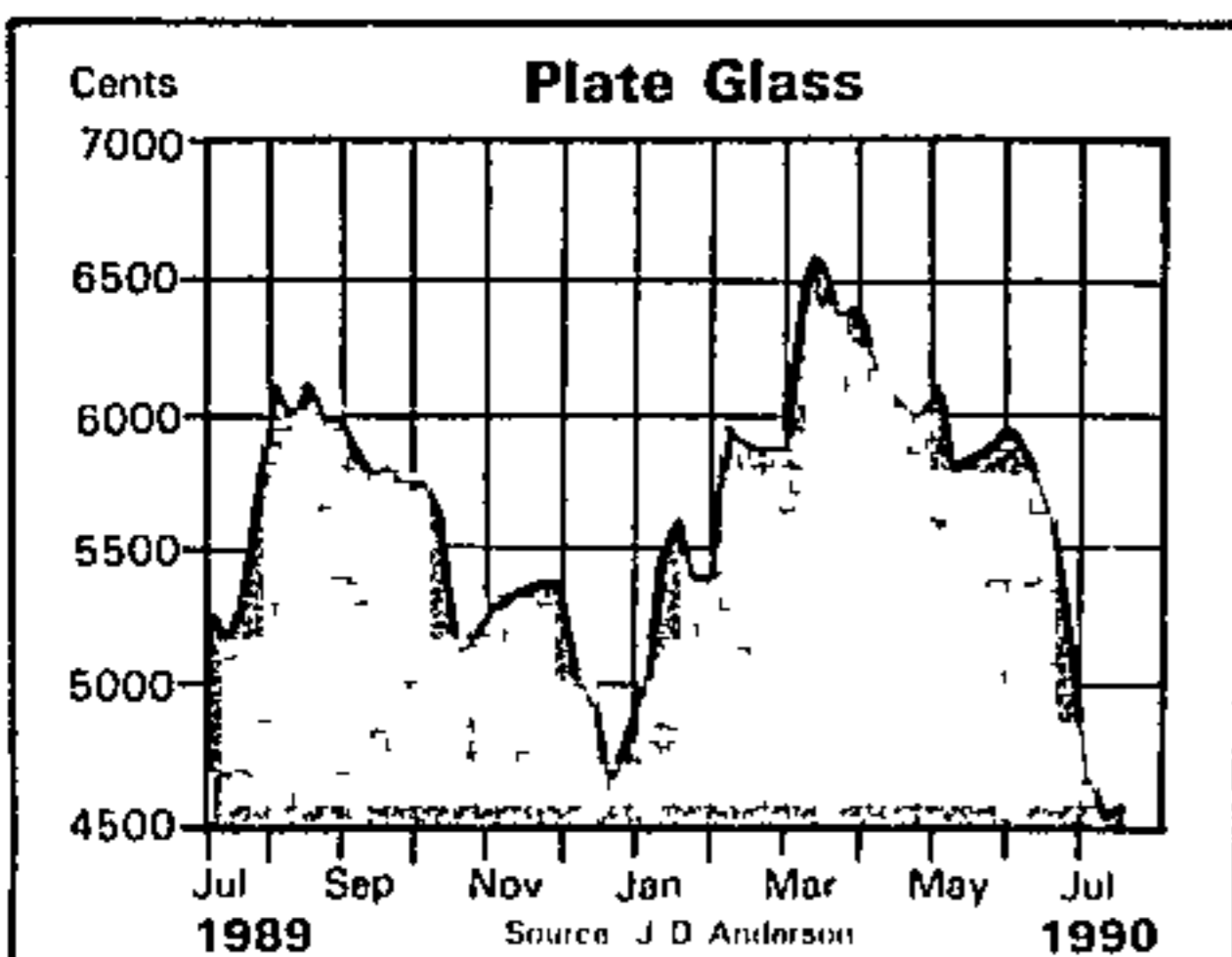
Share market: Price 4 600c Yields 4,8% on dividend, 7,7% on earnings p/e ratio 13,0, cover, 1,6 12-month high, 6 800c, low, 4 525c Trading volume last quarter, 269 000 shares

Year to Mar 31	'87	'88	'89	'90
ST debt (Rm)	123 0	159,1	93 9	196 7
LT debt (Rm)	129 0	129 7	219 7	247 1
Debt equity ratio	0 75	0 50	0 49	0 78
Shareholders interest	0 35	0 43	0 41	0 33
Int & leasing cover	5 17	5 68	5 2	4 7
Return on cap (%)	13 9	15 0	17 4	15 9
Turnover (Rbn)	1 68	2 32	2 76	3 13
Pre-int profit (Rm)	137,5	204,2	275,2	291,1
Pre-int margin (%)	8,2	8 8	10 0	9 3
Earnings (c)	305	401	483	355
Dividends (c)	145	185	222	222
Net worth (c)	1 940	2 560	2 890	2 560

Rand-hedge investments are all very well, as long as foreign operations perform. But once things start going wrong, the back-home effects tend to be magnified out of all proportion. Plate Glass & Shatterprufe Industries (PGSI) is the latest to have learnt that hard lesson as its foreign wood division tumbled into losses and as the US glass division generated more red ink.

The foreign operating problems cut consolidated earnings by more than a quarter and upset refinancing plans involving the sale of a stake in the international wood interests to foreigners. Still, the Lubner brothers hope the situation will be contained this year and are looking forward to resumed earnings growth before 1992, though not immediately to 1989 levels.

The consolidated operating profit rose 5,8% last year on turnover growth of 13,4%. Sales of the wood division, which contributes 39% to total sales, rose by 8% to R1,6bn but its operating profit plunged 54%. The glass



PGSI's Lubners ... foreign grass isn't greener

division increased sales by 17% to R2,6bn and operating profit rose by about the same percentage despite the US losses.

On wood, joint chairman Bertie Lubner says local operation PG Bison performed reasonably and increased market share. It contributed 106,2c to group earnings of 355c and has acquired 45% of building materials distributor Penny Pinchers. But international timber trading operation Interwil was badly hit by a failure to cope with foreseen changes in the nature of the business and the loss of senior management. Several timber-producing countries have decided to benefit at source and have restricted exports.

Notably, Brazil imposed economic constraints, freezing bank accounts which resulted in hardwood supplies being cut. In addition, Connie Schey, a director and Interwil's key figure, left the organisation along with other senior executives and Lubner acknowledges that operations "were for some months in a hiatus".

Down under, the programme to expand wood operations in Australia failed. Eleven branches were opened in the first half of the year and 12 were promptly closed in the second to cut overheads in a weakening economy. The weakness of the UK's economy hurt wood's DIY based operations. The international division's woes are reflected in its contribution to earnings per share — a loss of 208,8c.

The glass division's overseas interests fared better, though Australia and the USA were "soft spots". Competition from imports limited building glass sales in Australia but the auto-glass market remained buoyant.

The US company failed to stem losses relating to start-up and expansion costs a

loss of 74c per PGSI share was incurred.

The UK and European glass operations increased operating profit by 4% on a 16% turnover rise with the auto division experiencing strong growth. A goodwill write-off of R66m was made — this apparently relates to an acquisition in the UK. Ronnie Lubner, the other joint chairman, says the strategy of the glass division is to establish a major presence in the European auto-glass market. Last year, 40 more outlets were established and, since the year-end, a major deal with Saint Gobain added 145 outlets in France and Germany.

The agreement concluded with Saint Gobain resulted in the disposal of PGSI's building glass division in the UK to Saint Gobain for £100m and the purchase of the French glassmaker's auto-glass replacement outlets for £16m. Essentially PGSI has re-financed itself to the tune of £84m-odd. Funds made available through this deal will be used to cut debt and reduce the group's gearing which had risen substantially during the 1990 financial year. Debt rose 49% to R486m (this includes preference shares), the debt equity ratio increased, debt cover fell and shareholders' interest declined. Bertie Lubner says gearing is now "well under 0,30".

Overall the glass division's expansion in Europe and the wood division's planned cut-backs abroad this year should eventually support future foreign earnings. PGSI's non-SA interests contributed 60% of total assets and 64% of sales in fiscal 1990, but weighed in with only 3% (35%) of earnings. And while foreign operations are set for some recovery before 1992, local wood and glass operations are slated at best simply to mark

... to 15 percent of lion) ... those for the first six months."

Blue Circle's earnings down

Star 10/8/40
By Sven Lunsche

(193)

Blue Circle's earnings in the six months to end-June fell by 15 percent as both public and private companies cut back on building expenditure

In its interim report today the cement group says attributable earnings fell by 14,9 percent to R38,28 million from R44,96 million in the first half last year.

This translated into a decline in earnings a share to 139c from 163,2c. But the interim dividend has been raised by 5c, or 12,5 percent, to 45c.

Turnover was up at R383 million (R353 million), but operating income fell by eight percent to R57,23 million from R62,21 million.

Lower capital expenditure and the exhaustion of assessed losses in the cement division resulted in a higher effective tax charge at R14,57 million (R13,13 million).

The board says reduced spending by the public and private sectors affected demand for materials supplied by the cement division, although this was partly offset by exports.

Associated companies also experienced difficult trading conditions and made a lower contribution to group profits. However, the engineering division performed satisfactorily, despite lower demand from the mining and automotive sectors.

Although borrowings are seasonally higher at mid-year, they are lower than at the same time last year and the directors expect to reduce them further by year-end.

They add that the group would probably not meet last year's earnings level for the full financial year as sales volumes have declined to a greater extent than expected and are expected to drop even further.

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Star 10/8/90 (193)

Strike action hits profits at Everite

Finance Staff

Hampered by strike action and a decline in business conditions, Everite has shown a decline in earnings for the year to end-June

The group states that attributable income was R18,43 million compared with the previous year's R23,68 million

Earnings per share were down to 30,4c (32,2c)

The group states that the lengthy 1989 strike, which lasted for just over 13 weeks, affected earnings per share by about 5c while interest paid rose from R2,33 million to R4,12 million

Sales volumes were 18 percent down and turnover decreased by six percent to R352 million (R373,2 million)

Investment income rose from R7,43 million in the previous year to R9,45 million

A final dividend of 5,5c a share was declared, maintaining total distribution for the year at 13c

Managing director Goerge Thomas said that after a disappointing first half, the group enjoyed a modest nine percent recovery in second-half earnings.

Everite Holdings, whose income comes from its 56 percent holding in the Everite Group reported earnings per share of 88,2c (93,1c) and paid a dividend of 16c

Asbestos producers' earnings dip

By Derek Tommey

Asbestos producers Gefco and Msauli report lower profits and dividend payments for the six months ended June. They also report that the commissioning of the Von Brandis gold project they are jointly financing has been postponed until 1991 because of the weak gold price.

However, neither mine is expecting any further decline in profits. Gefco says its earnings in the second half of the year should at least equal those in the first half, while Msauli is forecasting higher earnings.

Gefco's earnings in the six months ended June dropped from

32,3c to 16,0c a share and it has reduced its interim dividend from 7,5c to 4,0c

Turnover rose from R47,7 million to R56,6 million owing to slightly higher sales volumes of both blue and amosite fibre as well as exchange rate benefits. But operating income was affected by higher unit production costs and labour problems.

Msauli's earnings are down from 126,0c to 59,4c a share and its interim dividend has been trimmed from 25c to 20c.

Production was affected by temporary mining problems which also led to higher operating costs. The six percent rise in sales was

mainly the result of exchange rate benefits.

Operating income dropped from R9,8 million to R5,4 million and net income after tax from R8,1 million to R3,8 million.

Construction of the gold recovery plant at the Von Brandis gold project is virtually complete, but the completion of the main vertical shaft to 50 level is not expected before the last quarter.

A R2,5 million six months underground development programme has begun to improve ore availability. Each mine has contributed R5,65 million to Von Brandis which is expected to have a final cost of R16 million.

EVERITE FIM 1718190

Cracks showing (193)

Delays in government-sponsored low-cost housing developments, a strike, high interest rates and a general economic decline have resulted in declining year-end figures for Everite

The group, which provides products to the building and construction industries, saw turnover fall 6% to R351m and operating profit drop 11% to R53,3m in the 1990 year

Financial director Anton Bischof says Everite relies partly on the low-cost housing sector, and delays in spending government funds have hampered the group and the building industry as a whole. He says unrest in the townships have also affected the industry, as builders have found it difficult to remain on site

In addition, high interest rates have curbed private investment in new houses, particularly in the lower end of the market. A strike during the third quarter of 1989 at the group's major factories especially reduced production in the fibre cement division. The division is the group's largest profit contributor, having kicked in 70% in 1989

Bischof believes declines in interest rates expected towards the end of the year and the start of low-cost housing developments, should help improve the situation. Everite hopes to take advantage of the opportunities this will offer. "However we are operating on a very tight budget and are anticipating another tough year," he says

Like most other companies fighting the recession, Everite is looking to rationalise where it can. "We are trying to use our resources better to get greater efficiency and wherever possible contain our fixed operating costs," Bischof says

Everite's strong balance sheet has allowed it to maintain its 5,5c final dividend. The group tries not to cut dividends and Bischof says this policy will most likely be maintained this year. Everite is rated favourably on the building and construction board,

FINANCIAL MAIL AUGUST 17 1990

FIM 1718190 (193)
where the share yields 4,8% on dividend and offers a p/e of 12,5. But, at 270c, the group is unlikely to have much to offer investors in the form of good returns in the near future

Heather Formby

Gefco and Msauli see a decline in interim profits ¹⁹³

^{w/ Msauli 1718 - 1918/90}
ASBESTOS producers Gefco and Msauli sustained world sales in the six months to end-June, but escalating production costs and stable dollar prices combined to force earnings for this period well below the record levels of 1989

Interim results announced yesterday show Gefco with a net income of R5,8-million (1989 — R11,6-million) and Msauli with R3,8-million (1989 — R8,1-million) Gefco declared an interim dividend of 4c (1989 — 7,5c) and Msauli declared an interim dividend of 20c (1989 — 25c)

Executive chairman Pat Hart said the results were in line with the companies' expectations as noted in their annual re-

ports Gefco would maintain this level of performance in the second half of the year, and Msauli was likely to exceed it

"Gefco's operating income — down to R7,2-million from the comparable six months' R14,6-million — was hit by higher unit production costs at both the Kuruman and Penge mines. These were attributable to teething problems with the recommissioning of additional production units at Kuruman, and increasing underground operations as well as labour problems at Penge. Profitability was also affected by lower sales from old stocks held at historic costs, Hart said

"At Msauli, the tonnage available for sale was restricted by lower production

resulting from temporary mining problems which affected both the tonnages mined as well as the mill feed grade. The lower production volume also increased the unit production costs, with the result that operating income reduced from R9,2-million to R5,4-million for the period." Hart said Gefco's production problems were being addressed and volumes were expected to improve during the second half of the year

Markets for Gefco's crocidolite and amosite fibres remained reasonably firm and it was expected that sales would exceed those of the previous year. Profitability would, however, continue to be affected by high unit production costs and the strengthening rand — Sapa

Costs knock Gefco, Msauli

ASBESTOS producers Gefco and Msauli both posted lower results for the six months to end-June, compared with the records set during 1989

Gefco's turnover for the period rose 19% to R57m (R48m during the previous period), but operating income was down 106% to R7,2m (R14,9m)

This loss could be attributed to higher unit production costs at the Kuruman and Penge mines, commissioning costs and labour problems, executive chairman Pat Hart said yesterday.

Net income after tax was R5,8m, 102% lower than in the same period last year. Earnings a share fell to 16c (32,3c). A dividend of 4c (7,5c) was declared.

Msauli's turnover for the period rose 6% to R33m (R31m), while operating in-

B 109 (7/8/90)
PETER GALLI

come dropped 70% from R9,2m to R5,4m as production volume declined because of temporary mining problems

A 112% reduction in net income after tax to R3,8m (R8,1m) was suffered. However, Msauli declared a dividend of 20c (25c) on a 112% plunge in earnings a share to 59,4c (126c)

Hart said the results were in line with expectations. "Gefco will at least maintain this level of performance in the second half of the year, while Msauli is expected to exceed it"

Gefco's production problems were being addressed. Volumes were expected to improve and the markets for Gefco's and Msauli's products remained firm. However, the mines' profit-

ability would be affected by the stronger rand

In view of the recent slump in the gold price, commissioning of the Von Brandis gold mine, in which both companies have a 25% stake, had been delayed

A six-month underground development programme had been initiated to improve ore availability

Cementing a deal

SA Tioxide and Natal Portland Cement have embarked on a R12m joint venture to build the country's second gypsum plant. Gypsum is an indispensable constituent of cement and the cement company must now import it from Spain. **FIM 24/8/90**

The plant, planned for Umbogintwini on the Natal south coast, will save the cement company about R1,1m a year in import costs and supply its three Natal cement plants with 20 000 t/year of gypsum.

The advantage for SA Tioxide is that it will have an outlet for one of its by-products, a weak sulphuric acid effluent that is now pumped into the sea off Amanzimtoti. SA Tioxide manufactures titanium dioxide pigment used in the paint, plastic and foodstuffs industries.

SA Tioxide business development manager Andy Clucas says that by finding a use for the waste acid, the company will cut the acid content of its effluent by one-third.

He adds that the project is the first in a series of developments to employ technology from the UK-based Tioxide Group. These will make better use of waste and by-products while increasing product diversification.

"It also fits in with our long-term objective of reducing the impact our plant has on the environment," he says. Work on the plant has begun and production is expected to start in January.

Negotiations are under way for the sale of a by-product of the gypsum-producing process, carbon dioxide gas, to a gas company. The gas is used extensively by soft drink manufacturers.

The only gypsum plant now operating in the country is PPC's plant in Germiston. Natal Portland Cement, owned by PPC,

(193)
Blue Circle and Anglo-Alpha, supplies 68% of Natal's annual 1,2 Mt cement requirement. Its Durban plant produces and sells 850 000 t/year. **FIM 24/8/90**
The multinational Tioxide Group owns 60% of SA Tioxide and AECI owns the balance. ■

F/M 24/8/90

ity to meet full demand during the first half But both companies suffered from sharply higher costs and lower profits — Msauli because of lower output and Gefco because of teething problems at its Kuruman re-openings and labour problems at Penge

Production problems caused Msauli's poor performance Demand for its chrysotile asbestos is firm and the mine's shortage of saleable fibre meant turnover rose by only 6% Even that was largely due to favourable exchange rate shifts (193)

Problems at the mine are typical of this type of undertaking — timing differences of sub-level caving operations — and should be temporary "We are catching up with the production backlog," says chairman Pat Hart "And we should see a recovery in output during the second half of the year."

Sales tend to be seasonal, rising in the July-December period, and Msauli should be able to take advantage of this with the expected higher level of production The mine has a fairly high proportion of fixed costs and is consequently highly geared to production levels. As a result, the operating profit margin took a knock, falling to 16,3% from 29,5% The reverse should occur when asbestos production is back to normal

Revenue during the second half of the year will depend on the mine's ability to bring production back to previous levels and the rand/dollar exchange rate Directors state that "it is expected that net income after tax for the last six months of the year will be higher than during the period under review "

Gefco increased turnover by 19% on the back of slightly higher sales volumes as well as the exchange rate A sharp hike in costs (about 50%) saw a dramatic plunge in profitability — the operating profit margin collapsed to 12,7% from 31,2%

Two years ago output was slashed and mines mothballed to cut high stocks. "We returned certain plants to production this year but that was costly and there was a time delay between the re-openings and the generation of output," Hart explains

"We have now completely exhausted our stockpile and must rely on new production to achieve our sales targets "

Costs have obviously soared New output will incur costs at a far higher rate than stocks held at historic costs and, basically, a new base will have to be set However, the level should show some improvement during the second half of the year

Some of the labour problems cited were those incurred to recruit and train additional workers to produce at the higher rate and to get them to the required levels of productivity

"Our volumes are picking up," says Hart, "and we look to higher production during the second half."

"The markets for both blue and amosite fibres remain reasonably firm and it is expected sales volumes for the year will exceed those of the previous year," he states

The rand/dollar exchange rate is something to be aware of Together with the still

MSAULI/GEFCO F/M 24/8/90

Fibre paradox (193)

The asbestos market is well on the mend That, at any rate, is one inference from Gefco's programme of re-opening mothballed mines and, ironically, Msauli's inabil-

F/M 24/8/90 (193)

high unit costs it could adversely affect profitability

The Von Brandis gold project — a venture between Gefco, Msauli and Phelps Dodge — construction of the gold recovery plant, is virtually complete However, a series of shaft-sinking setbacks should mean a delay in completion of the shaft until the last quarter of this year

MSAULI'S INTERIMS

Production problems

Six months to June 30	1989	1990
Turnover (Rm)	31,2	33,2
Operating income (Rm)	9,2	5,4
Operating margin (%)	29,5	16,3
Earnings (c)	126,0	59,4
Dividends (c)	25,0	20,0

GEFCO'S INTERIMS

Falling margins

Six months to June 30	1989	1990
Turnover (Rm)	47,7	56,6
Operating income (Rm)	14,9	7,2
Operating margin (%)	31,2	12,7
Earnings (c)	32,3	16,0
Dividends (c)	7,5	4,0

A R2,5m, six-month underground development programme has been initiated to improve ore availability The setback in the gold price during the second quarter of the year has persuaded the three companies to postpone the commissioning of the new gold mine

It is now scheduled for the first quarter of next year

Gillian Findlay

Basil Read builds its operating income

193
BASIL Read posted a 41% improvement in operating income to R26,3m (R18,6m previously) in the year to end-June, although bottom-line profits were hit by a R3,5m loss on the sale of Aurora Granite in April

Nevertheless, the group has paid a 20% higher dividend of 30c (25c) a share on earnings of 96,1c (86,7c) a share

Basil Read operates in civil engineering, building, housing, property development and mining

Turnover grew to R413,7m (R329m)

193
CHARLOTTE MATHEWS

While interest charges rose R1,1m to R5,6m (R4,5m), the tax rate came close to tripling to 33% from 12% in 1989

Comparative figures have been restated as the comprehensive method of providing for deferred taxation has been adopted. Previously the company had assessed losses and paid no tax. With the loss on the sale of Aurora, bottom-line profits dropped

□ To Page 2

Basil Read

17% to R10,3m (R12,3m)

193
The directors said the engineering companies had shown greatly improved results while the mining, property development and building companies had recorded satisfactory growth. The housing company broke even "in a very difficult year"

At the end of June, Basil Read had an order book of R434m (R367m in 1989)

"This will provide a sound work base in

193
□ From Page 1

what is expected to be a difficult year, particularly in the civil engineering sector," the directors said

Excluding the extraordinary loss, Basil Read would have shown a return on equity of 32% based on shareholders' interest at the beginning of the year. Taking the loss into account, this dropped to 24%. In 1989 the return was just less than 24%.

No dividend as Aries figures drop 66%

ZILLA EFRAT

EARNINGS of Aries Packaging — hard hit by the economic downturn, steeper paper prices and labour action — plummeted 66% in the six months to June

The Cape-based screen-printer and manufacturer of packaging, paper cores and tubes posted attributable profits of R226 000 (R674 000) or earnings of 2,1c (6,1c) a share

In view of these results, and because of capital com-

mitments already contracted for, directors have decided not to declare an interim dividend

The results follow a 1,4% rise in earnings for the year to December after a jump in Aries' tax rate

While the new Transvaal operations contributed to a 15% growth in turnover to R9,4m (R8,2m) in the interim period, the economic decline greatly prolonged the

period needed to bring these new operations to profitability

Directors say apart from higher paper prices, the string of public holidays coupled with political stay-aways and strikes resulted in reduced demand for all products

Pre-tax profits fell 65% to R428 000 (R1,2m) and, on a higher tax rate of 47,2% (45,2%), taxed profits were down 66%

28/8/90
12am

194

Masonite's taxed profits fall to R3,4m

MARIETTE DU PLESSIS

DURBAN-based building materials manufacturer Masonite has shown lacklustre results for the six months to end-June, reflecting a slowdown in its key markets. (193)

Taxed profit dropped to R3,4m from R4,6m in the same period last year, translating into after-tax earnings of 50c (67c) a share. A 20c (28c) interim dividend was declared.

Destocking by distributors was seen as the major contributor to the softening in demand for hardboard products, while the lack of building activity in Namibia adversely affected softboard sales, chairman and MD Alan Wilson said 8/04/28/89.

In addition to "softer" prices in export markets, which reflected a general slackening in demand and an oversupply of commodity grade board, Wilson expected the economic uncertainty to continue.

But Masonite's diverse market base should cushion it from any major downward trends.

Cost savings arising from a new refiner project should become evident during 1991.

Vitrex in growth plan

MARIETTE DU PLESSIS

ARCHITECTURAL products producer Vitrex's R500 000 acquisition of Bitcon Industries will add impetus to its growth programme, says MD Alan Friedman.

Bitcon Industries, a local manufacturer of fire, security and transformer doors, was established 30 years ago and has supplied safety doors to, among others, Eskom power stations, the Reserve Bank in Pretoria and Iscor.

Initially it produced pressed metal door frames, office partitioning and curtain walling.

But after the sale of the business to James Haslam — who later formed the Unihold Group — management structure changed and the company Tenon Contracts was acquired to reinforce and expand the Bitcon partition side of the operations.

Bitcon Industries soon diversified further and under the leadership of John Ausker developed a range of stainless steel products, fire doors and bullet resistant security doors.

Among recent developments by Bitcon is a new lightweight and economic fire-resistant core material for fire doors.

Tenon Contracts, which is now also owned by Vitrex, has developed a fire-resistant demountable drywall partition currently awaiting an SABS one-hour fire rating.

Friedman expects the range of products to complement Vitrex's existing lines.

Aurora-Kudu
scheme to be
put to the vote

PETER GALL 193

THE scheme of arrangement giving minority shareholders in Aurora Granite one Kudu Granite share for every seven Aurora shares they hold is expected to come into operation on October 1, say documents relating to the scheme. *Day 27/8/90*

The scheme is subject to a meeting on September 11 at which the parties involved will be asked to cast their vote on sanctioning and registration by the Supreme Court and approval by the Johannesburg Stock Exchange to list the consideration shares. The court application is to be made on September 25.

The document lists the advantages of the proposed scheme including the elimination of conflict of interests between the two companies.

Kudu will also provide additional financial resources for the further development of Aurora's existing quarries and exploration assets.

Subject to the scheme becoming operative, the committee of the JSE has agreed to terminate the listing of the entire issued share capital of Aurora from the close of business on September 28, and to grant a listing for an additional maximum 1 847 143 ordinary Kudu shares to be allotted and issued in terms of the scheme with effect from October 1

30/8/90

Buildcor cautionary

Buildcor has agreed in principle, subject to certain pre-conditions, to the acquisition of a business which will be complementary to the group's existing operations

Such a transaction could have an impact on the value of the company's shares and a further announcement will be made in due course

Meanwhile, the company advises shareholders to exercise caution in dealing in their shares

HOME IMPROVEMENTS

A new brick system gives cheaper homes

193

Southern
30/8/90

THE Clay Brick Association (CBA) has forged a breakthrough with a new clay brick housing system which will bring homes within reach of the low-income group.

This innovative system, which has already won an award, involves constructions comprising single leaf clay brick walls.

These are built with burnt clay face bricks or clay plaster bricks with a thickness of 106mm

By KENOSI
MODISANE

Conventional floors and roofs can be used whilst window frames are adapted or purpose made. Specifications cater for roof anchorage junctions with external walls and attached piers where necessary.

The single leaf wall is set back on a conventional concrete strip foundation to allow for the external addition of a second wall should the home owner wish to upgrade the house.

The jointing of brickwork is vital in order to

prevent the ingress of water.

CBA's unique clay brick housing system employs both hollow key jointing and weather struck jointing which are formed with the correct tools to ensure the wall's weather performance.

Further careful attention is paid to the sand/mortar mixes and the proper filling of all mortar joints.

The clay brick housing system will be erected only by those contractors or self-help builders trained and licensed by the CBA.

To further assist users, a comprehensive con-

struction guide will be provided.

Prospective users of the single leaf system will have to apply for registration with the CBA. In addition, an association representative will continuously monitor the standards to workmanship on-site.

Contacts

Further information on the explanation of CBA's clay brick housing system can be obtained from Mr N Vujovic at (011) 880-8018 or Mr O Goosen at (011) 805-4206 or at the 1990 Interbau show which is currently running at NASREC.

'ANIES

8 Day 31/8/90
**Gefco and
Msauli in
joint venture**

LIZ ROUSE

193

ASBESTOS producers Gefco and Msauli have acquired Phelps Dodge Mining's 50% interest in Overberg Mining, the company formed to exploit the Von Brandis gold deposit, for R2m cash.

Gefco and Msauli will each contribute half of the purchase price and have a 50% stake each in Overberg.

Because gold production at the Von Brandis mine is not expected to start in 1990, the acquisition will have no material effect on the earnings of the two companies for the year to December.

Commissioning of the mine has been delayed until early 1991 because of the slump in the gold price, although construction of the recovery plant is virtually complete.

In the meantime, a six-month underground development programme has been initiated to improve ore availability substantially.

CE of both companies, Pat Hart, says that the acquisition of the Phelps Dodge interest in Overberg is a sensible rationalisation as it will facilitate a more direct management of the Von Brandis project by the Gefco/Msauli team.

Buildcor buys Bruply for R7m (193)

Business Day Reporter

A DOOR manufacturing group with a projected turnover of R100m a year has been formed after an acquisition by Buildcor

The company has bought the flush panel door manufacturing interest of Bruply for R7m *810 29 31 91 90*

Buildcor would in future be known as Audiobuild and would manufacture an estimated 70% of demand for flush panel doors, a statement said at the weekend.

Buildcor chairman David Olsen said the Bruply division had been acquired initially by a nominee organisation.

In the interim, Bruply, a division of P G Bison doors, would be under the management and operating control of Buildcor

Olsen said turnover generated by Buildcor would amount to about R100m a year compared with R68m previously.

Penpin is building towards good growth

810⁰¹ 31/9/90

EARNINGS for Cape-based building materials retailer Pennypinchers Holdings (Penpin), including figures from unlisted Penbuild and listed Pennypinchers Boards (Penboard), grew 13,4% to 10,6c a share in the six months to end-June.

Growth at this level, in the face of tighter trading conditions and steep interest rates, was achieved on turnover which grew by 29% to R96m and pre-interest operating income which climbed by 20% to R5,2m

The interim dividend was maintained at 4c a share

Chairman Fasié Malherbe described the results — and improved margins in particular — as “satisfactory” in view of the economic climate. He said he was confident the current trend in turnover and earnings would be maintained.

“Historically the group’s turnover and earnings for the next six months of our financial year account for 60% of the annual total,” he said.

However, total dividends would be maintained at financial 1989’s 9c, he said.

Malherbe said management recently opened a number of builders’ warehouses in the Cape and Transvaal, each combining four specialist divisions — building materials, glass and aluminium, boards, sanitaryware and plumbing — under one roof.

In addition, growth in the group’s plumb-

SYLVIA DU PLESSIS

ing and sanitaryware division had been “phenomenal”, with turnover improving by 60% during the period under review.

Commenting on the R10m rights offer at end-June, Malherbe said this, together with a focus on cash and asset management, had enabled management to improve gearing by about 45% to 60%.

He said attention would continue to be given to reducing gearing levels even further by the end of the financial year.

193 Hardware

The interest bill would also be contained in the second half.

Another effect of the offer was to raise the number of shares in issue from 17,7-million to about 23,7-million.

Subsidiary Penboard, which specialises in basic lines of timber, boards and associated cabinet hardware, produced a 20% rise in turnover to R26m for the same period.

Earnings rose to 4,85c (4,67c) a share, with the dividend maintained at 2c.

Malherbe said trading conditions here remained tight, but the full impact of establishing Penboard’s Transvaal division would ensure that the company’s profit trend would be sustained in the second half.

COMPANIES

GIL's earnings a share up 15%

DESPITE difficult conditions, building products manufacturer Gypsum Industries (GIL) posted a 15% increase in earnings a share to 187,1c (163c) in the year to end-June

Attributable income rose by 15% to R15,3m (R13,3m) and the total dividend of 60c (51c) — covered 3,1 times — was 17,6% higher. A final dividend of 40c was declared.

"The second six months of the year were particularly tough," GIL MD Gordon Fraser said.

This had adversely affected sales volumes and

MARIETTE DU PLESSIS

BIPay 319190
had trimmed margins.

GIL MD Gordon Fraser attributed the company's performance to improved productivity and contained expenses, which to a degree offset substantial cost increases levied by suppliers

He said GIL's record of price increases had been exceptional when compared with the consumer price index (CPI) and the Building Materials Price Index

"GIL would continue to strive for operating effi-

ciencies to contain costs" GIL is to develop a R60m production facility at Brakpan (193)

"Notwithstanding economic and political uncertainties, the company remains confident about the future and is fully committed to this capital project which should come on stream in mid-1991"

Supported by a strong balance sheet and limited borrowings, GIL was well able to finance this capital project, Fraser said

The share price closed unchanged at 700c, off its high of 825c a year ago.

R5m expansion finished

Business Day Reporter

193

MARLIN group company Marble Pentelic has completed a R5m expansion project that boosts production capacity by 80% to meet a growing demand in SA and abroad for marble and granite building cladding and flooring.

Opening the enlarged production, stock yard and office premises at Germiston today, Marlin chairman Peter Gain said his group acquired its 95% interest in Marble Pentelic last year to expand in the profitable area of

beneficiation *blom 6/11/90*
New plant and machinery, including factory alterations and modifications, cost R2,8m, and extra land (2 000m²) cost R2,2m.

According to a statement Marble Pentelic supplies about 40% of the SA market's granite needs for construction. Current orders exceed R50m, with 40% in exports. Local contracts include Johannesburg's Bank City and the Reserve Bank's new office in Durban.

The installation of two new Jumbo gang saws and extra flaming equipment has boosted output to at least 6 500m² a month.

Bad rock in black granite at Belfast

SITWES 919190

193

A STREAK of bad rock in a body of granite hardly sounds like a big deal, but it has been enough to hamper production at Marlin's Kwagaskop quarry near Belfast in the Eastern Transvaal.

The granite business is not easy to jump into — as Aurora found out. The black stone taken out of the koppies at Belfast fetches a high price, but as with all things precious and semi-precious it is difficult to recover.

Saleable blocks of black granite are only a small part of the volume taken out. It is not a matter of setting up a rig and blasting away. Areas of working face have to be developed — taking both time and money. When the underlying stone is poor — tough luck, move on.

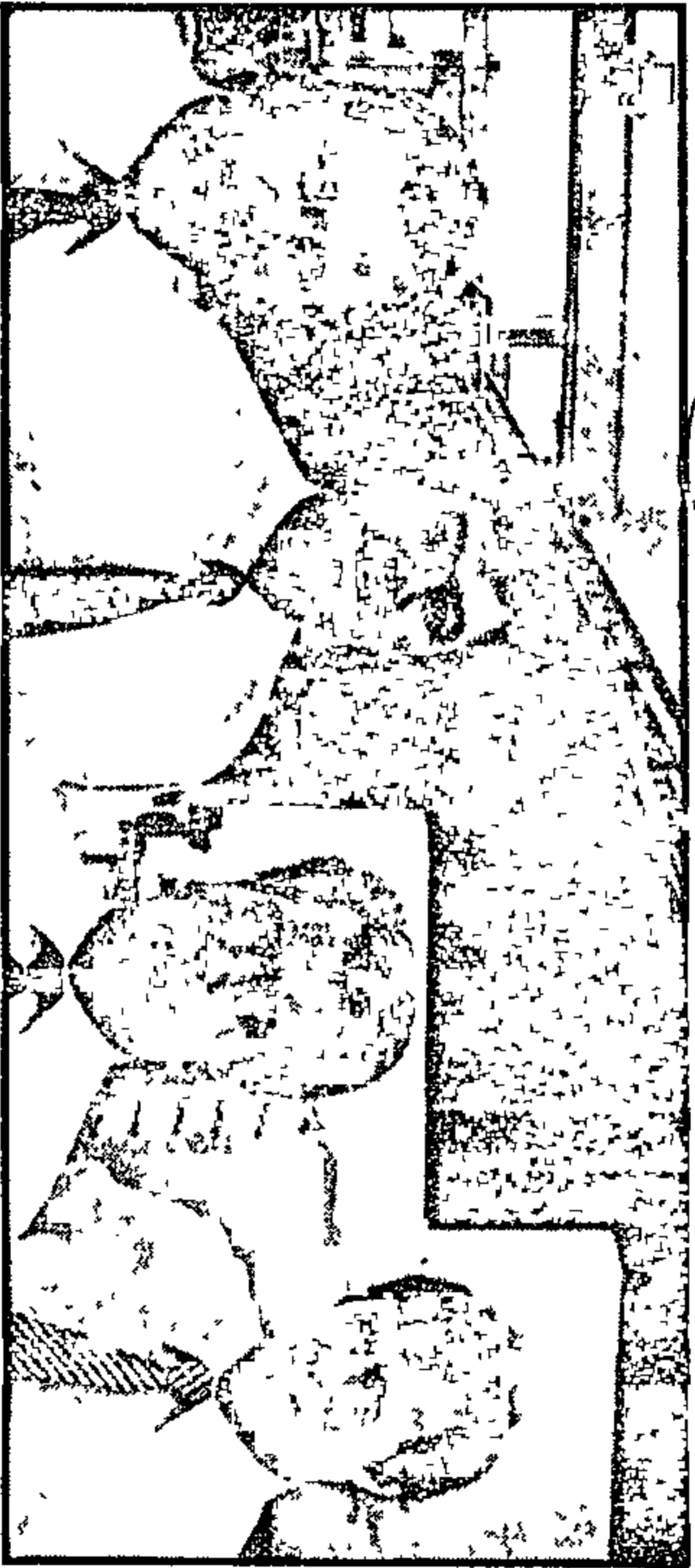
Marlin's share price reflects the problems at Belfast.

Couple it with the less favourable receipts on exports because the rand has picked up against the dollar and the results for the year to June — due in a couple of days — are unlikely to beat last year's record.

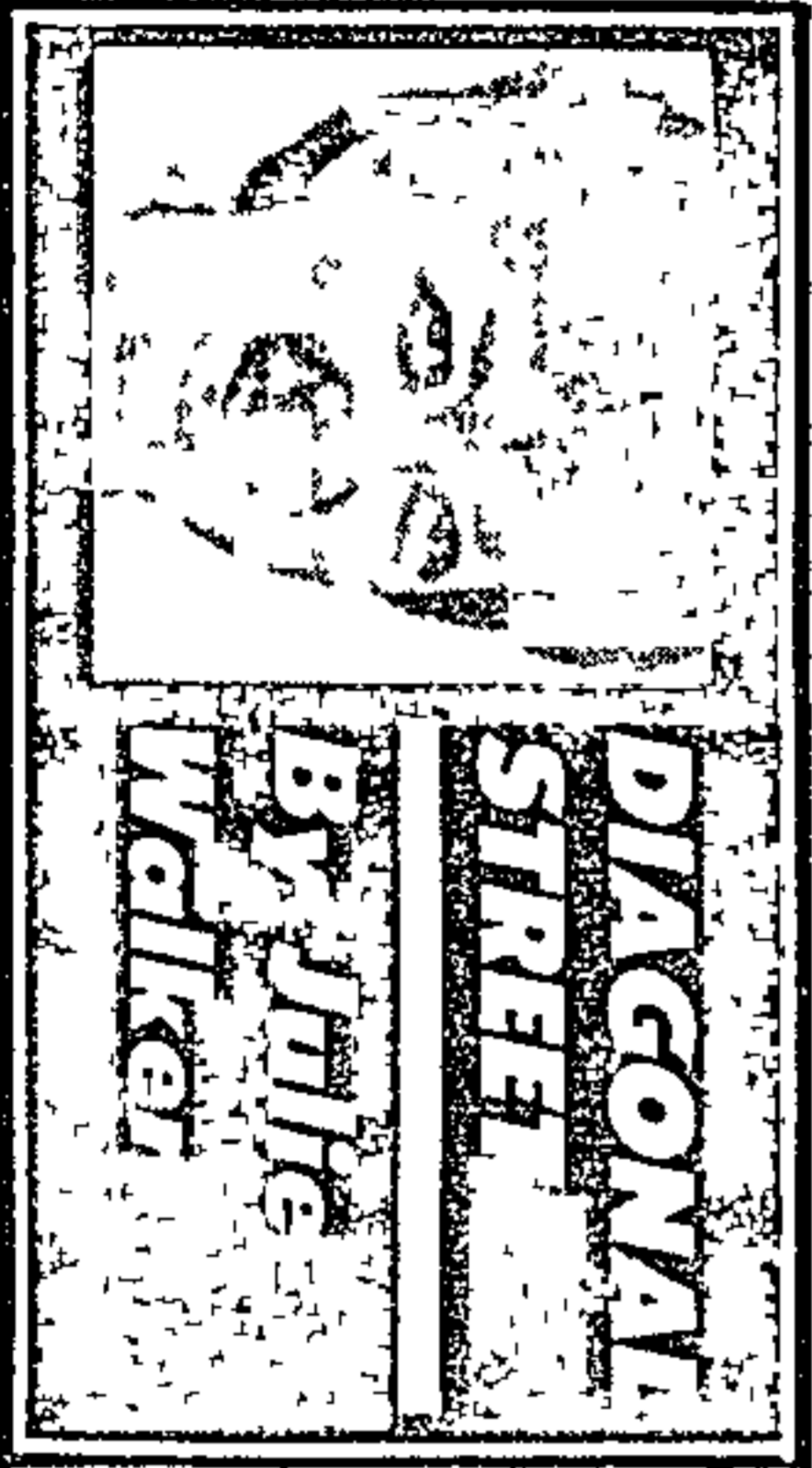
But shares are bought for longer terms than the coming week. Marlin looks destined for better things.

At the opening of the extensions to Marble Pentellic this week, Marlin executive chairman Peter Gain gave reasons for optimism in the dimension stone business.

Marlin bought Marble Pentellic last year with a view to expanding it. The business had been built up by



Marble Pentellic founder Steve Kyriakos (left) with new managing director Irving Schneider (right), chairman Colin Human (second from left) and designer Domingues Torres



Steve and Nina Kyriakos in the past 20 years.

The original site was on 120 square metres in the compound built to house Chinese labourers at the old Summer & Jack mine in

Germiston. Shanghai-born Mr Gain says he finds the situation intriguing.

Drafting designer Domingues Torres joined the company in 1979 and was instrumental in the

development of a building cladding system (a bit like children's Bayko), which has become the industry norm.

More than R5-million has been spent on increasing capacity, and stone from at least 10 countries is brought to Marble Pentellic for processing.

Using local and imported stones, Marble Pentellic has dressed some of SA's most prestigious buildings — such as JCI House and First National House. King Sobhuza's palace in Swaziland, the SA Reserve Bank's new head office as well as buildings in other countries.

It is involved in First

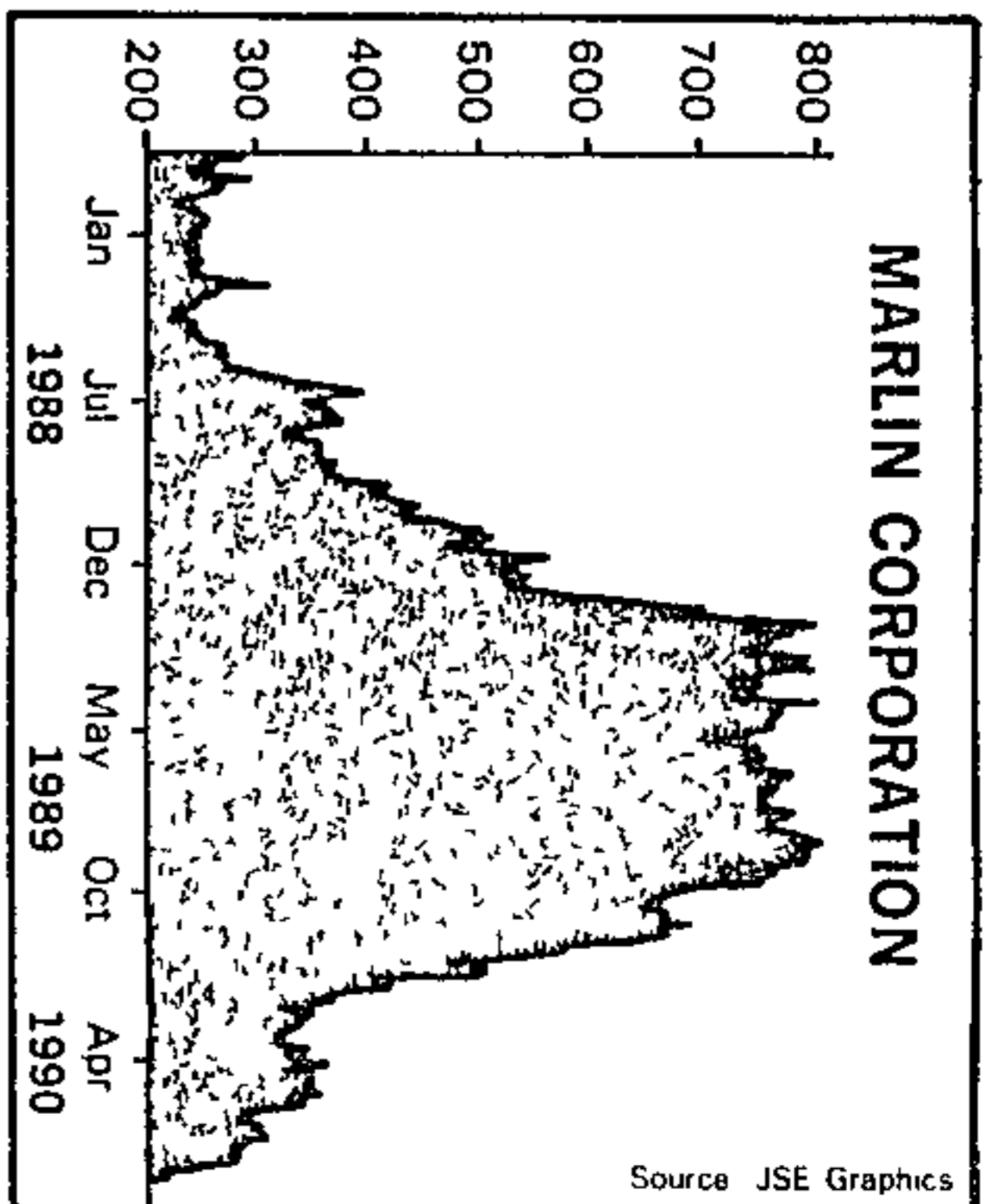
National Bank's new offices as well as Anglo American's block in Marshall Street, Johannesburg.

Holding company Marlin has established a sandstone quarry in the Northern Transvaal to produce a near-match for the Main Street brace, and a light granite from Walvis Bay will be used for flooring and interior fittings.

Orders

Winning the contract and opening the quarry have had a spin-off effect. Foreign distributors have expressed an interest in the new stone.

Mr Kyriakos has appointed Irving Schneider manag-



Source: JSE Graphics

ing director because he aims to retire in a year or so. Until then he will help to oversee factory commissioning, training and supervision, certain major contracts. Colin Human is executive chairman.

The order book tops R50-million for the current year. Mr Gain says it will make a significant contribution to Marlin group profits in the year to June 1991.

In May, Marlin raised R38-million from a rights offer of 30 shares for 100 at 350c. It also established a listed pyramid company, Marlin Holdings, which owns 69% of the operating company.

The other major reason why Marlin's results will not beat last year's is cut-throat conditions in the Rustenburg grey-granite market. Mr Gain says price cutting by other producers in the area has led to a reduction in revenue for all. Although the market's underlying tone remains sound, in the short term it is difficult.

Margins were squeezed because production costs rose faster than did the prices of stone.

The outlook is rosier now. Black-granite production

has recovered to the required level and Marble Pentellic is going at full swing. Mr Gain warns that conditions for price cutting prevail, but that he is cautiously optimistic.

The group is in a strong cash position and there are opportunities for expansion both in SA and internationally.

One analyst told me a few weeks ago that there were only two shares on the market which offered value Marlin being one. Now looks to be the time to buy.

TOP LIST

THE Techno-Economic Society is to hold its seventh annual meeting in Johannesburg on September 11-12 at the Carlton Hotel, Johannesburg.

Deputy Minister of Mineral Affairs, Public Enterprises and P.J. Welgemoed will speak on a situation and the economic mining.

Chamber of Mines president will give an overview of the J.Taylor from London broker will present the international view in SA mining.

Southern Prospecting's Christerson will talk on the out-

OZZ concentrates on consolidation

⁽¹⁹³⁾
INDUSTRIAL holding group Ozz expanded its asset base by about R68m during the 1989/90 financial year and expected this year to be one of consolidation, chairman Gary Zulberg said in the annual report.

Reviewing the year to end March, Zulberg said the acquisition of Lucem Industrial Corporation's business operations helped promote earnings growth by 16%, from which a 36% higher dividend was paid.

The deal raised gearing to 94% but a cash flow of R11m, share issues of R10m and the sale of certain non-core businesses enabled the ratio to be dropped to 68% after the year end.

Ozz's core operations, consisting of foundries,

310 1019190
MARIETTE DU PLESSIS

engineering works, construction and property development and investment undertakings, produced 74% of operating income. Non-core activities are made up of gas production and supply, brick manufacturing and divisions sold.

Ozz proposed to consolidate its existing shares on a one-for-four basis to facilitate trading on the JSE. If approved, the consolidation would take place from the close of business on October 5 to listing on October 8.

The practical effect, based on Ozz's current listed price of about 40c, would be to value the new consolidated share at about 160c.

The effect on key results, based on the latest financial year to end March 1990, would be net asset value, earnings and dividend a share of 288,4c, 38c and 13,6c respectively. Ozz shares at their current level yield 24% on earnings and 9% on dividend, compared with actuaries index averages of 11% and 3% respectively for the industrial holdings sector.

Marlin profits show a 15% decline on forecasts

RIAAN SMIT

GRANITE producer Marlin Corporation's profit after tax for the year to June 30 was 15,7% lower at R16,6m than the profit forecast for the year made in February

A final dividend of 7c a share was declared (22c) bringing the total for the year to 14c (30c). The weighted number of ordinary shares rose because of a rights issue in May and the conversion of convertible preference shares.

Chairman Peter Gain said one of the reasons for the sharp decline in after-tax profit from R30,3m in 1989 was the lower production at Belfast from September last year which continued longer than anticipated.

Production problems stemmed from lower grades of high-priced black granite. Production was back to normal after a period of new quarry development during the year in which one significant production section was closed and large new areas suc-

cessfully developed

A second reason for the decline in profit was a reduced contribution from the sale of Rustenburg-type material which was subject to severe price cutting. Gain explained that excessive production from Rustenburg quarries during the year had led to a surplus of medium to lighter grades which sparked the price cutting. More stable market conditions were expected by January 1991.

193 Expansion

The third reason was reduced margins and a less favourable rand/dollar exchange rate during the year under review.

A positive development for the group was expanding its beneficiation activities by acquiring Marble Pentelic during the year. The company recently completed a successful expansion of its manufacturing capacity, Gain said.

Value of work on hand exceeded R50m, to be completed over about two years. This included Bank City and the new Anglo American Corporation head office.

**Inboard to
regain R20m
from abroad**

MARCIA KLEIN 193

INDUSTRIAL holding company Interboard (Inboard) has reached agreement with overseas parties on the recovery of a substantial amount of assets — at least R20m — following the alleged defrauding of the company.

The group issued a cautionary announcement today warning shareholders of the possible effect of the transactions on the value of Inboard shares.

According to an announcement, Inboard made a claim against overseas entities which had agreed to relinquish ownership of assets including properties (estimated to be worth over R20m), cash, and shares in offshore companies having indirect shareholdings in Inboard.

Inboard CE Michael Clemitson said Inboard was in the process of assessing what had been recovered, and although the shares had been attached by the Reserve Bank, the attachment should be lifted soon, as SA assets were being brought back onshore.

He added there were ongoing negotiations with other parties.

Inboard also announced that July's sale of its flatboard division to Particle Board Investment Holdings had fallen through

Interboard plummets 50% as investors bail out

IT WAS more bad news for Interboard Limited (IBL) yesterday as its share price plummeted 50% to an all-time low of 10c as fed-up shareholders bailed out of the ailing group

IBL has been embroiled in controversy since the arrest of its former chairman Ed Dutton on charges of alleged round-tripping between the commercial and financial rands last year

The drop is in spite of a cautionary announcement published yesterday indicating the group had reached agreement with overseas parties on the recovery of some of the assets following the alleged defrauding of the company — involv-

ing significant over-valuations of machinery

In addition the cautionary mentioned that the flatboard manufacturing operations at the Wadeville plant had been terminated and production at the George plant had been suspended based on the falling through of the intended sale of the division to Particle Board Investment Holdings

CE Mike Clemitson said yesterday that the plants had been closed from September 7 and that the suspension of operations at the George plant would be "fairly lengthy"

Brent Melville

In the group's annual report, auditors Ernst & Young refused to express an opinion on the financial statements

The auditors said that although an amount of R94,3m had been written off the book value of the flatboard assets in the current year, the overstatement of the assets related back to earlier periods and it had not been possible to allocate this write-off into the years in which the originating causes occurred

Ernst & Young made the point that pending the resolution of the actions being taken to recover assets allegedly defrauded from the group, it would be unable to estab-

lish whether or not additional adjustments would be required to the current and prior financial statements

It said the financial statements in the report had been prepared on the basis of a going concern, the justification for which was dependent upon the successful outcome of the ongoing actions

Of the 162-million shares in issue for IBL, 116-million are held offshore by Interboard Holdings BV Short-term insurance group IGI holds the largest SA shareholding

The current share price puts the group on half its current NAV of 19c a share — down from last year's 107,4c

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continued to rise and the

slightly higher price of R1 015

year that our earnings growth will be more modest and rise at a slower rate than last

we place great emphasis on our credit assessment procedures and on spreading our risk"

Gypsum gives warning of price rises

193 LIZ ROUSE

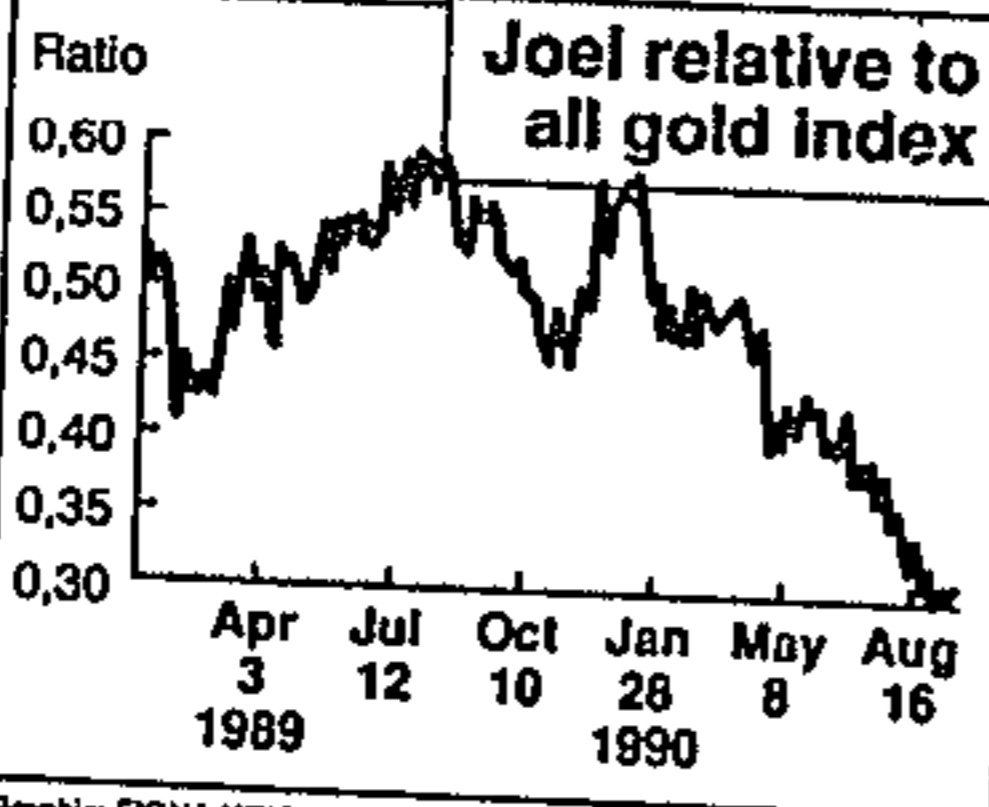
A WARNING that price increases are in the offing for building materials group Gypsum Industries' (Gypsum's) products is sounded by chairman Derek Fairbairn in his annual review

Fairbairn says that in the short term, sales are likely to be adversely affected and cost increases are likely to persist — some in excess of the published inflation rate. 6 10 1317190

Gypsum had a strong balance sheet, with little long-term debt, placing the company in a strong position to finance the capital expenditure of R43m planned for 1990/1991

Turnover increased by 13% to R166m mainly because of wall board and ceiling tiles sold in the commercial market.

Earnings increased by 14,8% to 187c a share in the year to end-June, out of which a 40c final dividend was declared making a total of 60c (51c).



Graphic: FIONA KRISCH Source: JSE

NEIL YORKE SMITH

SHARES in JCI's Free State gold mining development H J Joel have significantly underperformed the JSE mining index, disappointing many investors

Once a JSE darling, the company was lauded as one of the most promising operators on the mining board Joel shares traded as low as 480c

Joel mine shares disappoint

this week, well off the year's high of 1 325c reached in January

A leading mining analyst said yesterday Joel's poor performance was related to two major factors lower than expected yields and the high costs of the trackless mining techniques used at the mine

"Also, it needs more than 1 000cm grams a ton to be viable, but to date less than 700cm g/t has been achieved" B 10 a 1314190

But he emphasised yields achieved to date only reflected initial development values and did not necessarily represent the whole Joel lease area

Regarding trackless mining, the analyst said international experience had proved its benefits were often neutralised by the disadvantages of dilution

"Another problem is that the rand depreciation has made it extremely expensive to replace sophisticated trackless mining equipment"

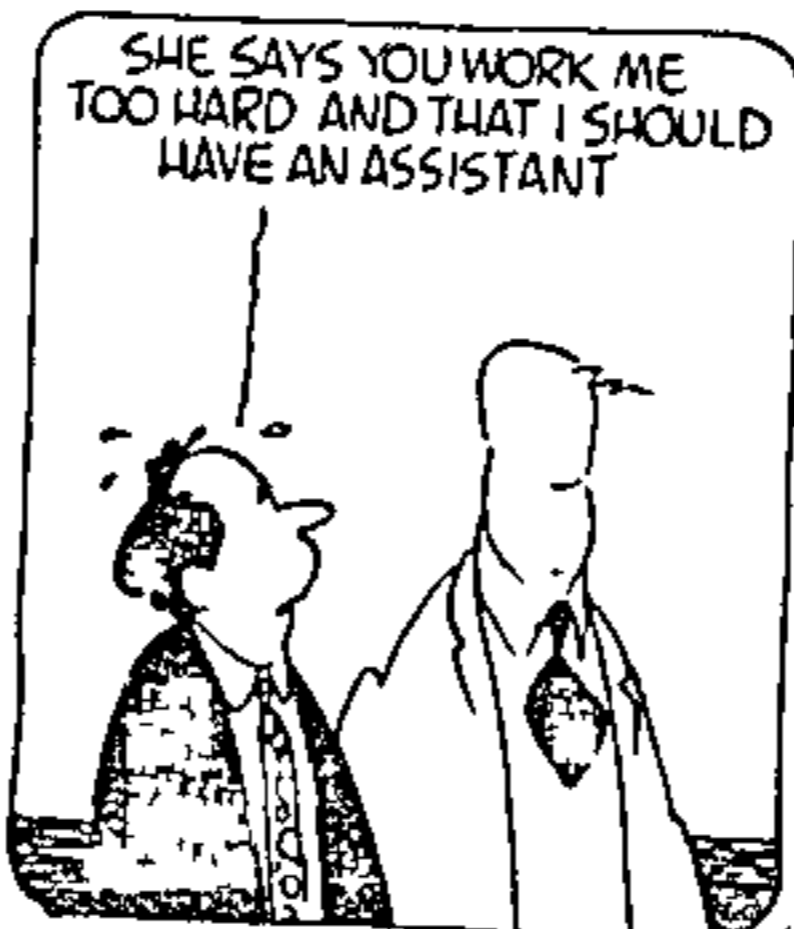
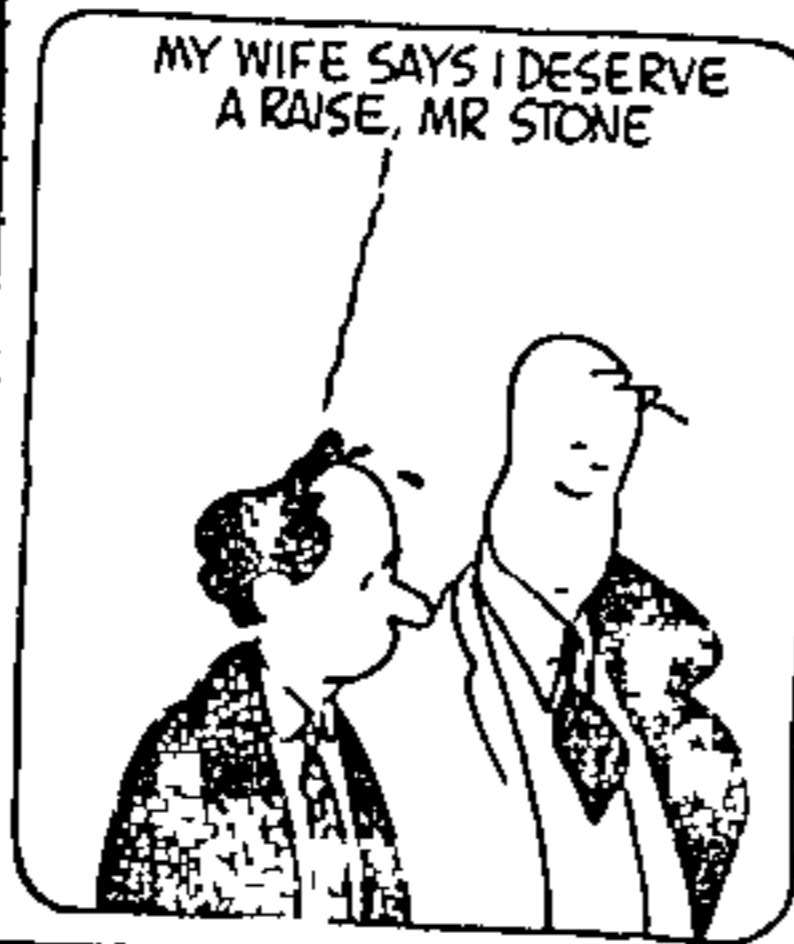
At present Joel's debts totalled about R100m Another R100m was expected to be spent before positive cash flows could be achieved

At current interest rates Joel would thus be paying about R40m a year in interest alone

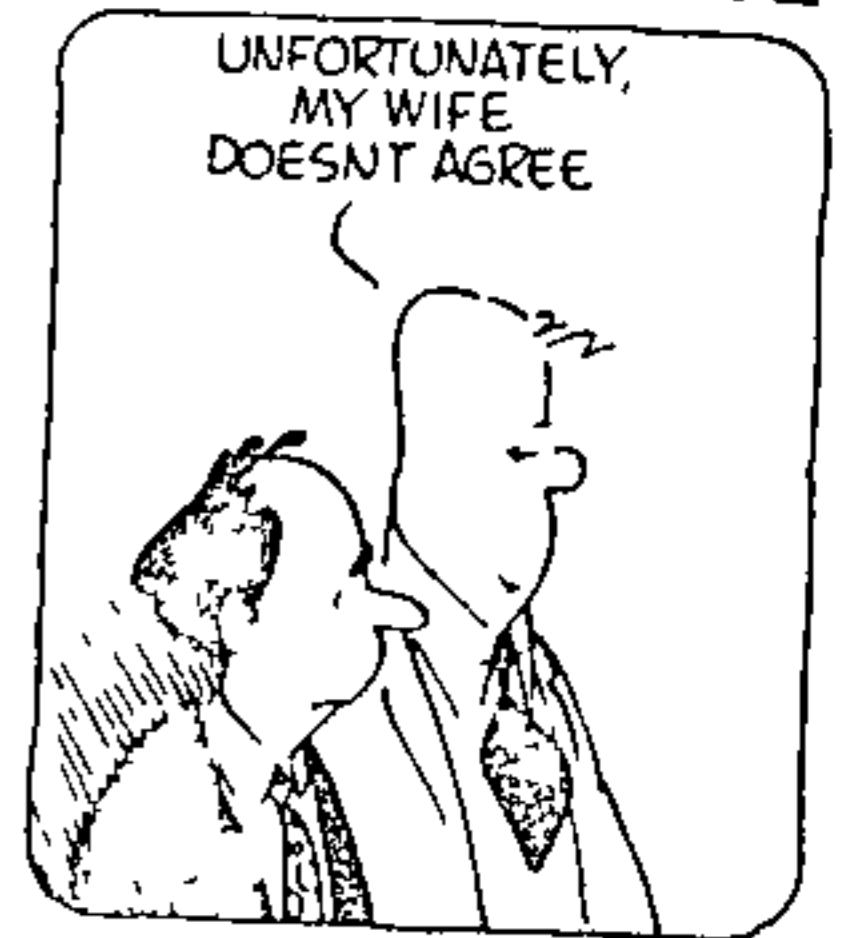
"The mine's success is thus vitally dependent on mining grades that are good enough to produce positive cash flows soon enough to make the project viable"

A JCI spokesman would not comment yesterday on Joel's current situation other than to say grades in the last quarter had been far better than those previously recorded

By William Wells and Jack Lindstrom



EXECUTIVE SUITE



STILL PATCHY

FIM 14/9/90

Shares in the granite sector have fallen into disfavour, owing to price competition and the stable exchange rate. Results from the industry remain patchy. Two producers posted contrasting results this week, though reporting for different time periods.

Marlin Corp reported virtually static turnover, but falling margins led to a 27% decline in operating income to R21,9m (R29,9m). Sharply higher financing costs of R3,7m (R0,7m) and minorities of R3,1m (R0,2m) meant a 45% fall in earnings to R16,6m (R30,3m).

To say these figures are a disappointment is probably an understatement, as they include for the first time the results of the 95%-held dimension stone beneficiator, Marble Pentelic. The subsidiary produces polished or flamed granite and marble slabs, used largely for cladding in the building industry. About half Marble Pentelic's output supplies roughly 40% of SA's granite needs, while the balance is exported.

Marlin declines to give separate figures for Marble Pentelic, but beneficiation is considered the more lucrative side. This would imply margins on the mainstream business were hit even more than would appear. The directors give three reasons for the poor performance: lower production, owing to a decline in grades at Belfast for longer than was expected during the second half; a reduced contribution from sales of grey Rustenburg material, which has been subjected to a severe price war, and a less favourable rand/dollar rate.

Production at Belfast has now been restored to normal levels as large new areas have been successfully developed and should give the group a boost during this year. The outlook for grey granite remains somewhat bleak. There is still excess supply, with most producers cutting prices. Keeley is offering

MARLIN'S RESULTS

Sharp decline

Year to June 30	1989	1990
Turnover index (1983=100)	655	651
Operating income (Rm)	29,9	21,9
Attributable earnings (Rm)	30,3	16,6
Earnings per share (c)	84,1	38,3
Dividend per share (c)	30,0	14,0
Dividend cover (x)	2,8	2,7

MINACO'S RESULTS

Starting out

4 months to June 30	1990
Turnover (% change)	+30%
Operating income (Rm)	20
Attributable earnings (Rm)	21
Earnings per share (c)	72
Dividend per share (c)	—

its output only in a package — customers who want the group's black or coloured granite must take the grey too. Marlin directors feel the situation should stabilise by the end of the year, but all producers would need to co-operate.

Marble Pentelic has recently completed a R5m expansion, raising capacity by some 80%. By adding two gang saws to the original three, the producer has boosted its cutting capacity from 3 000 m²-5 000 m² a month to 6 000 m²-8 000 m² a month, depending on the hardness and thickness of the granite. New flaming equipment will lift monthly flaming output from 1 000 m²-1 500 m² to 4 000 m²-6 000 m², while the finishing and polishing output should be lifted by 30% with the addition of bridge saw and edge polishing machines.

However, the group remains in the second slot in terms of local beneficiators, behind Minaco. The latter's recent 100% acquisition of the Tivoli cutting works in Ga-Rankuwa brought its total number of gang saws to seven, with another two on order.

Minaco, reporting for the four months to

end-June, showed a turnover rise of 30%. No other comparative figures are available, but the group achieved earnings of R2,1m for the short interim period, equivalent to 7,2c a share (21,6c annualised). Minaco is operating at capacity and high order levels are prompting an investigation into expansion.

Future growth will come mainly from beneficiation, with expansions planned for Tivoli, an extension to the Cape tile plant and a new tile line to be built in Ga-Rankuwa. With cash resources at R11m at end-June, the group should be able to fund the expansion internally.

Gillian Findlay

SA's granite producers in for a tough year

SA's granite producers were in for a tough year, with severe price-cutting already in force as a result of an oversupply situation in the black and grey granite markets, analysts said yesterday

Considerable price-cutting had taken place in the markets for grey Rusten-

10am 14/9/90

PETER GALLI

burg-type and black Belfast-type material because of an oversupply in these markets and a number of new producers who had entered the market for Belfast-type material, an analyst said

Kudu Granite financial

193
director Andre Dry said SA producers were responsible for the pressure on Rustenburg-type material as they were competing with one another at the expense of the market

The slowdown of business in Europe due to the Gulf crisis had led to a weakened international

granite market over the past two months, with a reduced demand from the building industry

● DRY

Also, there had been a noticeable softening in demand, with the markets in the Far East beginning to diminish and the possibility of recessionary conditions in the US adding to the already difficult position of the industry.

An analyst said that, in the coming year, producers would at best probably only be able to maintain performance, and that a fundamental problem at present was that major producers were involved in price wars

Kudu has predicted an increase in earnings a share and an increased dividend payout for 1991

Granite industry looks to recovery

See 19/9/90

Diagonal Street

193 JABULANI SIKHAKHANE

Despite the recent mediocre results by local granite producers, analysts are optimistic about the medium to long-term outlook of the granite sector

This optimism stems from reports that demand for stone materials (which includes granite), by the building industry has shown a marked rise in Europe.

Europe is a major market for local granite producers. According to the World Stone Industry (1990) report, of the total 590 000 metric tons of granite exported in 1989 by South African producers more than 77 percent went to European countries. Italy accounted for 290 000 metric tons

The report notes that in the first four months of 1990, Italian imports of raw granite were higher than during the same period in 1989, while exports of Italian stone-processing machinery were also higher.

Frankel Kruger, Vinderine analyst, Kevin Kartun notes that beneficiation worldwide is moving up to full capacity, but adds that because of the large investments in capital equipment sawing machines will have to be kept busy which should compensate for the downturn.

While events in the Middle East, coupled with the expected recessions in the economies of the United States and United Kingdom should slow down the growth in the granite market, the building/construction sector is expected to maintain a long-term growth trend

However the recent financial results of some producers have not been encouraging, particularly Marlun and Aurora. As a result, granite shares appear to have fallen into disfavour with investors

Analysts reckon that the granite producers, which have showed spectacular earnings growth since the listing boom, are going through a consolidation phase.

Profit margins are under pressure from increasing quarry production costs and static to lower prices in some granite products, particularly the Rustenburg grey where prices have dropped because of a price war.

Grey granite prices have fallen from \$440 in 1989 to around \$330 this year. Analysts say the price war has cost an estimated R25 million to the bottom line earnings of granite producers over the last year

Black granite has also been depressed by the lower quality

material coming mainly from Zimbabwe, Transkei and Mooketsi in Northern Transvaal.

Among the recent granite producers to report, Marlin Corporation posted a 54,4 percent drop in earnings for the year to June mainly because of lower output at the Belfast (black granite) quarry, a smaller contribution from Rustenburg grey material which was subject to severe price cutting and a less favourable rand/dollar exchange rate.

Kudu Granite was hit by lower grey granite prices, but the group still managed to post earnings growth over the past financial year.

The Keeley Group, the largest individual granite producer in the world, appears to have been the exceptional case. It managed a 34 percent hike in earnings for the year to February 1990. Analysts attribute this performance to Keeley's increased production of coloured granite which has acted as a buffer against lower prices in other granite materials.

Keeley produces some 355 000 tons which is roughly half of total granite exports.

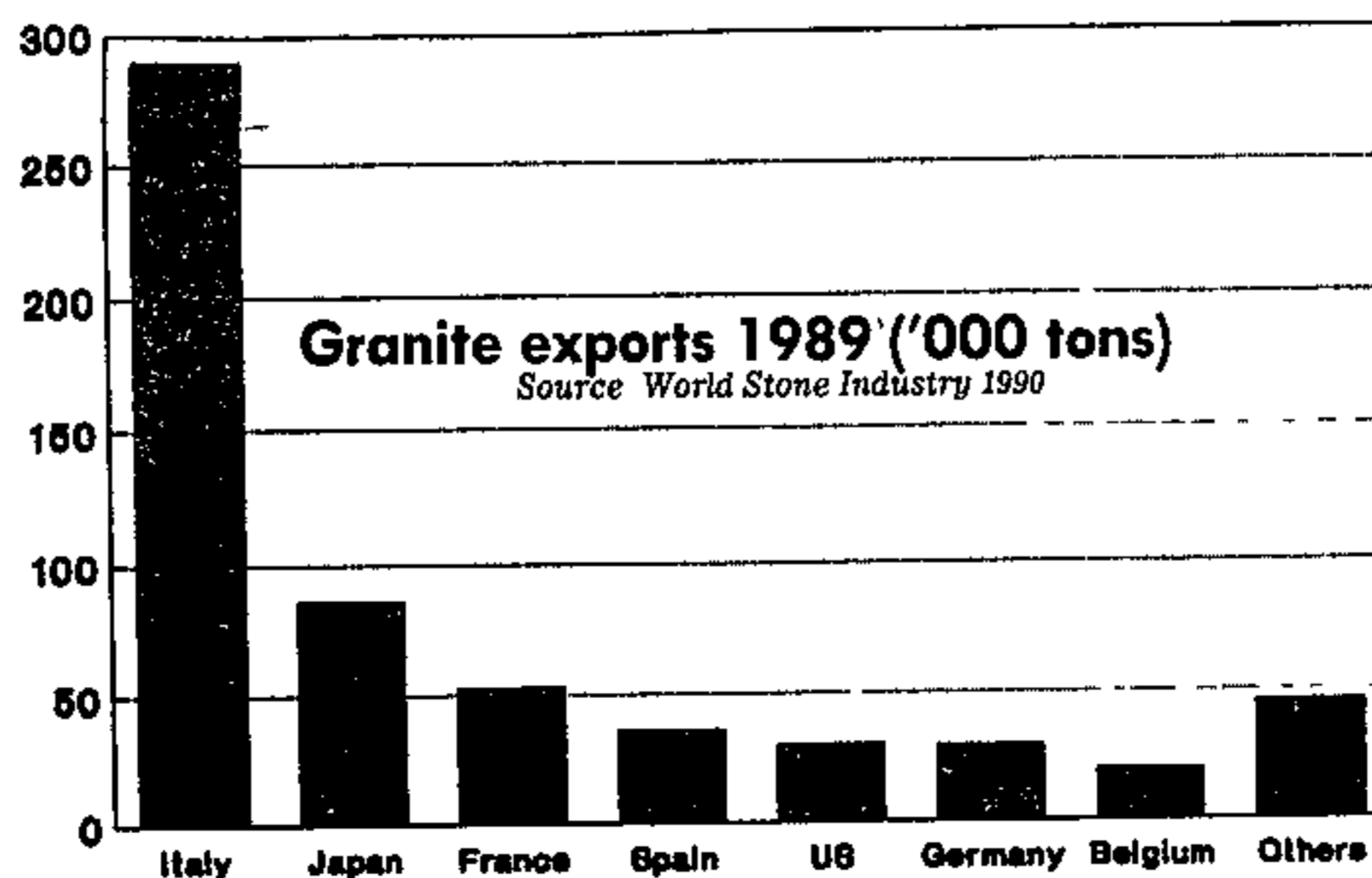
But Keeley financial director Robert Brown warns of a slowdown in building activity overseas. The world granite market is also going through a consolidation phase and competition is increasing.

Costs of capital equipment, coupled with higher labour costs have pushed quarry production cost increases to about 20 percent in the past year. Mr. Brown adds the sentiment in the granite market is negatively affected by war threat in the Middle East.

In contrast, analysts point out that there is still healthy demand for high quality granite materials which continues to achieve good prices.

They add that in the medium to longer term, established granite producers should weather the storm. The sector is enjoying lower tax rates because of export incentives and marketing allowances and these are expected to last until March 1992

Analysts also expect that the rand should start weakening against the dollar shortly, which should increase the rand-hedge attributes of the granite sector.



the group is negotiating with other parties, which could result in either new partners in the flatboard division or the sale of its assets

Meanwhile, the Wadeville plant has been closed and George operations suspended. The only plant still in operation is the factory in Swaziland. The new partners were contributing R10m, mainly to the George plant, designed for two product lines but now producing only one.

Interboard announced in July that it could not commit financial and management resources to the flatboard division but saw better uses for funds in other areas.

The division contributes just 17% of group turnover, says Olsen, but its debt is vast. He would not say how much, but said it was most of the 1990 financial year-end group debt of R123,3m. Olsen says it's difficult to establish how much interest should be charged to the flatboard division as figures have been overstated since the days of Ed Dutton. But interest as well as poor production planning and management controls resulted in a loss in the division of over R20m in the 1990 financial year.

Disposal of the flatboard division will cut operating losses, already "substantial" for the first half-year. It will also chop gearing, which is why the calling-off of the financing partnership sent the share price reeling.

Olsen says debt in the division will be reduced by "the realisation of assets," which include property, cash and shares from Interboard's foreign shareholders. The company has already recovered all shares owned by these, Antilles-registered Interboard NV and Interboard BV in Holland. 116m out of a total 162m issued. If they are rendered null and void, the impact on net asset value, now around 19c, will be substantial. Interboard could also use them in a rights issue.

CE Mike Clemitson is abroad to tie up the recovery of these assets. Olsen says it is impossible to say how much will be realised, especially as the Reserve Bank's attitude to the recovery is still unknown. Interboard's merchant bank, Mercantile Bank, is meeting the Bank this week to get a clearer picture.

Despite the possible recovery of these assets, but not entirely surprising, investors seem to have lost confidence. The share price plummeted from 22c before the cautionary announcement to 10c. Sniffing a bargain, investors bought again Tuesday and the price shot up again to 18c. But neither investors nor Interboard can rely on the recovery of assets from abroad to enhance profits. Investors should wait for proof of good performance in the other trading divisions.

Heather Formby

INTERBOARD ^{FIM 21/9/90} FLATTENED AGAIN ⁽¹⁹³⁾

Luckless Interboard has taken another knock. A partnership agreement for a consortium which controls Particle Board Investment Holdings (PBH) to finance 51% of ongoing activities of the controversy-linked flatboard division has been called off.

The agreement was subject to "certain conditions," such as calculations of funds needed to put the division on a sound financial footing. In terms of a resolute agreement, PBH started work immediately and found the cost was more than expected.

Interboard chairman Dave Olsen confirms

Order battle

LESOTHO HIGHLANDS WATER PROJECT

SA Cement could lose

SOUTH AFRICAN cement producers hope to win the order for Phase IA of the water project.

But there is speculation that the estimated 400 000 tons of cement needed for the Katse Dam will be donated by an overseas country.

A spokesman for the Cement Producers Association says there is a chance that the South Africans will get nothing. Industry sources say much depends on the financial packages offered by the consortiums in the running for the contract.

It is possible that cement will be donated as a tactic to win the contract. But because cement is a high-volume, low-value commodity, it is highly unlikely that the player will swing a contract which runs into hundreds of millions of rands.

The lowest price will not necessarily win the contract because the financial arrangements are complex. Other factors, such as interest repayments and foreign-currency advantages, will more likely come into play as deciding factors.

Frightening
SA sources point to the danger of importing cement. One says: "Cement does not travel well. It would have to be imported in either 50kg or one-ton bags and be transported to the site. The logistics of this are frightening. What looks like a gift could cost a fortune in transport."

Producers are bidding their time and plans for setting up the infrastructure to supply cement have been put on hold.

Should cement be ordered from SA, the Cement Producers Association — Blue Circle, Anglo-Alpha and Pretoria Portland Cement —

Foreigners

likely to

donate it

main cement extender for the tunnels and the Katse Dam wall.

Slagment is blended with cement to enhance the final product in terms of quality and price.

"We are looking at supplementing 70% of the cement with slagment," says Fanie Ferreira, technical sales manager of Slagment.

The product has been accepted by the specifiers.

The main reason for using slagment in a mass concrete application is its ability to reduce the development of initial heat caused by the drying process while continuing to develop strength well into the structure's serviceable life span.

"All major water projects and dams constructed by the Department of Water Affairs

have used slagment. They include the P K le Roux and H F Verwoerd dams and the recently completed Inanda Dam in Natal," says Mr Ferreira.

Mr Ferreira is not overly concerned about imports

Remote
"There is the possibility that cement may be donated, but it is doubtful whether the relevant consortium will bring in a pre-blended cement and extender mixture. That is remote."

Should Slagment be awarded the contract, it will supply 500 000 tons for the dam alone.

"That is worth R50-million in four years. We could supply about 1 000 tons a day at peak demand."

will set up an R8-million depot at Ficksburg. However, it is not yet known whether the contractor will want a blending facility at Ficksburg or on the site. Also waiting is Slagment, which has tendered for its product — slagment — as the

Empties fill coffers at Ecobottle

By DIRK TIEMANN

CONSOL is synonymous with glass, but ironically its market dominance gives niche players a crack at opportunity

Bellville-based Ecobott is a niche player. It collects empty wine bottles from retail outlets in Cape Town and the Pretoria-Witwatersrand-Vereeniging area. It provides crates at its collection points and pays 5c a bottle in the PWV area and 10c in Cape Town. The price is lower on the Reef because of high transport costs.

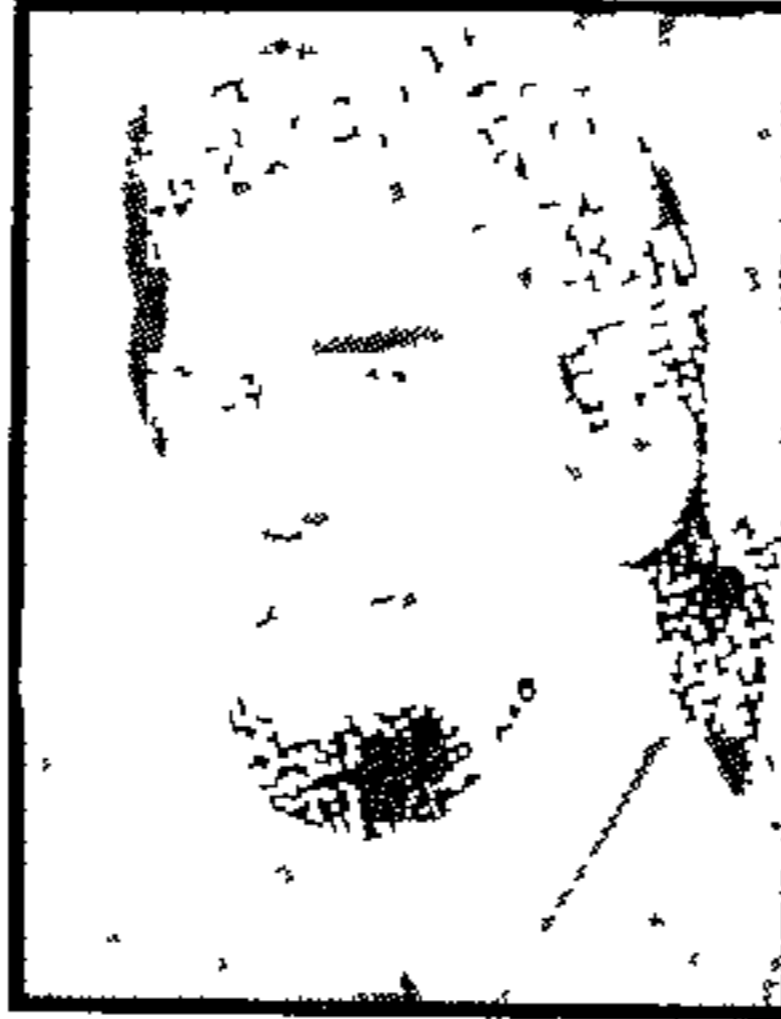
Co-founder and director Horst Klos says Ecobott spends R1-million annually on bottles.

Empties are taken to Bellville by road, washed and sold to wineries in the Western Cape for 50c each.

Mr Klos estimates that his company saves the wine industry about R1,5-million a year. The packaging cost of a 12-bottle case of wine can run to R18. The cork costs 50c.

Ecobott will be three years old tomorrow and Mr Klos

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HORST KLOS

says turnover this year was R6-million — up 100% on last year.

"We are taking advantage of the growing glass market. Consol cannot be too concerned about our presence because we serve small customers.

"Consol is a mass producer

and supplier, and does not have the infrastructure to serve the niche markets. There was some hostility in the beginning, but they have grown accustomed to us."

Ecobott processes a million bottles a month.

It is also reusing 750m/ tomato-sauce bottles. Making glass is not being considered because it is a capital-intensive process — "capital which the company does not have at present."

Ocean

Mr Klos estimates the wine market at 52-million bottles annually, of which Ecobott has 15%.

"This is a drop in the ocean compared with the market for soft drinks and beer."

His company has 90 employees to sort the 64 different types of bottles and pallet them. Six vehicles collect the bottles from the Reef and Cape Town. The bottles are machine washed.

Their quality is assessed visually and any bottle that looks unsuitable is rejected. Mr Klos says broken glass is given to Consol. Ecobott also collects the lead and aluminium caps and sells them to scrap merchants.

Unrest adds to Italtile's (193) problems

ACHMED KARIEM

LEADING tile and sanitaryware group Italtile had its margins eroded for the six months to end-August because of loss of production and increased competition in the building industry 8/10/90 5/10/90

Management attributed the poor performance to the deteriorating economic conditions and the political unrest resulting in stayaways

Based on a slightly increased number of shares in issue, earnings a share declined by 9,5% to 40,0c (44,2c). An unchanged dividend of 6c was declared

Operating profit rose by 4,4% to R11,6m (R11,0m) based on a turnover figure that grew by 12,7% compared with the previous year's 45,2% (no turnover figures given)

Attributable profits dropped by 8,9% to R6,84m (R7,51m)

Executive chairman Gianni Ravazzotti said the group recently finished its R30m new tile factory at Babelegi

He said as this capital expansion programme was funded from the group's own resources, long-term borrowings were increased by R8m to refinance the group

Earnings for the year to end-February would be lower than the 92,9c reported for 1990 due to the anticipated slowdown in the building industry, he added.

D & H meets its forecast ^{(1937) Sta}

15/10/90

The Darling and Hodgson group has comfortably met its forecast for the year ended August 31 by achieving earnings of 96,6 cents a share, an increasingly rare achievement for companies as the economy plunges to levels not anticipated when predictions were made six months ago.

A 3 times covered 28 percent higher annual total distribution of 32c has been made.

In April, the directors forecast earnings for the second half "ahead of the first six months" which implied a figure of at least 95c for the year

Coming after strong

growth in the first half, this forecast may have seemed cautious at the time but it was based on an "anticipated decline in demand for the group's products" and the fact that tax would increase as assessed losses were fully utilised

Both these factors occurred and the company has done well to limit the effects. In an informative preliminary statement, the directors show that fully taxed earnings would have increased by 3,2 percent to 90,3c a share from 87,5c last year

D&H turnover rose by a very creditable 16 percent in difficult trading condi-

tions and profit before tax rose by 14 percent to R108,7 million

The tax charge increased by a massive 89 percent and net earnings fell by 10 percent to R62,6 million

Commenting on the performance, chairman Brown says "The anticipated decline in demand for our products — particularly in the building material sectors — materialised"

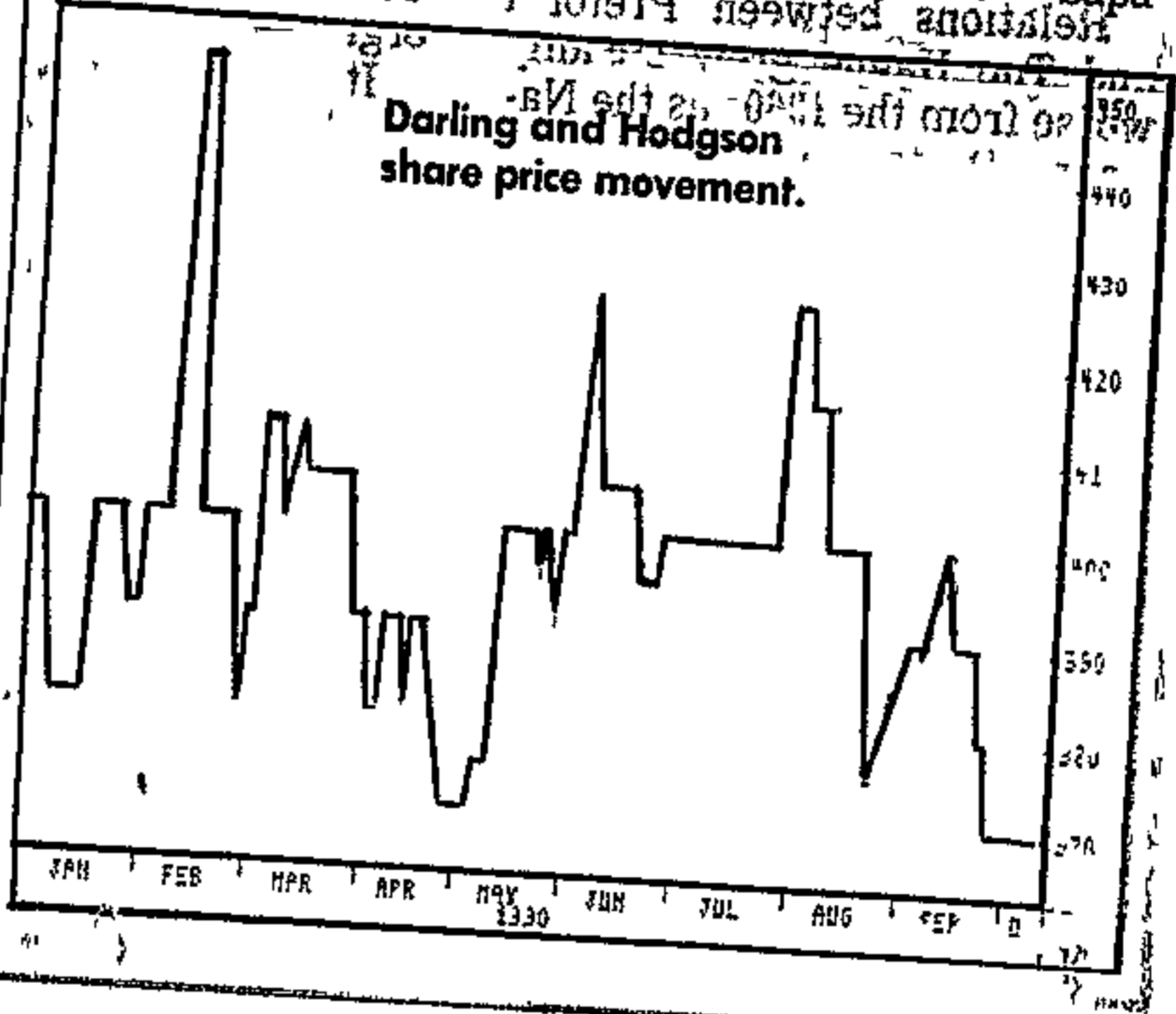
"Pleasing features however are the very strong balance sheet, some R57 million in cash and no borrowings and that we are efficient and a low-cost producer in all our main

sectors
"While circumstances are currently hampering growth, we are going into the recession with a very low-risk profile and can weather the slowdown more than adequately"

"Our share price at 370c is less than 5 percent down on its level of six months ago. Cash in the bank amounts to 88c a share

By comparison the industrial holdings index has dropped by 16 percent and the overall industrial index by 10 percent", managing director Richard Bruyns points out.

"I believe that this confirms the market's evaluation of D&H — Sapa-



D&H turnover improves despite market conditions

B/Daw 15/10/90 (193)

CHARLOTTE MATHEWS

BUILDING materials supplier Darling & Hodgson (D & H) achieved a 16% improvement in turnover to R629m in the year to August in spite of difficult trading conditions

But directors have forecast a 10% drop in earnings for the year to August 1991 if poor conditions continued in the building industry

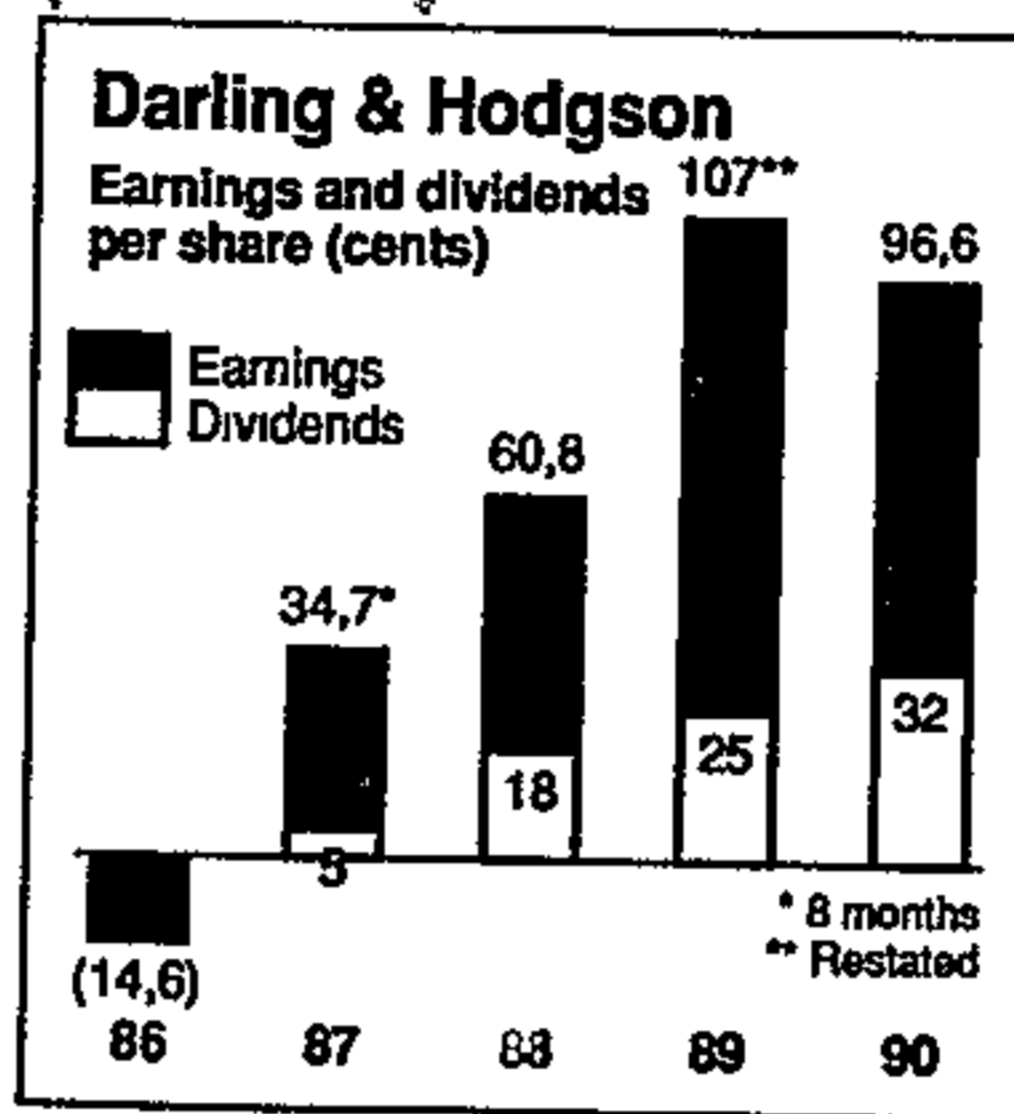
Directors said market conditions declined in the second half of the year compared with the same period in 1989, although they were higher than in the first half.

MD Richard Bruyns said the group's shares had fallen by only 5% in the last six months compared with a 16% fall in the industrial holdings index.

Shareholders' profits of R62,6m fell when compared with 1989's R69,4m.

This was mainly because of a heavy tax bill reflecting a tax rate of 35% compared with the 21% paid in 1989

The directors said the group's assessed losses had been used up and it



Graphic: FIONA KRISCH Source: DARLING & HODGSON

would become liable for normal company tax rates.

If the company had paid the full rate in the 1990 year, earnings would have been 90,3c a share instead of the 96,6c reflected on the income statement

A dividend of 32c (25c) a share has been declared.

D & H owns 42% of cement producer Blue Circle, which in this period contributed 61% towards attributable profits

Directors said its results were lower than in 1989 because of lower demand for cement products

The second most important contributor is pipe manufacturer Rocla D & H directors said the division had performed creditably It had rationalised so it could operate efficiently on lower volumes

Contributions also came from R2,2m in profits on the sale of the fourth phase of D & H's Midrand property, where two phases remain to be developed

An extraordinary item of R890 000 reflected the provision made for deferred taxation on the Lifo reserves on two divisions, Solid and Rocla The directors explained this anticipated the new tax ruling which comes into effect next year.

By the end of the year, D & H's cash reserves had risen to R57,3m from R19,7m in 1989.

Interest earned on the balance was included in the pre-tax income figure. The group had no borrowings.

D & H directors have said in the past they were looking for an acquisition in the field of building-related products.

COMPANIES

Granite producer nets monumental R24m

KEELEY Group, the world's largest granite producer which enjoys sustained international demand for its products, has turned in a 17% rise in attributable earnings to R24,9m (R21,2m) for the half-year ending August

Earnings a share increased 17% to 70,8c (60,3c). The interim dividend, covered 1,77 times, increased 14% to 40c (35c).

Keeley's wide variety of granites are used as cladding material for internal and external building use, and in monumental and engineering applications.

Processing of granite, and forwarding and stevedoring (loading and unload-

ROBERT GENTLE

ing of cargo), account for the balance of its activities

The interim performance, achieved on a 28% rise in turnover to R112m (R87,4m), came on the back of increased mechanisation and higher production levels which enabled the group to adequately meet world demand.

The directors say in the interim report that all quarries within the group achieved higher production levels and that the mechanisation programme implemented last year resulted in increased productivity

193
Production costs were correspondingly lower in "most quarries", though this was not fully reflected in pre-income margins, which dipped from 27% to 23%.

Keeley's granite tile manufacturing plant in Ciskei is now at full production, the directors say, and is contributing to group profitability. Production is scheduled to double by February next year. Meanwhile, prospecting for new granites is continuing.

The "favourable dividend policy" — which has seen total dividends rise from 11c to 75c over the last three years — is expected to be maintained.

17/10/79
18/10/79

GYP SUM FIM 19/10/90

HIGH YIELD (193)

Deteriorating conditions in the building industry have caught up with Gypsum. After strong growth in recent years, the 1990 year saw the group battling to pace inflation —

10 (193)

Activities: Manufactures gypsum products such as plasterboard and building plasters

Control: BPB Industries Plc (49,9%), Blue Circle (32,4%)

Chairman: D A Fairbairn, MD G A P Fraser

Capital structure: 8,2m ords Market capitalisation R56,2m

Share market: Price 685c Yields 8,8% on dividend; 27,3% on earnings; p/e ratio, 3,7, cover, 3,1 12-month high, 780c, low, 650c Trading volume last quarter, 62 000 shares

Year to June	'87	'88	'89	'90
ST debt (Rm)	7,6	7,8	2,7	6,7
LT debt (Rm)	2,3	2,2	1,1	0,9
Debt equity ratio	0,27	0,23	0,07	0,12
Shareholders' interest	0,57	0,60	0,66	0,64
Int & leasing cover	23,0	44,0	49,9	34,3
Return on cap (%)	25,6	30,2	35,8	32,3
Turnover (Rm)	89,6	116,4	147,2	166,4
Pre-int profit (Rm)	16,1	21,8	28,8	32,1
Pre-int margin (%)	18,0	18,8	19,6	19,3
Earnings (c)	89	123	163	187
Dividends (c)	30	42	51	60
Net worth (c)	400	481	593	720

turnover growth contracted to 13%, while EPS gained only 15%. These growth rates were less than half those recorded during the preceding two years.

Not that shareholders were unprepared. They have been warned repeatedly that growth was likely to taper off but what is slightly worrying is the marked deterioration in performance during the second half. Operating profit declined marginally during this period, while the earnings growth rate halved from 20% in the first half to under 10%. Clearly, chairman Derek Fairbairn's latest warning that profit will be difficult to maintain this year should not be taken lightly.

Main problem so far has been the housing sector, where depressed demand has affected offtake of ceiling board and related products. The commercial market is said to have held up fairly well but, judging by the relationship between turnover and profits, it would appear this is a rather less profitable segment of the overall market. While full-year margins were little changed at 19,3%, the breakdown between the first and second halves reflected a sharp crimping from 21% to 17,6%, which would be consistent with a changed sales mix.

This general pattern would also explain the relatively buoyant performance of 67%-owned Donn Products. As a manufacturer of steel ceilings, partitioning and access flooring, its markets correspond to Gypsum's commercial market and it is, therefore, not

surprising its earnings growth rate was about three percentage points better than Gypsum's.

So far, the contraction of activity has not made much of an impact on overall profitability.

The group is still returning more than 30% gross on total assets, while ROE remains in the mid-20s, both highly satisfactory and consistent with returns generated since 1988. The balance sheet remains under-borrowed.

The next set of financial statements are likely to reflect deteriorations — temporary, one hopes — in both areas. By then the new Brakpan plasterboard factory should have been completed, which will bring the full cost of this project on to the books but without any material contribution to profit from this source.

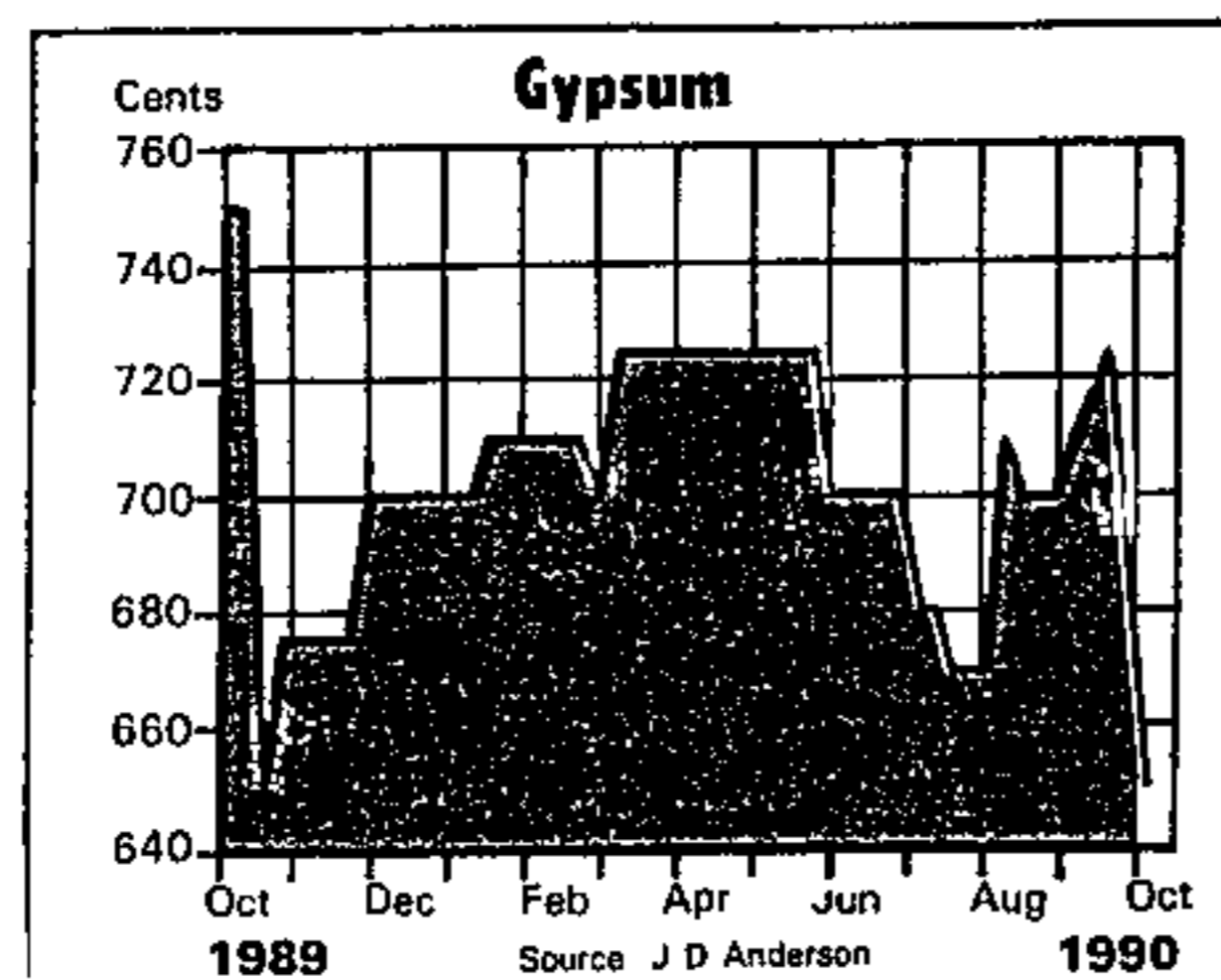
Fairbairn says the new factory will be the most efficient and the lowest-cost producer in the group. Unless the demand outlook changes dramatically by then, it seems Gypsum will have quite a bit of spare capacity on its hands, though the effects can probably be eased by taking full advantage of improved efficiencies of the new facility and reducing dependence on older, less cost-effective plants.

At the same time, the 1992 income statement will have to bear the full depreciation and financing costs of the new plant so, unless there is an improvement in the building industry, the earnings plateau could extend beyond the end of this year.

There is no reason to question the safety of the dividend. The 60c payout is well-covered and, even on the present profit outlook, the possibility of a token increase cannot be discounted.

The market, however, is taking a more gloomy view. The share, at 685c, is only slightly above its 12-month low and the yield of 8,8% is high even by depressing building sector standards.

Brian Thompson



No-hands plant makes 20 000 bricks an hour

Rec 30/10/90

193

Twenty thousand bricks an hour — enough for an average house — is the capability of Cullinan Brick's new automated tunnel plant set to come on stream next year at the group's Midrand site

Moving into the big league in brick production, the plant represents one of Cullinan's biggest investments in its history

The kiln operation in brick output is also speeded up and while the traditional process takes about 90 days, the Cullinan plant cuts this time back to only four days from start to finish

Peter Sneddon, chief executive of Cullinan Brick, a subsidiary of the industrial giant, Cullinan Holdings, says "Our decision to put the plant into operation next year is based on the long-term needs of the country in housing and construction

"In spite of the current downturn, we have confidence that the new plant will meet demand for bricks when the economy picks up."

The speed-up is due mainly to the computer-controlled 157 m tunnel kiln which has a temperature variation of less than 5 degrees throughout, thus ensuring quick and complete firing

"As a result of the high degree of automation, only 47 men make up the factory staff, with only 12 workers required per shift," says Mr Sneddon

"The first hands to touch the bricks will be the bricklayers"

With Cullinan and the country's largest brick manufacturers, Corobrik, poised to boost their brick throughput, there should be no shortage of bricks for the building industry in an economic recovery



Peter Sneddon

Profiting from reject material

ASTUTE management manoeuvres, "crushing plant gymnastics", profit substitution and timely re-structuring ahead of a difficult period, have once again placed Stone & Allied Industries (OFS) among the finalist for the SA Non-Listed Company Award

It is the fourth time the company has been a finalist in the five years of the award

The company is owned by several gold mines administered by the Anglo American Corporation

Managing director Doug Rowland declined to release financial information about the company but describes it as successful, profitable and able to offer

continuous employment

The company purchases waste rock deposits from mines and crushes it for use by the mining, civil engineering, building and road construction industries for mass concrete and ballasting and the manufacture of concrete bricks and precast products

Specialised products include stone for road surfacing and sand for slurry sealing on roads

Between June 1982 and 1988, the company enjoyed rapid growth — expanding from four to 13 plants

Rowland says the company has made a contribution to building up the goldfields and the OFS infrastructure

The company is engaged in a relocation, upgrading and refurbishing project for its two plants in the Welkom area which will provide "an ultra efficient, high volume plant" scheduled for commissioning before the year-end

Says Rowland "This is the most significant recent strategy we've adopted — to dismantle two plants, upgrade the equipment and re-assemble in a more favourable location (President Steyn Number One shaft)

"The object is to maximise volumes by supplying the OFS market through this one 'super plant'"

In 1986 and 1987, the com-

pany introduced two mobile plants which can move anywhere in the country as the need arises

This year, these two were operated together on Vaal Reefs Number Eight shaft

Rowland says the constant monitoring of plant productivity is a case of "crushing plant gymnastics"

Another innovation was the building of a mobile screening plant with an added crushing facility.

This enables Stone & Allied to process unsaleable reject material, cost-effectively convert it into a saleable commodity and release valuable space for stock of saleable material

B/DAM 30/10/90

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Keeley to list subsidiary Kelgran

GRANITE producer Keeley Group Holdings would list its subsidiary Kelgran and become the listed pyramid company, DMB Securities said today.

The listing would be achieved by the payout to shareholders of the asset value of Keeley shares by declaring a special dividend of R30,31m

PETER GALLI

Every 100 ordinary Keeley shares would be exchanged for 100 ordinary Kelgran shares held at close of business on November 16. One Keeley share would then have equal value to one Kelgran ordinary share, DMB Securities said

19/11/70

Interboard, Buildcor to restructure

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CHARLOTTE MATHEWS

INTERBOARD, to be renamed Abacus Industrial Holdings, and Buildcor, to be renamed Audiobuild Holdings, will hold shareholders' meetings on November 20 to approve the reorganisation of the two companies

In notices to shareholders, the companies set out the details of the restructurings and disposals announced in July and September

Interboard has sold its flatboard division to Timberquip and Mogul which have been sold to Sappi for a

nominal R1 each

Mogul has a net liability of R22,4m which Sappi has assumed

The reason for the sale is to halt the continuing operating losses the flatboard division is incurring and to reduce substantially Interboard's interest burden

Interboard is also selling Audiocor to Buildcor in exchange for 45,8-million shares in Buildcor

This brings Interboard's shareholding in Buildcor to 55,6-million

shares or 96%, making Interboard the pyramid holding company

Buildcor will hold a R16m rights offer and Interboard will renounce its rights in favour of its shareholders so that Interboard's shareholding in Buildcor will finally be about 59,5% (193) (22) (101)

Buildcor will acquire door manufacturing company Bruply as well as Audiocor and will transfer from the building and construction sector to the electrical, electronics and battery sector of the JSE

PPC's results reveal a concrete performance

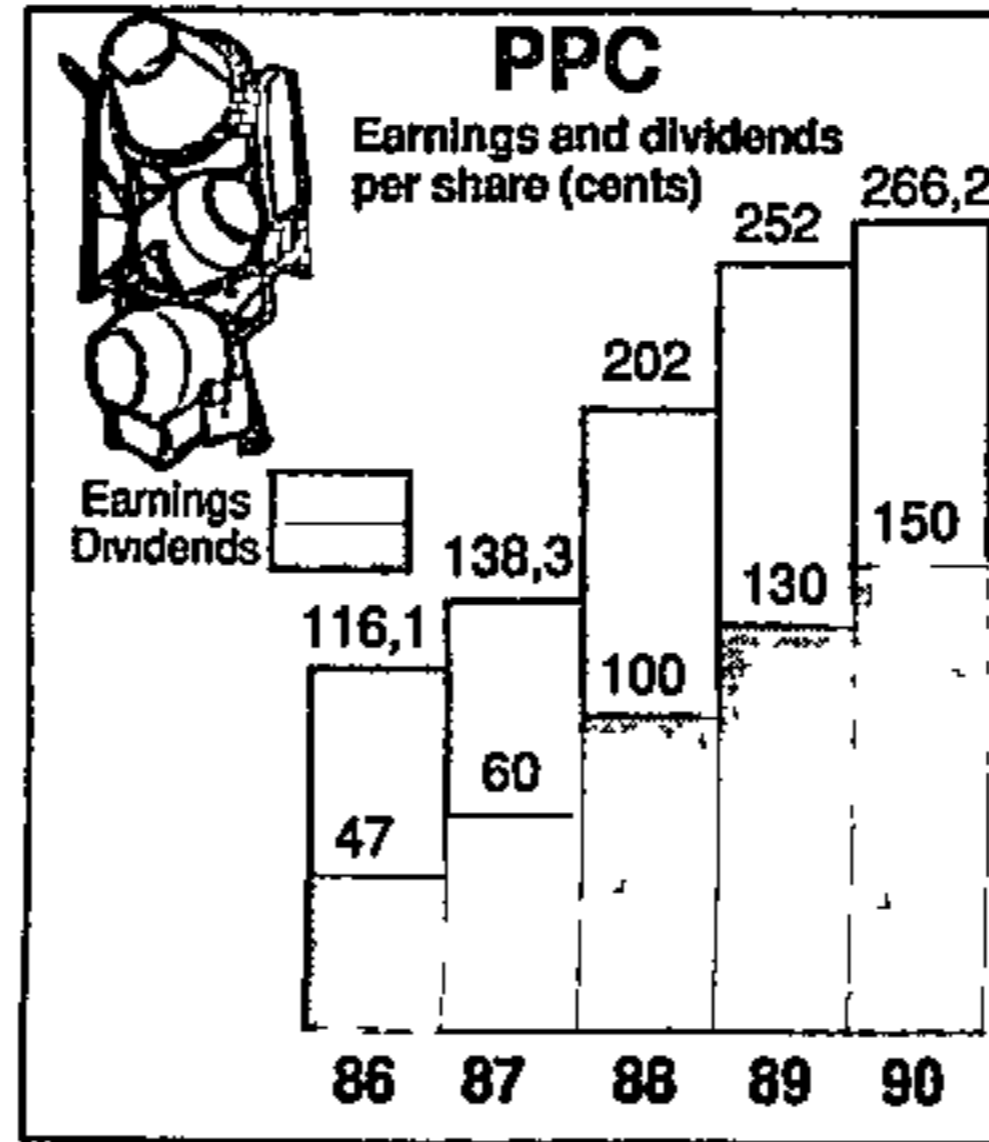
BIDAM 8/11/90 193

BRENT MELVILLE

CEMENT group PPC has shrugged off crumbling support in the building and construction market to turn in a concrete performance for the year to September — and throw in a special dividend to boot.

Although SA Cement Producers' Association (Sacpa) figures showed cement sales for the year to end-September were down 4,2% at 5,9-million tons (6,2-million tons), PPC, one of only a handful of Barlow Rand subsidiaries to post any improvement in earnings for the year so far, has bolstered turnover by 7% to R740m (R689,2m). Attributable profits rose to R106,7m (R100,4m)

The special 80c dividend declaration brings the total dividend for the year to 230c (130c), reducing cover on earnings of 266,2c (252,6c) a share to less than 1,2 (1,9) times



Graphic: LEE EMERTON Source: PPC

Slightly reduced margins, however, saw operating profit move up only 5% to R172,2m (R164,4m). Interest received added a further R17,3m (R12,8m), to leave pre-tax profits at R192,2m (R187,5m).

Group financial director Chris Wrogemann attributed the reduction

in margins to a major non-recurring repair worth R8m to a kiln at the western Transvaal Slurry factory.

He said discounting the repair would have increased operating profit by more than 9%

The effective tax rate dipped slightly to 45% (49%) excluding dividend income as a result of tax allowances on mining capital expenditure.

On the balance sheet, liquid funds amounted to R42m with total borrowings at R32,5m. As PPC's borrowing powers are limited to the amount of shareholders' funds (R513m), further borrowing capacity is R480m and gearing is a low 6,3%.

MD Ted Hodgkiss said in terms of future work the group was not counting on any additional cement demand from the Lesotho Highlands Water Scheme because its cement might come from foreign suppliers

"In any case the demand would be spread over several years"

PPC shareholders to get an extra R32m

Pretoria Portland Cement (PPC), SA'S largest producer of cement and lime, has decided to pay a special one-off dividend of 80c a share because it has a significant stockpile and foresees no major investments for the near future

The special dividend is over and above the normal annual dividend of 150c (130c) a share. With 40-million shares in issue it amounts to a pay-out of R32m cash

MD Ted Hodgkiss said the dividend was decided upon as PPC had a significant cash

BRENT MELVILLE

stockpile with no major investment opportunities immediately available. End-September figures show liquid funds of R42m (R74,9m)

Hodgkiss said PPC had finished the last of its expansions in 1985 with the completion of the R100m Dwaalboom plant, now mothballed. "For that reason we foresee no major expansions — of R50m or more — for the foreseeable future"

● See Page 8

06/11/86
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KND/1/86

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FIM 7/11/90 (193)

Everite is feeling the general economic decline, especially in the black housing market MD George Thomas concedes that the short-term outlook is gloomy

But it was not only the slack market that hit sales last year Falls of 6% in volume and 18% in value also reflected a strike at the major factories Because of the capital-intensive nature of the business and the resultant high fixed operating cost, lower volumes impacted sharply on profit margins

However, on historic cost figures, the group coped pretty well Return on shareholders' funds, on historic cost, was 15,8% as opposed to an inflation-adjusted 6,1% Historic cost EPS also held up, with only a 5,6% decline to 30,4c

The balance sheet is still healthy, thanks to Swiss conservatism, with virtually no debt Thomas expects to fund continuing capex (R25m-R30m for 1991) out of cash flow and borrowings He says some funding could be obtained by liquidating endowment fund policies built up out of past strong cash flows

Much of the capex is on replacing asbestos with safer material This programme is expected to be completed by end-1992

Management cautiously forecasts better



Everite's Thomas troubled by strikes

profits for the Everite trading division, which last year contributed 73% of group pre-tax income However, since Thomas wrote his report in early September, the international oil price hike has added negative factors to the already clouded economic crystal ball It will be a commendable performance to maintain last year's profit

The group remains well placed to benefit from positive economic developments, especially in black housing With a 250c share price some 30% below NAV, Everite is definitely not overpriced

Gerhard Slabber

EVERITE (193)
COPING WELL FIM 7/11/90

Activities: Makes fibre cement and plastic products

Control: Everite Holdings 56%

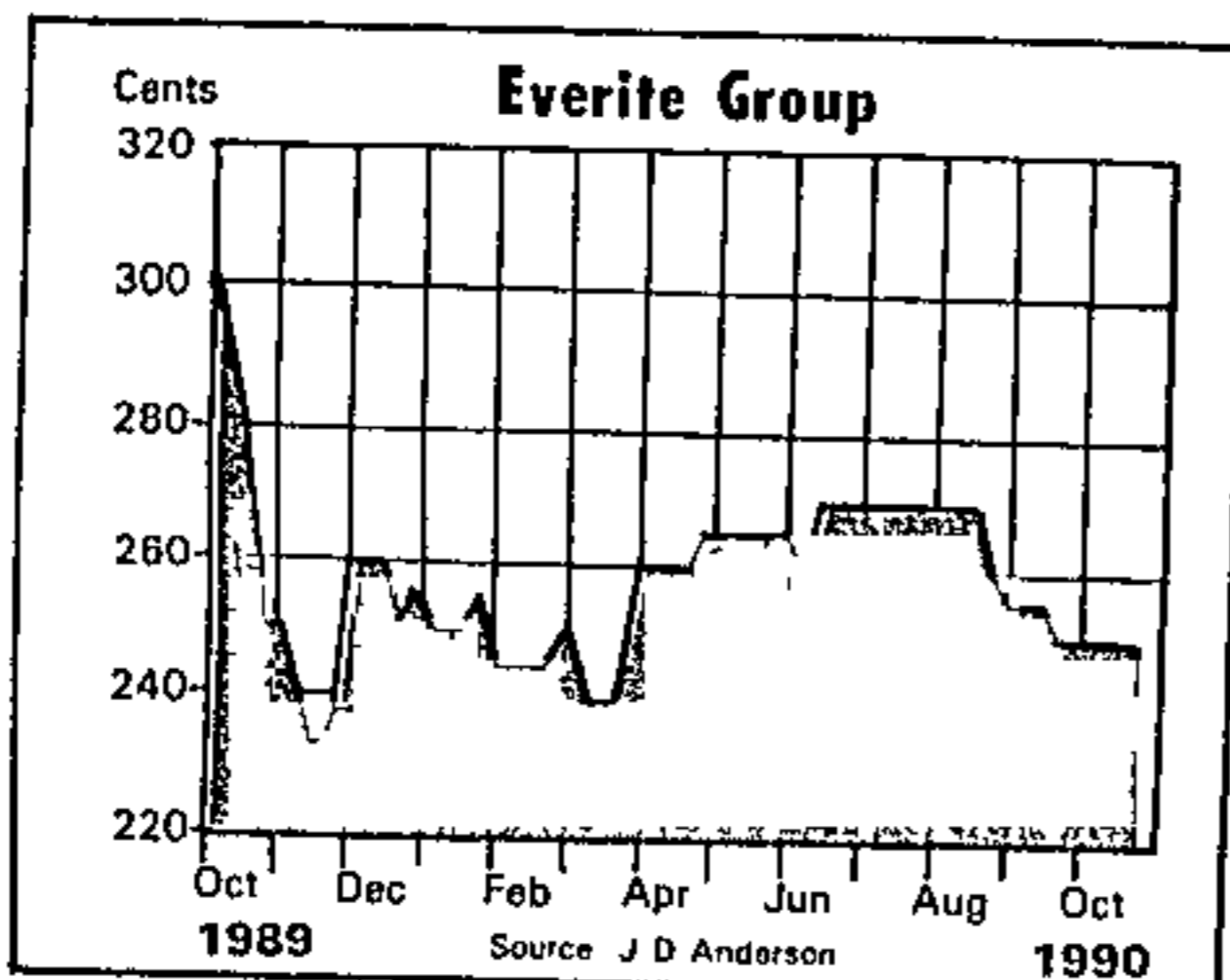
Chairman: E L Arni MD G M Thomas

Capital structure: 88,9m ords Market capitalisation R222m

Share market: Price 250c Yields 5,2% on dividend, 10,4% on earnings, p e ratio, 9,6, cover, 2,0 12-month high, 280c, low, 230c

Trading volume last quarter, 136 700 shares

Year to June	'87	'88	'89	'90
ST debt (Rm)	17.2	10.7	4.7	2.5
LT debt (Rm)	14.2	11.8	11.7	23.3
Debt equity ratio	0.11	0.06	0.03	0.05
Shareholders interest	0.73	0.75	0.75	0.74
Int & leasing cover	1.0	1.7	3.2	4.5
Return on cap (%)	5.8	7.5	10.3	7.6
Turnover (Rm)	292	326	373	352
Pre-int profit (Rm)	24.2	29.0	40.5	32.7
Pre-int margin (%)	7.3	8.2	10.7	8.7
Earnings (c)	13.1	19.0	21.6	26
Dividends (c)	8.7	11	13	13
Net worth (c)	303	302	329	356



F/M 9/11/90 (193)

cover this year is projected at only 1,4 times — less than half 1990's 3,0 and about a quarter of the 5,5 peak recorded in 1989. Any further deterioration in performance could leave operating profit at a level that will simply be swallowed by interest payments, leaving nothing over for shareholders.

This is not to say the group is structurally over-borrowed. Even at mid-year, when debt is seasonally high, the ratio of outside borrowings to permanent capital was only 0,55 while the year-end figure will probably not differ much from last year's 0,33.

But these ratios belie the true level of profit leverage in so far as equity shareholders as concerned. Included in permanent capital is R23m in convertible debts. If the ratio is restated to reflect all interest-bearing funds in relation to share capital, the March 1990 figure of 0,33 virtually doubles to 0,59.

Equally disturbing is the level of instability that has crept into the housing industry which provides the major portion of Boumat's sales. Apart from the depressing effect of high interest rates on new housing starts, the low-cost housing sector has been hammered by the unrest situation which, the

BOUMAT F/M 9/11/90
UNDER STRAIN (193)

Any further deterioration in trading conditions could push Boumat into the red during its 1992 financial year, after its revised forecast of a 78% earnings decline for the year to end-March 1991.

The crunch lies in the fact that interest

F/M 9/11/90 (193)

CRACKS SHOWING

Six months to	Sep 30 '89	Mar 31 '90	Sep 30 '90
Turnover (Rm)	488	514	553
Operating profit (Rm)	28,8	29,1	17,3
Pre-tax profit (Rm)	21,0	17,4	6,8
Earnings (c)	46,0	36,0	13,3
Dividends (c)	24,0	22,5	22,5

directors say with admirable understatement, has created unacceptable working conditions in black areas and has led to withdrawal of most of the major contractors from a sector of the industry which has hitherto been seen as a focal point for growth.

The interest rate situation will sort itself out in due course — being cyclical, it always does. The unrest is, by nature, capricious and at the moment it is difficult to foresee sufficient normality being re-established to lure builders back again. Until that happens, it would seem that companies like Boumat will be out in the cold.

Offsetting this to some extent is the fact that the group's operations are largely of a trading nature. It has a relatively small fixed asset base and it should, over time, be able to adapt to the changed circumstances. In the short term, however, such adjustments can be painful, as indeed was the case during the six months to end-September, when non-recurring costs incurred in the closure of certain operations reduced profit by over R3m, accounting for some 26% of the overall R11,4m decline at the operating level and about one-fifth of the drop in attributable

earnings

But even without a repeat of these costs in the current half, EPS for the remainder of the year are expected to amount to under 5c, against the 18c of the first six months.

The decimation of earnings has so far had no effect on distribution policy and management still intends declaring dividends totaling 48c for the current year. Given that holders of at least 82% of the equity will opt for the bonus share alternative, the cash cost to the company will be limited to just over R2m. Even this is almost half the group's expected attributable income for the year and is a strain that a greatly reduced cash-flow could do without.

Brian Thompson

Interboard in plea ^{Star 11/11/90} to Board of Trade 193

Finance Staff

The mystery surrounding Interboard deepened yesterday with an announcement by chairman David Olsen that an application had been made to the Minister of Trade and Industry to investigate the control structure behind Interboard Ltd.

According to the announcement, the application follows the refusal of the MD of Netherlands-based Interboard Holdings BV (BV), the majority shareholder of Interboard Ltd, to disclose details of the new controlling shareholder of BV.

Mr Olsen, who took over as chairman from Ed Dutton last July, said yesterday: "My ap-

pointment to the board of directors of Interboard Ltd was at the request of the trustees of the Jersey Trust, which previously beneficially owned 100 percent of the shares in BV.

"I have recently been told by Dr Joost Versluis, the MD of BV, that in 1989 new shares were issued by BV and that the trust no longer controlled BV.

"Due to this refusal, and the fact that it is imperative that we know who controls BV, in view of certain matters which have been reported to the board of directors, an application to the Minister of Trade and Industry in terms of Section 255 of the Companies' Act 1973 has been lodged."

[The following text is extremely faint and appears to be a scan of a document with significant noise and bleed-through. It is largely illegible.]

20 000 bricks an hour add to the glut

By IAN SMITH

DEPRESSION in building and a brick-making industry operating at only 73% of capacity are poor omens for the commissioning of an advanced automated kiln.

The kiln can produce 20 000 building bricks an hour.

But Cullman Brick chief executive Peter Sneddon says the group's R30-million investment, which takes the ancient art of brick-making into a new era, will be justified — in time.

A rival brick-maker says: "Expensive technology has a part to play in our industry. Whether this is the right time for it can be questioned."

Mr Sneddon says: "Competitors are looking at us with some trepidation — and envy."

War

The impact of new technology on production costs will take time to filter through. The fact that Cullman's decision to build the plant was taken when interest rates were about 14% and prime overdraft is now 21% should reduce the prospect of a price war.

Mr Sneddon says that if the inflation factor is taken out of the price of bricks, the return to manufacturers is lower than it was in 1979. That is frightening, he says.

National brick production is about 4-billion a year, well down from the 1983 peak of 6-billion.

Cullinan's decision to install the most modern plant in the world was not prompted by expectations of an imminent demand surge.

Experts visited major brick plants around the world before deciding on the technology from France's Ceric group.

Critical

The industry is dominated by Corobrik with an estimated 40% of the market. Four other brick-makers, including Cullinan, share about 75% of the market not held by Corobrik.

A critical shortage of bricks in 1983 led to a swing to substitute building materials, but the clay brick is making a come-back, says Mr Sneddon.

Demand fell heavily last year when high interest rates cut house building drastically. Problems facing developers of low-cost housing have

□ To Page 3



NEW ERA FOR ANCIENT TRADE Peter Sneddon amid mounting pile

Bricks a billion

delayed the resurgence of demand

However, moves this week by financial institutions to free pension and provident funds for low-cost housing have raised hopes that the outlook will brighten

□ From Page 1

Corobrik Transvaal marketing manager Chris Dickenson says: "Anything which encourages home ownership is good. Home development is the quickest way to create jobs."

Mr Sneddon says Cullinan's decision to go ahead was based on long-term needs in housing and construction.

"In spite of short-term predictions for the industry, we are confident the new plant will meet demand when the economy picks up."

When the kiln is in full operation early next year it will produce enough bricks for an average house in an hour. The brick-making process takes 90 days with the traditional clamp-kiln operation.

PLATE GLASS FIM 23/11/90

SHUFFLING THE WOOD

Plate Glass is continuing to restructure its PG Wood Industries division, which incurred a 79,2c-a-share loss in the year to end-March — mainly because the foreign operations held in Wood International made a 208,8c-a-share loss (193)

Joint executive chairman Bertie Lubner says he is confident that the wood division will produce an operating profit during the current year. However, there will be extraordinary losses stemming from the disinvestment of some overseas operations.

Major changes in the nature of the international wood business, coupled with a downturn in various national economies, were given as the underlying reasons for Wood International's slide. These events led to the mutual agreement to cancel a R140m deal with a consortium of European and US investors.

Lubner tells me that, in accordance with the decision to reduce the size of the non-SA wood operations, the offshore timber trading operations have been sold. Other operations, not considered strategic, are being reviewed in terms of the group's plan to focus more on southern African markets and on exports. With SA becoming politically more acceptable in the world, and locally made goods gaining wider acceptance, it may make sense to replace the overseas interests by enhancing and enlarging the southern African operations.

PG Wood's overseas and local head offices are being reduced as part of a decentralisation effort. Divisional management responsibility will be upgraded. Apart from this, Lubner says, nothing else in southern Africa has been changed.

The interim results are due soon and

Plate Glass's Lubner wood
in the black



FOX

FIM 23/11/90 (193)
should shed more light on the restructuring process. Meanwhile, the share has fallen steadily from its high of R68 in March to the current R40. This may be partly because of stock market conditions but it also reflects the harm done to the group's image by the problems with the offshore interests.

Gerhard Slabber

Darling & Hodgson confident of riding out the hard times 193

CASH-rich Darling & Hodgson (D & H), major supplier to the building and construction industry, is confident of riding out the recession relatively unscathed, says chairman Hugh Brown and MD Richard Bruyns in the annual report

The group foresees a 10% drop in earnings in the year to August 1991 from 1990's 96,6c a share

They note that the difficult environment experienced over the past year included a slide into recession and political uncertainty compounded by unrest and labour relations problems. They see these conditions deteriorating further this year.

The impact of these factors on the sectors in which D & H operates has been to seriously affect the ability of contractors to fulfil their contracts, leading the authorities to postpone the placing of such contracts until it is safe to work in these areas. This has led to reduced orders.

A large proportion of D & H's cost of operations is fixed and results are volume-sensitive. In the past year management had to cope with a decline of 3% in the

LIZ ROUSE

volumes of cement, 25% in building materials and 15% in concrete products

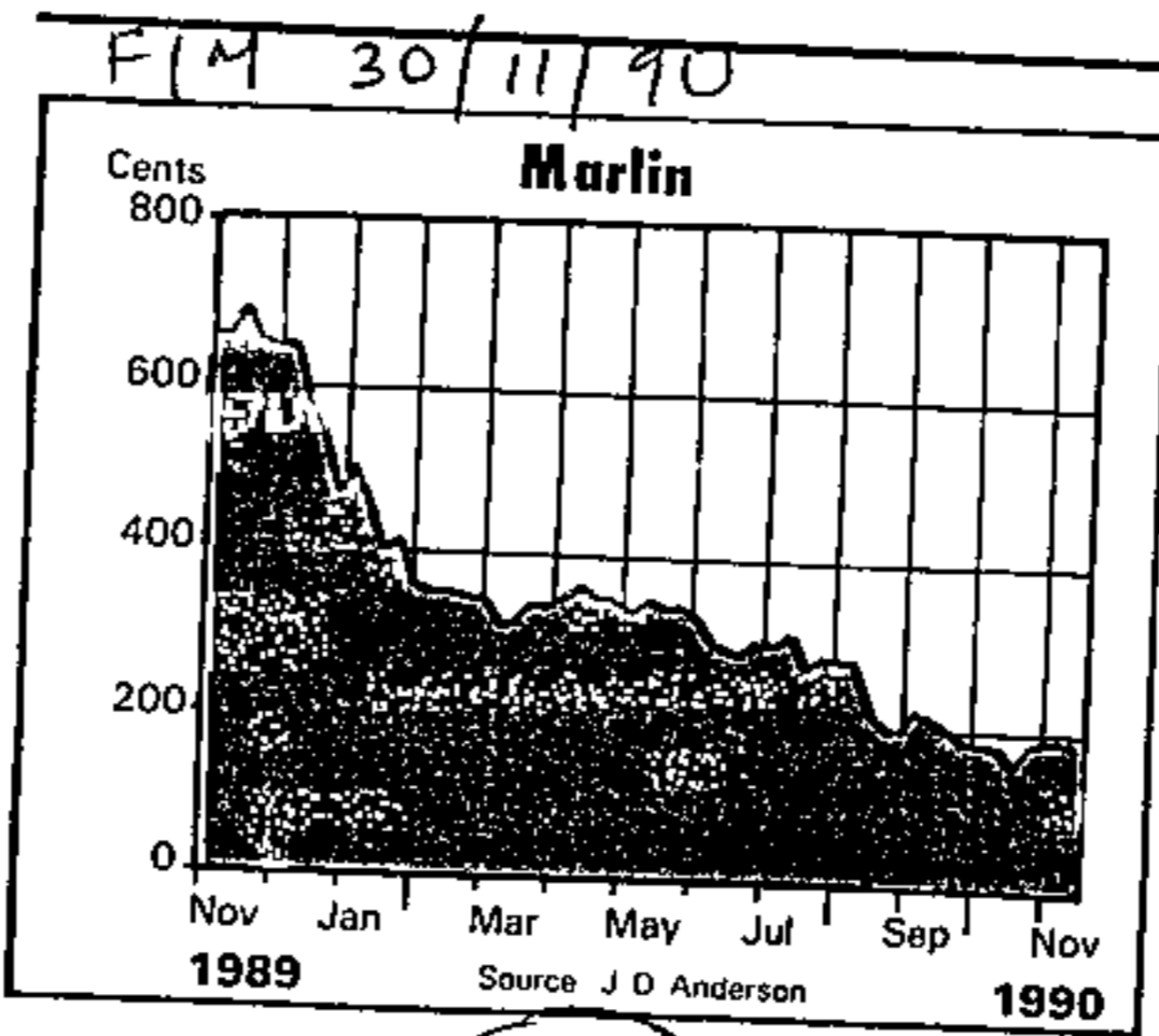
Bruyns says, however, the strong cash position with R57m on hand not only places the group in a sound position to grow by acquisition, but ensures it will weather this recession adequately.

On the labour issue, Brown comments that management in SA has had to come to terms with labour unrest in order to operate at reasonably acceptable levels, and that wage increases of about 20% without commensurate increases in productivity cannot continue indefinitely.

In the case of D & H itself, the total paid in salaries and wages rose by 23,6% in the year to August 1990

The group used up its assessed losses for tax purposes in the past year.

Brown points out that if these are ignored, earnings would actually have risen from 87,5c a share to 90,3c in the 1990 financial year.



193

seems to have fallen out of favour because of increased price competition and a steady exchange rate. Some producers of Rustenburg grey granite sell at severely reduced prices in a scramble to retain market share.

Though Rustenburg material is a significant source of income it is not the biggest, so Marlin is not so much affected as Keeley and Kudu. The main source of revenue is black fine-grained Belfast granite but, in the year to June, the bottom line took a hard knock when major problems at the 28-year-old Kwaggaskop quarry halted production in one of the five sections for some months.

Development was accelerated at three other areas to compensate, and Kwaggaskop was able to sell some affected granite to tile manufacturers. Some analysts, however, feel that Marlin may have been too cautious in keeping back affected material.

Investors may also feel uncomfortable about the limited disclosure Marlin could be forgiven this when it was mainly a quarrying operation but, with recent acquisitions in beneficiation operations, disclosure could boost investor sentiment.

Marlin does not give separate figures for newly acquired Marble Pentelic. Beneficiation must be lucrative because the directors made a R4,6m strategic investment later in the period under review to acquire joint control of CMH, which holds 54% of Afmin, which in turn has 44% of Minaco Granite, one of SA's big granite beneficiators.



Marlin's Gain moving into beneficiation

MARLIN F/M 30/11/90

OUT OF FAVOUR

193

Activities: Granite quarrying
Control: Directors 68%
Chairman: P B Gain, MD G R Treagus
Capital structure: 46,3m ords Market capitalisation R88m
Share market: Price 190c Yields 15,8% on dividend, 19,6% on earnings, p e ratio, 5,1, cover, 1,2 12-month high, 690c, low, 160c
Trading volume last quarter, 226 000 shares

Year to June 30	'88	'89	'90
ST debt (Rm)	6,2	8,1	13,3
LT debt (Rm)	4,3	8,1	7,9
Debt equity ratio	0,08	0,19	0,14
Shareholders interest	0,56	0,53	0,66
Int & leasing cover	148	19,75	5,94
Return on cap (%)	15,3	19,4	9,9
Turnover (index)*	443	655	651
Pre-int profit (Rm)	18,3	30,8	21,9
Earnings (c)	56	84	37
Dividends (c)	20	30	14
Net worth (c)	180	243	283

* 1983 = 100

A number of reasons led to granite producer and beneficiator Marlin's 73% share price drop in the past year to 180c. Shareholders who exercised their rights and took up 10,8m shares at 350c in May may not be too happy. The granite sector, except for Keeley,

F/M 30/11/90 193

COMPANIES

The group also bought for R1 800 Skyvan Services (renamed Marlin Air), which later bought for an undisclosed sum a used helicopter, used mainly for exploration.

After the R37,8m inflow from the rights issue the balance sheet is healthy, with R27,2m year-end cash resources. The group should be able to fund expansion internally. Management is particularly optimistic about Marble Pentelic, which has a R50m order book.

Gerhard Stabber

FIM 30/11/90

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the business

Coulson has a tough task ahead. He is, however, becoming involved in the group when things are looking slightly better than they did when it announced a R127m attributable loss for the year to end-February. Its share price has recovered from a 10c low set when a consortium, which was to inject a much-needed R10m into Inboard's flatboard division, pulled out. The share now trades around 38c.

The group this week announced shareholders' approval at a general meeting of the acquisition of Audiocor and Bruply, the two operating companies which fall under newly named Audiobuild (formerly Buildcor).

It also placed a cautionary announcement in the press to say that it had recovered assets held by its offshore companies, and the treatment of shares held by these companies in Inboard and other JSE listed companies was at the discretion of the Reserve Bank. Clemitson says he favours cancelling the shares because this would benefit minorities, whose shares should rise fivefold in value.

Heather Formby

ABACUS FIM 30/11/90

NEW CHAIRMAN

193

Abacus — formerly Interboard — is to get a new chairman. Former Blue Circle group MD and executive chairman Trevor Coulson is to take over from chairman David Olsen who is returning to the UK.

Coulson will split his time between Abacus and Blue Circle where he has remained a director and non-executive chairman. Coulson announced his resignation from Blue Circle in the annual report which was published in April.

Abacus CE Mike Clemitson says Coulson was approached because he has the background to make a valuable contribution to

Abacus's Coulson has the background



PPC expects to maintain its position

Monday 30/11/90 *193*
PRETORIA Portland Cement (PPC) will maintain its 1990 earnings level next year, despite the declining number of major civil engineering projects and the inhibiting effect of continuing unrest on growth in the low-cost housing sector, says chairman John Hall in the group's annual report

PPC lifted attributable profits to R106,7m (R100,4m) in the year to end-September.

Hall said R60m was spent upgrading plant and equipment during the year. The

MARC HASENFUSS

Dwaalboom plant remained mothballed, as extra production capacity in PPC's cement and lime divisions was not required

Talks were continuing with neighbouring states on the possibility of investing in a new cement plant, he said

Lime sales declined 3,6% against last year's sales as the fall in world commodity prices took its toll on PPC Lime's customers

PGSI profits edge up by 1%

PLATE Glass and Shatterprufe Industries (PGSI), which is undergoing major surgery in its international wood division, has posted a 1% growth in attributable profits for the six months to end-September

On attributable earnings of R35,1m (R34,9m) or 213,1c (211,9c) a share, the in-

ZILLA EFRAT

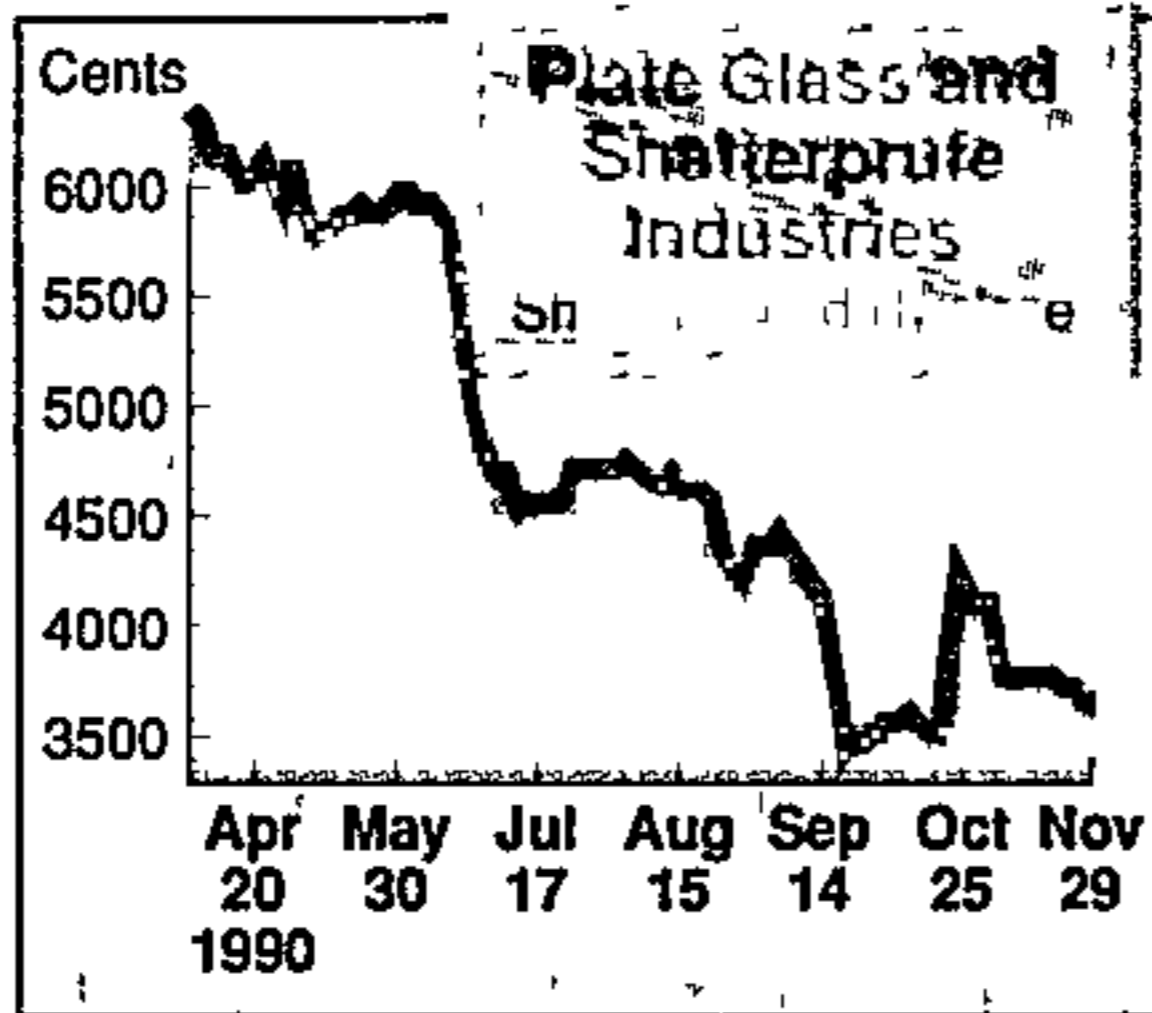
terim dividend has been maintained at 65c a share.

The results follow a 27% fall in attributable earnings for the year to March after the group experienced major problems in its international wood division during the second half

It estimates the restructuring of the wood division, including all anticipated future costs, will result in below-the-line write-offs of R74m this year. This amount has been provided for. (193)

The wood division has increased its contribution to interim earnings from 2,4c to 43c a share. This is due largely to the disposal of two major offshore operations and strong performances in southern Africa, particularly from P G Bison and the Central Africa division.

Wood International chairman Bertie



Graphic FIONA KRISCH Source JSE

□ To Page 2

PGSI profits ^{610m} _{30/11/90}

Lubner says the timber trading division has been sold to London-based Tradeink and Plate Glass and Shatterprufe is also disposing of its Australian board outlets

Development of these outlets has been severely hampered as sellers have dominated the market because of the severe economic recession in Australia

Lubner has also cut deep into costs in the London, Johannesburg and Zug offices and in the British DIY chain

The costs of restructuring the division, which should be completed by year-end, are offset by the profit from the sale of the UK flat glass operation to St Gobain for R135m. The group's net non-trading surplus for the six months is R25m

As part of the St Gobain deal, Plate

(193) □ From Page 1

Glass's international glass division acquired a further 145 automotive glass installation outlets and is concentrating on absorbing these new units

Chairman Ronnie Lubner says "We are still investing strategically in the development of our 365 outlets in Europe and 103 in the US. Many of these were started less than two years ago, and some are only a few months old."

Glass operations in Australia are in the grip of the severe recession. But in spite of uncertainties in the local building and automotive glass industries, Glass SA is holding up well and expects to meet the year's budget

The glass division contribution to interim group earnings fell 18% to 170c a share

26-30/11/90 (193)

Cement price to go up 8,5 percent in January

By Derek Tommey

The price of cement is to be raised by 8,5 percent from the beginning of January

This was announced last night by Mr Ted Hodgkiss, managing director of Pretoria Portland Cement, the country's biggest cement producer.

Mr Hodgkiss said the cement industry had looked at the export market. But the problem was that it cost about \$28 to rail a ton of cement to the coast — almost as much as it was selling for overseas.

The cement price was increased 9,3 percent last January and 10 percent in January, 1988. There are also mid-year increases to come. In July this year the increase was 5,5 percent and in July, last year, 5 percent.

Cement sales dropped 6 percent in the year ended September to 3,26 million tons from 3,37 million tons a year earlier. Export sales, however, more than doubled from 42 000 to 94 000 tons.

The lower sales resulted in average plant utilisation of 61 percent against 63 percent last year.

Looking ahead Mr Hodgkiss expects earnings in 1991 to at least equal this year's figures, even though building construction was right down.

Forecast

Substantial sums of money would become available for low-cost housing and he also expected business, in line with the normal five year cycle, to start picking up towards the end of next year. Looking further ahead the outlook brightens considerably, the company believes, and forecast that the rate of growth of the cement industry would exceed that of the economy.

There were plans to build 200 000 low cost houses a year. As each of these houses used five tons of cement, this would increase sales by about 1 million tons a year or about 12,5 percent.

PPC had substantial surplus capacity which could be brought

into production in a short time should it be needed.

Mr Hodgkiss said the cement industry had looked at the export market. But the problem was that it cost about \$28 to rail a ton of cement to the coast which was what cement was selling for overseas.

Finance director Mr Chris Hollman said a special cash dividend of 80c a share was being made in the light of the company's large cash holdings and its difficulty in finding alternative investments.

Moreover, while the company was getting 19 percent in the money market this was below the 21 percent return it was getting on its other assets.

The dividend will cost R32 million. PPC ended the 1990 financial year with R45 million in surplus funds and, before taking the special dividend into account, expected to have some R35 million at the end of September next year.

However, Mr Hollman said he expected the company to continue generating cash and that this figure was likely to be exceeded.

Plate GI to write off R74m

By AUDREY D'ANGELO
Business Editor

PLATE Glass and Shatterprufe Industries (Plate GI) will write off R74m this year through the restructuring of its international wood division

But the directors say these extraordinary costs "are more than offset by the profit from the sale of the UK flat glass operation to (French company) St Gobain for R434m. The group's net non-trading surplus for the six months is R25m."

Plate GI lifted net income after tax by 13% to R69.7m (R61.8m) in the six months to September. But attributable income rose by only 1% to R35.1m (R34.9m). Earnings at share level were 213.1c (211.9c).

The interim dividend is unchanged at 65c a share.

The directors say indications are that "in spite of increasingly difficult trading conditions the second half

CAA Tent's 30/11/90
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... but UK sale profits soften the blow

should show an improvement compared with the same period last year."

Plate GI's wood and glass operations in SA performed well in the past half year. But its overseas operations ran into trouble, particularly in Australia which, the directors point out, "is now in the grip of a severe recession."

They say their international wood division has "bitten the bullet" on loss-making overseas operations. The timber trading division has been sold to London-based Tradelink, in what a company spokesman described as "an innovative deal giving Plate GI minimum guarantees and the buyer pro-

gressive incentives to realise assets." The group is also disposing of its Australian board outlets. But "the process has been severely hampered by sellers dominating the market due to the severe economic recession in that country."

However, the wood division increased its contribution to interim earnings to 43c (2.4c) a share. A spokesman said strong performances in Southern Africa, particularly by PG Bison, and the Central Africa division, helped this.

Glass operations in SA are holding up well. But the directors warn that

the division's offshore development strategy is likely to impact on profits for the next 18 months.

As part of the deal with St Gobain the group acquired a further 145 automotive glass installation outlets.

"We are still investing strategically in the development of our 365 outlets in Europe and 103 in the US," says Ronnie Lubner, chairman of the international glass division.

"Many of these were started less than two years ago. Some are only a few months old. Accordingly, our trading results do not yet reflect the full potential of this investment programme."

The glass division contributed 107c a share to group earnings in the first half, compared with 208c the previous year.

The directors say the group "continues to make progress towards previous levels of profitability."

But, they warn, "a watchful eye must be kept on deteriorating economic scenarios worldwide."

Big mileage in Gentyre

S/Times 2/12/90

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GENTYRE'S progress up the ranks of Business Times top companies has been impressive since it came into the orbit of dynamic FSI Corporation in 1987.

It moved from 23rd in 1988 to 10th last year and now it is No 9 with an all-in compound return over five years of 54,3%

Because of its strong position in the market after a major capital expenditure programme and the growth in attributable earnings from R8,2-million in 1985 to R43,6-million in the year to last December, there is still a lot of mileage in the share.

Analysts are looking for earnings of R55-million this year, and at the half-year Gentyre had tucked away attributable profit of R25,3-million — a 61% increase on the same time last year.

Unlocking the potential of Gentyre Industries was a priority for FSI when it took control of parent W&A Investment Corporation. The success of the strategy must please Gentyre chairman and FSI chief operating officer Terry Rolfe.

Mr Rolfe says the company's ability to do well in a cyclical motor industry in spite of stepped-up pressure from SA competitors and imports reflects the combination of experienced operational teams and the relationship with Germany's Continental, the world's No 4 tyre-maker and source of technology for the tyre division.

"FSI philosophy has always been one of teamwork. When we placed responsibility in the hands of the people who had the ability to generate the profits, the company really took off."

Pace

Gentyre has also obviously benefited from FSI's entrepreneurial flair and the fact that the parent was determined to cut accumulated fat and then invest in the future.

To keep pace with the world trend to steel radials Gentyre's capital expansion budgets were stepped up from R6,3-million in 1986 to three times that figure in 1988. The budget was increased another 70% last year.

The tyre range, which had grown larger than any of Gentyre's major competitors, was reduced to enable production runs to be lengthened.

Marketing was concentrated on developing the General brand for truck, off-road and long-distance car tyres and the Continental range as a premium

performance steel-belted tyre.

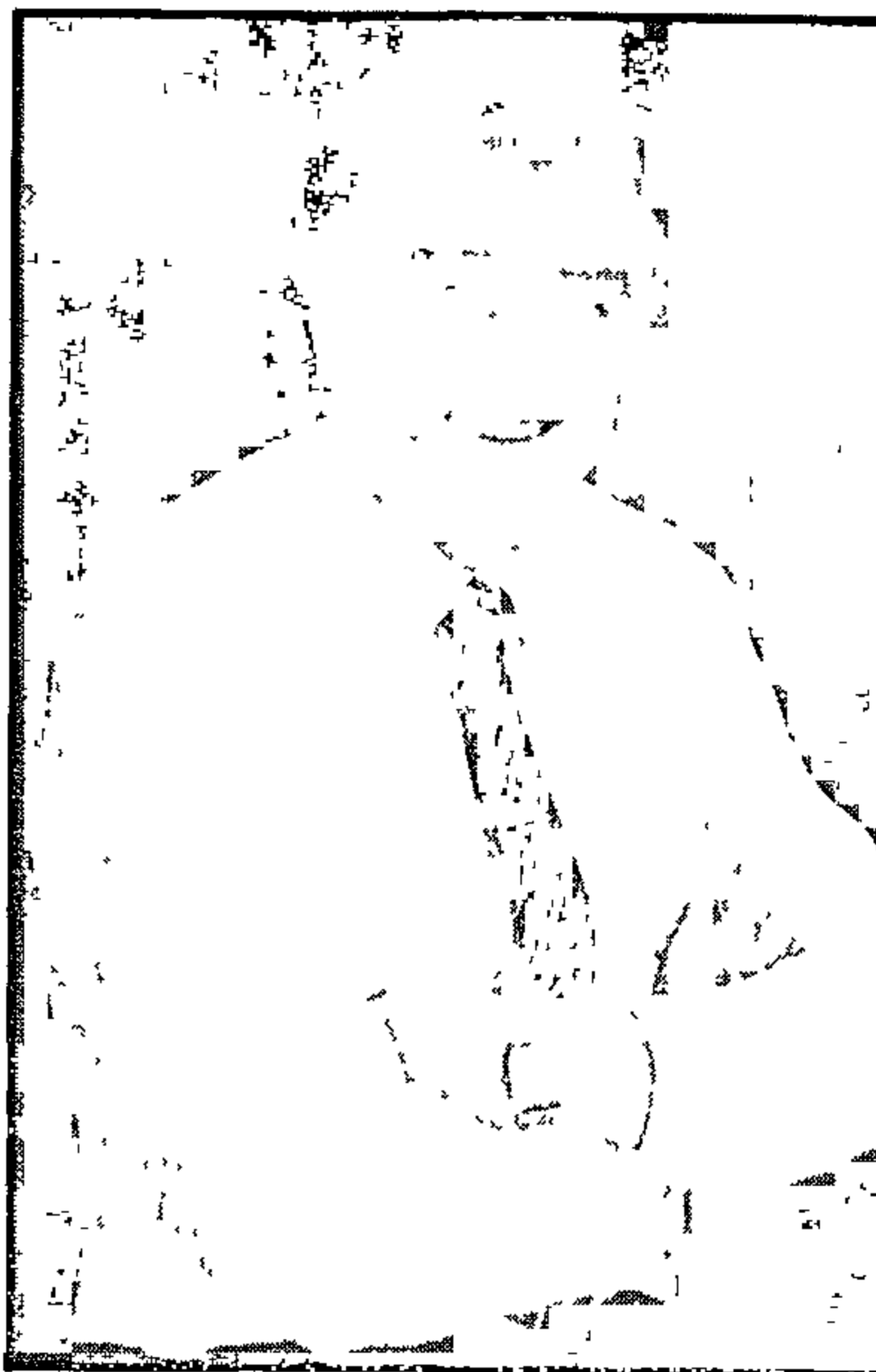
The moves came just in time. Steel radials — which offer better road-holding and lower rolling resistance (providing better fuel economy) — have improved their stake in the important original equipment market from 40% in 1980 to 74% this year.

The replacement sector, which takes 70% of car tyre output from SA's four makers, is following the trend. The swing to radials has increased from 16% in 1985 to an expected 40% this year.

Gentyre introduced its Total Quality Concept, which included more investment in staff training



By IAN SMITH



TERRY ROLFE Teamwork a counter to a cyclical motor industry

and greater emphasis on customer service.

The marketing effort included the hair-raising television advertisement for Continental — filmed on the roof of an eight-storey building in downtown Johannesburg. The spot helped take drivers' awareness of the brand from 45% to 76%.

"It had a noticeable effect on the predisposition to buy," says Mr Rolfe.

For a follow-up, the marketing team moved to endurance and performance tests. Standard production cars fitted with Continentals have set 129 of SA's speed and endurance records. They took eight of the first 10 places in the year's Total Economy Run.

On the industrial side, which contributed 14% of Gentyre's operating profit last year, some of the cash accumulated in recent years was spent on three strategic acquisitions this year.

They are aimed at giving the group greater penetration of the market for hydraulic hoses and fitting, and the expansion of activities in recycling scrap tyres to produce rubber crumb.

Drive

The group is also moving into the manufacture and distribution of high-technology rubber and rubber-to-metal bonded products, largely for the automotive industry.

The resources of the industrial division are concentrated in the most promising niche markets, says Mr Rolfe.

"The division increased its contribution to group operating profit last year."

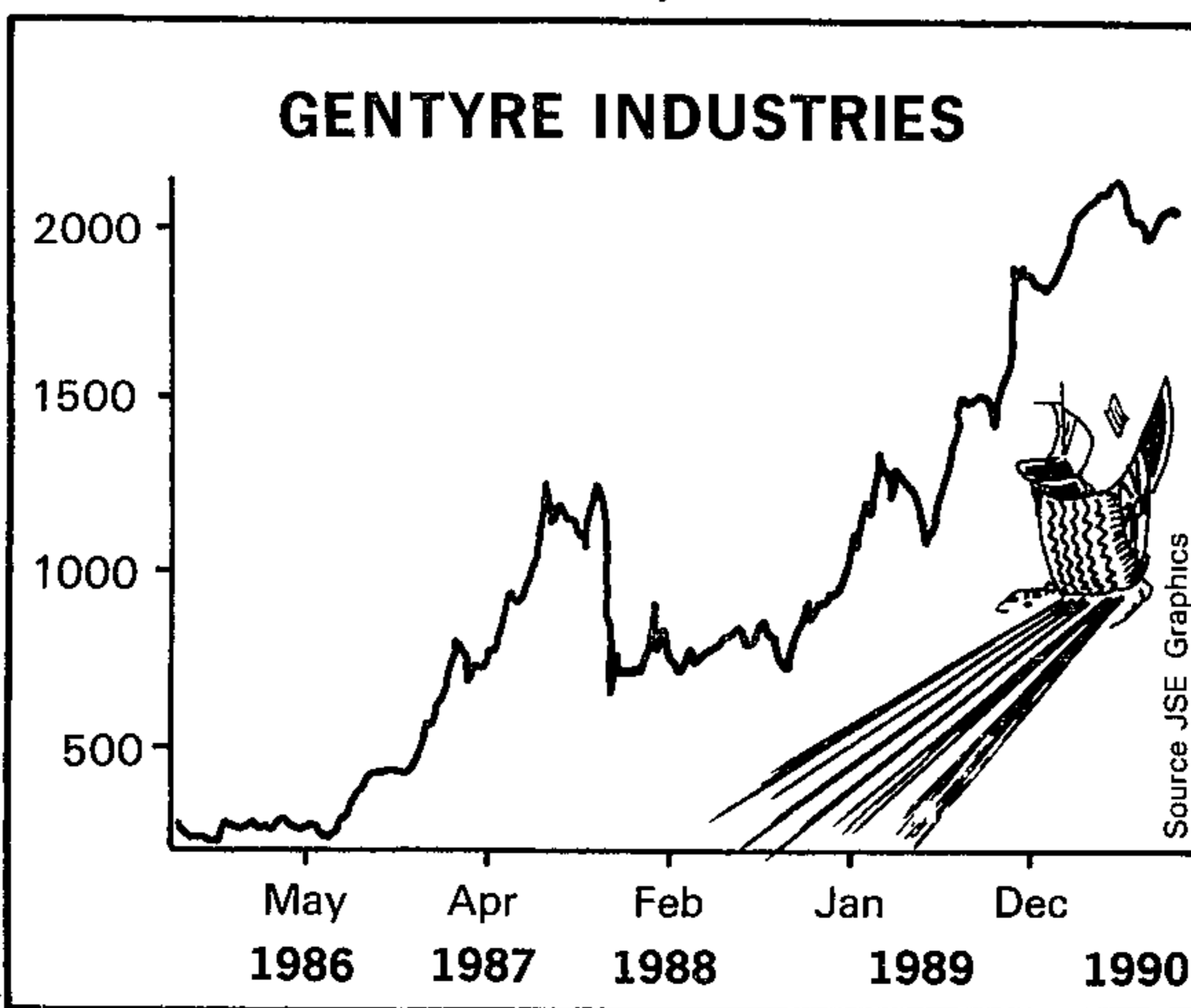
Potential for growth at Gentyre will be enhanced if the company succeeds in its drive to improve relations with the workforce and to restore productivity to the levels achieved in the early and mid-1980s.

In the longer term there is always the promise of the motor industry's break into the true mass market in SA. Analysts say sales of new vehicles will eventually stabilise and climb again. A clear way through the socio-political challenges facing SA will release pent-up demand for vehicles.

The licensed vehicle park has increased by 30% in the past 20 years. It could expand by another 45% in this decade if vehicle ownership comes within reach of 8,5-million youngsters who will reach the driving age by the turn of the century.

FSI and Gentyre have been good to each other. It is not surprising that FSI has steadily removed intermediate holding companies that were part of the inherited W&A structure. W&A's attributable stake in Gentyre has risen from 18% at the time of the takeover to 67%.

Institutional and private investors' 33% stake in Gentyre has held steady.



PGSI repairs wood damage

S/Times 2/12/90

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By IAN SMITH

PLATE Glass and Shatterprufe Industries, which increased attributable earnings by 1% in the half-year to September 30, has already taken the medicine for its aborted deal in the international wood business.

Co-chairman Bertie Lubner says the provision for below-the-line write-offs of R74-million should cover already incurred and future costs of the restructuring of the wood division.

"I don't believe there are any other major shocks."

Mr Lubner does not view the latest results as much more than satisfactory

Confident

But he is confident the group is on the right road to a return to historic profitability

The year to March gave PGSI its first reduction in attributable earnings in five years. They fell from R79,5-million to R58,4-million, mainly because of a "severe setback" in the wood division's foreign operations

The return to a small increase in attributable earnings, up from 34,9c a share to 35,1c, encourages hopes that the group's quick reaction will bear fruit.

Mr Lubner says "When you decide to get out of a business, curtail it or sell it you have to anticipate the results. We have taken some tough decisions and the re-

sults are in line with our expectations.

"We are moving in the right direction in all parts of the world"

Problems abroad started shortly after a deal with a consortium of US and European investors to buy half of the foreign wood operations for \$55-million fell through, mainly because world markets were turning.

The market deterioration and changes in the nature of the industry took many players by surprise, and at the yearend Wood International losses amounted 208,8c a share.

The recovery plan has centred on the "progressive disposal" of the international timber trading business. Negotiations are advanced for the sale of the Australian board retailing operations.

There has also been rationalisation in the London, Johannesburg and Zug offices and in the UK's do-it-yourself chain.

Fortunately, the Southern African operations did well in the past half-year, particularly PG Bison and the Central African division, which is well ahead of budget and on the way to a record year

The final effect is that the wood division produced earnings of 43c a share compared with 2,4c in the same time last year

The sale of the UK building glass interests to St Gobain for R435-million reduced

gearing. The glass division has concentrated on expanding its chain of 365 automotive glass replacement centres in Europe and the 103 outlets in the US

The interim report says. "The Australian operation remains in the grip of a deepening recession"

Profits from glass operations in SA are holding up well and should meet budgets

Heavy development costs abroad have, however, hurt the division's earnings. The contribution was down to 170c a share from 208c in the same time last year.

Strength

Mr Lubner does not make excuses for the group's foreign wood problems.

"Several factors came together at a bad time. Perhaps we should have seen the deterioration coming, but decisions are made in boom times and become a reality in recessionary ones."

The operating profit of R162,4-million showed a 9% increase over the comparable time last year. It was achieved on an 11% turnover increase to R1,3-billion.

The dividend has been maintained at 10,7c because of the progress the group has made and its inherent financial strength.

"A watchful eye must, however, be kept on deteriorating economic scenarios worldwide," says the interim report.

Abacus likely to scale down management

(193)
MARCIA KLEIN

ABACUS (formerly Interboard) was likely to scale down its top managerial complement, a company spokesman said yesterday.

Responding to speculation that door operations MD Colin McClelland had resigned after being in the position for only five months, he said McClelland would move on shortly and other changes among head office executive management were likely.

"This would be in line with the strategic development of the company based on the fact that the streamlined and smaller infrastructure would require less support from head office." *5/12/90*.

He said management appreciated that the reconstruction would lead to a scaling down.

Last week Abacus chairman David Olsen resigned to return to the UK, and was succeeded by former Blue Circle MD and executive chairman Trevor Coulson. The spokesman said Olsen was a trustee originally from the UK and had been brought in as an interim chairman.

The spokesman said the present group at head office was a crisis management group brought in to iron out the problems at Interboard.

There had been a re-evaluation of the roles of management, and an effective management structure would emerge at the operating level, he said.

Tile factory construction on schedule

CEMENTATION Company subsidiary GFC Mining, which recently invested R10m in its Granite Tile International dimension stone factory in Newcastle, hoped to double production by the end of 1991, divisional director Ron Simons said yesterday. *Blom 6/12/90*

Initial production was targeted at 5 100m² of granite tiling a month, which would earn about R1m

This production was targeted primarily for the export market

The expansion of capacity was being planned

Equipment to double production had been ordered from Italy. It was expected to arrive in September 1991. Revenue would then be doubled to R2m a month

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PETER GALLI

SA granite was in world-wide demand, and black granite from the Belfast area, which was to be cut and polished at the factory, was among the best in the world, Simons said

"Granite is being used in addition to conventional marble for tile manufacture as it is weatherproof and withstands the corrosive effects of acid rain"

The erection and construction of the factory was going according to plan.

"The construction of the factory is well on schedule for completion early in 1991, when production will get underway," MD Alastair Douglas said.

Retailers unite to fight Consol tariff application

GILLIAN HAYNE

MAJOR retail chains such as Pick 'n Pay, Checkers and Clicks are part of a group of companies represented on a committee formed to fight the application submitted by Consol Glass for increased tariffs on imported table and kitchen glassware.

The committee comprises members of the retail, wholesale, direct selling, and decorating and glass-cutting industries.

To date it is backed by 24 companies which will formulate a joint approach to fight Consol Glass's application to the Board of Trade and Industry, a spokesman said.

"The objective of the committee is to present a united front which will carry more weight with the Board of Trade and Industry. It is a loose alliance with no collusion between the companies.

"For years, individual com-

panies such as Consol Glass and Continental China have won their applications and have crippled the import market. This has led to inflation and curtailed the choice of products available to the consumer. We want to formulate a system whereby we can fight monopolies such as these in a more structured manner."

It is the first time in the tableware industry that a large number of powerful companies have got together, despite healthy competitive differences, to look after the interests of the industry and consumer, the spokesman said.

Working in conjunction with the committee is Andersen Consulting, which will also be submitting an objection, although of a more general nature, on behalf of the industry.

Consol Glass, the only local

manufacturer of speciality glass products in SA, applied for increased tariffs on imported table and kitchen glassware to stop the dumping of cheap Pacific Basin alternatives.

Consol Glass GM Derek Holmes said: "The landed cost of imports from the Far East has been below ours mainly because of high inflation and high labour costs in SA which have been eroding our margins over the last couple of years.

"Without protection Consol Glass, which employs more than 1 000 people, might have to be closed," he added.

Holmes denied that the move would have an inflationary effect on the industry, saying: "We only want to protect the local industry and our market share. With our lowest-paid employee earning between R800 and R1 000 a month we cannot compete with countries in the Pacific Basin."

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Business Day 7/12/90



Plate Glass's Ronnie Lubner
growth from automotives

(Companies August 3)

Joint executive chairman Ronnie Lubner is confident near-term growth will come from the automotive side, "which is more recession-proof" Glass businesses in the Netherlands, Belgium and UK are profitable, while the US glass business is expected to break even this year. The 100 outlets in Germany and about 55 in France have yet to produce profit. He cautions that earnings of the automotive fitting centres will not reach potential for a further 18 months, but has

PLATE GLASS FIM 7/12/90
TURNING THE WOOD (193)

Plate Glass's restructuring of its PG Wood Industries division, in the wake of a severe setback in the second half of last year, should reach fruition this year. Meanwhile, results for the first half of the 1991 year suggest the division's profitability is turning around — it produced per share earnings of 43c compared with the previous interim's 2,4c.

Despite slowing activity in the local building and automotive industries Glass SA's profit held up well, but "heavy" offshore development costs reduced the half-year EPS in the glass division to 170c from 208c. As a result, group EPS edged upwards by only 1%.

The wood division's poor performance last year was mainly caused by large losses offshore. Operations were hit by a change in the nature of the international wood industry, as well as a weaker global economy. The full effect came in the second half, when the division lost 81,6c a share.

Recovery plan

A recovery plan now under way for the wood division includes progressive disposal of most of the international timber trading business and sale of the Australian retail board outlets. Joint executive chairman Bertie Lubner says rationalisation has taken place in the London, Johannesburg and Zug, Switzerland, head offices, as well as at the DIY chain in the UK.

However, these changes have resulted in substantial write-offs below the line, with provision made for incurred and anticipated costs of about R74m this year. Lubner says the restructuring should be complete by the end of March. He adds that the extraordinary costs are more than offset by profit from the sale of the UK flat glass operation to St Gobain for R435m.

CLEAR GLASS

Six months to	Sep 30 '89	Mar 31 '90	Sep 30 '90
Turnover (Rm)	1 572	1 559	1 352
Operating income (Rm)	148,4	142,6	162,4
Attributable (Rm)	34,9	23,5	35,1
Earnings (c)	211,9	142,9	213,1
Dividends (c)	65	157	65

"high expectations" for the longer term.

The plan now is to bolster the domestic wood business. Lubner says offtake from the construction industry is low, but the buoyant SA furniture industry is helping compensate for lower volumes in construction.

The share has fallen R31,50 from its R68 high set in March. It has recovery potential, particularly with the balance sheet strengthened by the St Gobain deal. *Gerhard Stabber*

By DON ROBERTSON

CEMENT sales in the first three months of the current year are down 3%, but Pretoria Portland Cement (PPC) is confident that the year's earnings will be maintained.

Turnover rose to R739,9-million from R689,22-million in the year to September, producing attributable profits of R106,7-million compared with R100,3-million. The dividend rose to 150c from 130c and a special payment of 80c a share was declared.

Modest

The optimistic profit forecast by chairman John Hall comes in the face of expectations that recessionary conditions will continue for the next 12 months. Lime sales are expected to fall marginally, continued unrest may restrict low-cost housing and the number of major civil contracts continues to shrink.

On the plus side for PPC is the 8,5% cement-price increase in January and an expected 13% for the year.

Modest exports of clinker to Zimbabwe, Mozambique

PPC brave in face of poor prospects

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S/Times 9/12/90

and Reunion are expected to continue. But cement plants in Zimbabwe and Mozambique, which may take three years to complete, could reduce these sales.

Financial director Chris Wrogemann says no growth in the R1-billion-a-year industry is foreseen in the current year.

Residential building has been sustaining sales, particularly higher-priced houses. The trend is expected to continue. Township unrest has hampered use of the R3-billion set aside for low-cost housing, says Mr Wrogemann.

The industry has a production capacity of 12-million tons compared with present demand of 8-million. It is operating about 65% of capacity.

The cement cartel — PPC, Anglo-Alpha and Blue Circle — has again been given per-

mission to continue operations. But the Competition Board wants more competition in cement deliveries, says Mr Wrogemann.

Imports last year cost the industry about R10-million because prices had to be cut at the coast to counter dumping of cement. A decline in the rand came to the industry's rescue and imports have stopped.

Mothballed

Mr Wrogemann says Anglo-Alpha and Blue Circle are operating at between 85% and 100% of capacity and in terms of demand they could become "uncomfortable". It takes about three years to commission a plant, and he believes they will have to look at increasing capacity if they are not to lose market share.

"If they let us get produc-

tion up to 85% of capacity, there will be too big an imbalance for them to get market share back."

PPC is operating about 61% of capacity, but its multimillion-rand Dwaalboom clinker plant with a capacity of 600 000 tons a year has been mothballed.

Mr Wrogemann says that in 1980-81 cement demand rose by about 40%. If that happens again, Dwaalboom could be brought to production fairly quickly. The plant could be upgraded into a full-scale cement operation at a cost of about R120-million in current money.

Justifying the payment of the 80c special dividend while being a member of the cartel, Mr Wrogemann says PPC has had the cash for about four years and because of declining demand no expansion has been necessary.

Charter expands in Europe

CASH-flush Charter Consolidated Plc, which increased its cash holdings £23m to £113m during the six months to end-September, is well placed to make acquisitions in Europe

Directors of the UK industrial holding company say in their interim report that Charter, which is 36% held by Anglo American's offshore arm Minorco, has taken steps to reduce its vulnerability to UK trading conditions

Its operations are more focused, costs are under tight control and its businesses are expanding steadily into Europe. There are better opportunities for acquisitions as a result of current economic conditions, they say

Charter has the resources to acquire businesses related to its activities and intends to take advantage of the strength of its position

Charter reports a 7.5% rise in pre-tax earnings to £41.4m (£38.5m) in the six months to end-September. A higher tax rate caused attributable earnings to rise only slightly to 24.4p a share (24.2p a share). However, the interim dividend has been raised 7.5% to 7p (6.5p)

The group was active during the period, spending £27m on acquisitions

Building products subsidiary Cape improved its position in the British ceiling market and in Europe, where it now has two manufacturing plants

Charter's quarrying, concrete and coal mining division Cast purchased concrete and coating plants in subsidiary Hargreaves Quarries' market area. Hargreaves is performing well given difficult trading conditions. Turnover has increased as a result of a more professional approach, but margins are tighter

In April, mining equipment subsidiary Anderson pur-

LIZ ROUSE

chased the minority in National Mine Service Company, which consolidated its position in the US

In October Charter sold its 75% interest in Beralt Group — which operated a tungsten mine in Portugal — to Minorco for £11.1m

The sale of Minorco shares has continued, but Charter still holds 1.9-million of the original 6.4-million shareholding. An extraordinary gain of £31.2m in the interim accounts includes profits from the disposal of Minorco shares and the sale of Charter's head office for £20m. The head office is moving to smaller premises

1984/12/12/90 Performance

Johnson Matthey (in which Charter has a 38.7% holding) has reported a lower pre-tax profit of £32.5m (£33.5m). An increase in its tax rate saw earnings drop from 13.8p to 11.8p. The balance sheet is healthy, hence the rise in the dividend to 3p (2.5p)

Charter's fastening division Pandrol International increased its profits because of higher exports to Japan and increased sales in Italy, the US and Belgium

The Anderson Group's results were disappointing due to the performance of the Longwall division

In the US, National Mine Service Company's results were ahead of expectations and profits increased by 24%

Cape's building products division performed well. Cape expanded its overseas business, particularly in the Far East and Europe, buying German company Sibirit, which makes calcium silicate insulation products

F1M14/12/90 (193) (215)

net cash built up by £23m to £113m — though capex and net acquisitions totalled £40m — Charter is raising the interim dividend by 7.7% to 7p a share. Given the state of the UK construction market and the halving of orders for mining equipment by British Coal, a creditable performance.

But below-the-line earnings were sullied by higher tax charges (30% against 26%), leaving net equity earnings less than 1% up at £25.8m or 24.4p a share. The London price drooped 3p to 433p on the news.

Charter continues to present a moving target around four core divisions — Pandrol (rail track equipment), CAST (quarrying, concrete and coal mining), Anderson (mining machinery) and 67%-owned Cape (building products and services). The 38% of precious metal and platinum fabricator Johnson Matthey remains passive but contributed 39% of equity-accounted operating profits.

The headline figures of operating subsidiaries — turnover up 23% to £235.6m and trading profits 31% better — mask the impact of £76m spent last year on acquisitions.

Anderson was hit by British Coal's improved husbandry of inventories. Sales fell £7m to £58.3m. With margins down from 4.9% to 2.2%, profits slumped 59% to £1.3m.

Charter CE Jeffrey Herbert says Anderson is trimming (the work force has been cut by 35%) and hopes to firm up orders from the Soviet Union's and Polish hard coal mining industries in 1991 — once financing is in place. The US National Mine Service subsidiary is going well, with profits up 24%.

Net of Anderson the figures show much more rapid growth: sales up 39% and profits 58%. Overall £4.2m of the £6.7m profit gain came from takeovers.

The star is Pandrol, which derives 90% of sales abroad. It almost doubled in size last year with turnover up 84% to £43.8m and profits 152% better at £6.3m as margins widened by 3.5 points to 14%. CAST's acquisitions lifted sales 50% to £37m, generating a 70% profit improvement to £1.7m — again on improved, if slim, margins of 4.6%.

Cape, however, saw margins static and may suffer next year if estimates that UK commercial building will fall 30% are borne out. The Gulf crisis also forced Cape to suspend contracts in the region. But its expansion, chiefly into Europe, produced a 24% climb to sales of £97m, matched almost exactly by profits at £8.8m.

Cash — which boosted net interest by

CHARTER F1M 14/12/90 (193)
CASH CUSHION

Acquisitions are keeping Charter Consolidated's earnings afloat, even if only just, as its main markets slow down, or even fall, and sterling's strength hits exports. Interim figures (to September) released in London this week show pre-tax profits up 7.5% (against 12% for the previous full year) to £41.4m.

Net of discontinued businesses, the increase was a healthier 10%. And with group

FOX

F1M 14/12/90 (193) (215)
£900 000 to £9.1m — came from "family" deals. It raised £60m by selling more Minorco shares (the original 3.8% holding is now down to 1.1%), the Beralt tungsten interest to Minorco for £11m and its Holborn HQ for £20m (a profit of £17m) to Diamond Trading — already linked by a bridge to the back half — which perhaps needs more space to sort all the Soviet diamonds coming its way.

Cash gives a cushion against the vagaries of the international slowdown plus ammunition to pick up the cheap assets which will undoubtedly surface in the next 12 months. Surprisingly, however, Charter does not rate as a favourite among SA rand-hedge stocks: only about 7m shares are held on the Johannesburg register, or 6.7%, most by Sanlam and Liberty Life.

John Cavill

CHARTER F114121 90 (193) (25)
CASH CUSHION (193)

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F114121 90 (193) (25)
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Cash — which boosted net interest by



GIANNI RAVAZOTTI: Share price an injustice Picture SUE KRAMER

Italtile takes a beating as low-cost housing stalls (193)

S/Tues. 16/12/90

THE latest listed company to suffer from the stalled take-off of low-cost housing is Italtile, SA's largest ceramics group.

The group has done well since its listing in August 1988 through the reverse takeover of Jabula Foods. Unusually, the group raised no capital through the listing — it merely wished to make a market for shares held by management, family and associates.

After two years in which profits were doubled in spite of the exhaustion of tax losses, Italtile showed a fall in attributable earnings in the half-year to August — from R7,5-million to R6,8-million.

Chairman Gianni Ravazotti says it has been a hard year, and he cannot see an upturn yet. "Look at the results of some of our competitors," he says.

The share price reflects the malaise in the sector and the greater market. It is standing at 400c compared with the opening 442c. The group owns 85% to 90% of the factories and retail outlets it occupies and the value of the properties alone almost equal Italtile's market capitalisation.

"That's a gross injustice," says Mr Ravazotti. Fortunately, most investors, including institutions, seem to be in the company for the long-term ride.

Although results in the year to February will reflect the depressed

By IAN SMITH

economy, he says the group has quietly gone about strengthening its position in its own market. Italtile now produces floor and wall tiles, sanitaryware and other bathroom accessories and equipment. It also distributes, and has retail operations in the cash-and-carry and up-market sectors.

When low-cost housing construction gets under way Italtile stands to gain the maximum benefit, says Mr Ravazotti.

Babalegi

The first phase of a R30-million Samcatile expansion at Babalegi which came on stream in August has brought the group into the production of wall tiles, which compete with imports on quality and are considerably cheaper. Most other SA manufacturers concentrate on floor tiles where Italtile is firmly established.

The plant, which has brought new technology to SA, will be in full production next March. The factory will accommodate a second phase and some of the equipment is in place.

Production can be stepped up for a

relatively small outlay of R10-million. "The economies of scale the second phase will produce mean imported tiles will not have a chance of competing with us," says Mr Ravazotti.

"We are keen to go ahead with the next phase, but everything depends on the market."

Italtile is SA's biggest floor-tile maker. Sanitaryware manufacture, which came into the group through an acquisition three years ago, has been improved.

The group's direct retail exposure through five up-market Italtile showrooms and 15 cash-and-carry Ceramic Tile Markets proved there is strong demand for bathroom accessories made in SA.

After 18 months' market research the group formed Betta Accessories, which makes vanity chests, medicine cabinets, mirrors, towel rails and toilet seats. The group was one of the first to pinpoint demand for natural wood finishes, says Mr Ravazotti.

He says forecasts at the end of last year that earnings would be maintained seemed realistic at the time, but now look less likely.

The benefits of the new tile factory should make the goal more attainable in the following year.

R50m for cement ⁽¹⁹³⁾

St. Times 16/12/90

BLUE Circle Cement is building a R50-million cement and flyash blending plant at Kaalfontein on the East Rand.

A R14-million civils contract for the project has been won by CA Brand Civil Engineering. The project is to be completed in 15 months.



PPC's Hodgkiss . . . expansion not needed

progress with development of black housing. It is estimated that 200 000 dwellings must be built annually to eliminate the backlog. With 5 t of cement needed for each home this could translate into an additional 450 000 t a year for PPC.

EPS will depend on real growth in informal housing development, as well as big infrastructural civil engineering projects, such as dams and roads. Until there is more activity in these areas, PPC's ability to produce real growth will be limited. The share has become a useful income sweetener but, with the 9,4 p e nearly double the sector average, the price reflects past performance rather than prospects.

Gerhard Slabber

PPC FIM 21/12/90 193

OPTIONS LIMITED

Activities: Cement and lime producer
Control: Barlows 60,8%.
Chairman: J C Hall, MD J E Hodgkiss
Capital structure: 40,1m ords Market capitalisation: R883m.
Share markets: Price 2 200c Yields. 6,8% on dividend; 12,1% on earnings, p e ratio, 8,3, cover, 1,8 12-month high, 2 785c, low, 1 825c Trading volume last quarter, 60 300 shares

Year to Sep 30	'87	'88	'89	'90
ST debt (Rm)	13,5	8,1	—	—
LT debt (Rm)	27,3	16,1	2,0	30,0
Debt equity ratio	0,05	—	—	—
Shareholders' interest	0,56	0,54	0,61	0,59
Int & leasing cover	16,8	—	36,9	32,6
Return on cap (%)	15,1	18,2	19,6	19,1
Turnover (Rm)	471	589	689	740
Pre-int profit (Rm)	104	143	164	172
Pre-int margin (%)	22,3	24,3	22,3	22,5
Earnings (c)	138,3	202,0	252,6	266,2
Dividends (c)	60	100	130	150
Net worth (c)	1 035	1 155	1 267	1 321

The slow pace of SA's infrastructural development is reflected in Pretoria Portland Cement (PPC)'s 10,6% compound earnings growth over the past decade.

Though turnover growth dropped to 7,4% over the past year, returns remained high, with operating margins exceeding 20% and return on capital at 19%. Earnings rose in line with turnover.

PPC accumulated a pile of cash over recent years. Cash flow has remained high, while capital spending requirements diminished, so a special dividend of 80c a share was declared in financial 1990. As the cement industry is operating at 75% of its capacity, and PPC is at 65%, the group will

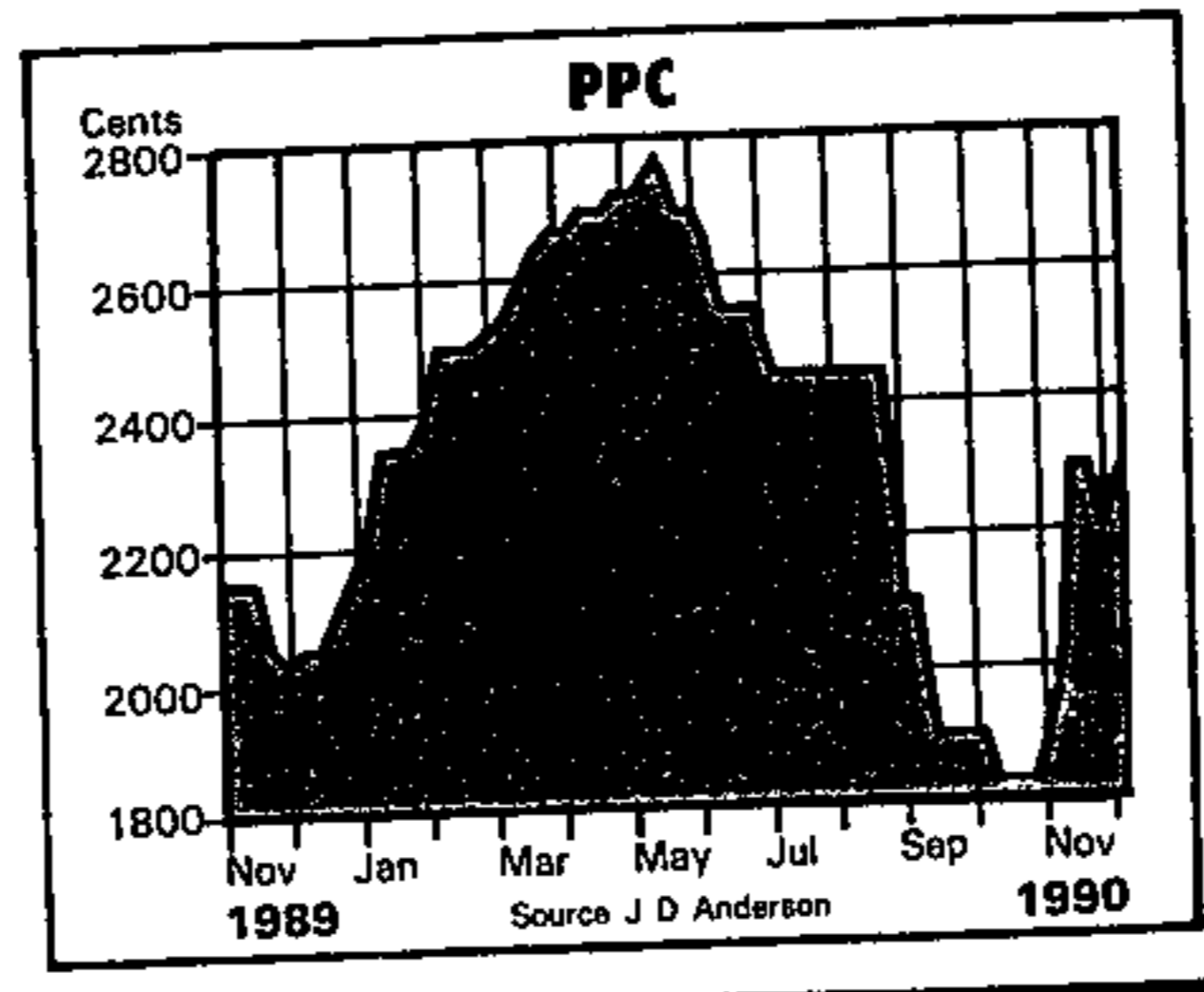
not launch any major capital programmes soon. This contributed to the decision to pay the special dividend.

PPC's Dwaalboom factory, mothballed after commissioning in 1985, will remain inactive this year. MD Ted Hodgkiss is confident that PPC can postpone any expansion programme for longer than competitors because its spare capacity is greater than those of both Anglo-Alpha and Blue Circle. Also, Dwaalboom was designed so that its capacity could be doubled at low cost.

However, with Lesotho Highlands, Moss-gas and the upgrading of Richards Bay harbour now under way, the days of megaprojects may be ending. Development over the next decade of large civil engineering projects that will boost demand for cement is thought to be unlikely. The SA Cement Producers' Association expects construction activity will mainly be generated by a large number of small projects, and the slack economy may cause many of these to be shelved — as has happened with some road construction contracts awarded recently.

The immediate future for the three cement producers seems bleak. The longer-term view is that there is a big pent-up demand for housing, and PPC expects sustained demand from residential building activities, fuelled by the informal sector.

Hodgkiss reckons PPC, which supplies about 45% of the country's cement requirements, could benefit significantly from any



MANUFACTURING — NON METALLIC MINERAL products

(99)

JANUARY — Sept

Cement industry faces year of negative growth

810am 10/11/91 BEVERLY HUCKLESBY 193

THE SA cement industry is facing yet another year of negative growth because of the current recession.

SA Cement Producers' Association (Sacpa) manager Vincent Bray said this week the latest cement price figures released on January 1 indicated prices had risen by only 8,5% from June 1 last year.

Another rise was expected in June this year, which would exert further pressure on an already distressed building and construction industry.

Bray said the general average price increase came at a time when the industry awaited the outcome of tenders for the supply of cement to the Lesotho Highlands Water Project. However, Sacpa was confident SA producers would be called upon to supply the cement for the construction of Phase 1A of the Kgatse Dam.

Bray's confidence comes in the face of rumours that a Swedish company will be donating the entire amount needed for construction as a form of foreign aid. This will cost the SA cement industry more than R100m in lost contracts

Bray said the only sector likely to show an increase in activity would be low-cost housing projects into which government was set to sink a considerable amount of money for social upliftment.

An industry source said work volumes were at depressed levels and client budgets were "looking thin".

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Minaco takes 35% stake in Prairie Granite.

Blom 10/1/91
MINACO Granite & Marble (Minaco), a beneficiary of dimension stone, has acquired a 35% stake in quarry operator Prairie Granite in a move aimed at marrying the two companies' key areas of expertise

The deal consists of the disposal by Minaco to Prairie of R3,6m of net assets comprising plant and equipment, its Parys quarry and its dimension stone mineral rights

Simultaneously, Minaco will invest R3,5m in Prairie by way of an injection of cash

193
ROBERT GENTLE

The deal will see all of Minaco's quarrying assets — with the exception of its Mooketsi quarry — vesting with Prairie

"It is envisaged that Prairie will be responsible for the group's quarrying and exploration activities while Minaco will concentrate on beneficiation and marketing," a joint announcement said

The transaction includes a profit warranty by Prairie which, if not met, could see Minaco increasing its stake to 50%

Long war will hit chemical industry

B. D. Sander 10/11/91
A GULF war could create a short-term boom for SA's chemical industry, but its long-term effects are expected to be negative.

The industry faces soft demand and prices for many commodities in the wake of economic downturns in many markets.

Much depends on the intensity and duration of a Gulf war. But it is expected war will send the price of crude oil, from which many inputs into chemicals are derived, soaring.

AECI MD Mike Sander

ZILLA EFRAT

says a war will result in much precautionary buying, sharply increasing the demand for petrochemicals and driving international chemical prices up in the short-term

On the other hand, a war could decrease the availability of chemicals if plants in the Gulf are shut

down or damaged by military action.

SA's supply position is expected to be more stable than other countries because a fair proportion of its chemical industry's inputs are coal-based.

Sander says the long-term impact of a war will be negative. Once hostilities die down, chemical prices could collapse and there will be surplus stock.

193

Merchants oppose Consol tariffs bid

Blum 17/1/91 193
THE glass industry could face major difficulties, including job losses, if Consol Glass's application for increased tariff protection on household glassware succeeded, the newly launched Housewares Merchants' Association said yesterday.

A spokesman said "thousands of jobs in the glass industry could be on the line" as a result of such a move.

Companies represented in the new association of retailers and wholesalers — formed after Consol's application — include Checkers, Clicks, Dions, Metro, Makro, Tradegro, Game and Shoprite.

Consol, the only manufacturer of certain glass products in SA, applied for a formula duty to be applied on imported table and kitchen glassware amounting to 30% ad valorem or a charge of R2 per item less 70% ad valorem.

Present tariff protection is 5% for hand-made glassware and 20% for machine-made glassware.

Consol Glass GM Derek Holmes

MARCIA KLEIN

said the application had been made because, without protection against lower-priced imports, the company, which employs more than 1 000 people, might have to close down.

The price of imports was lower because of high inflation and high labour costs in SA which had eroded Consol's margins. He said Consol wanted to protect the local industry and its market share.

However, association spokesman Ig Ferreira said there were more than 23 000 people employed in SA's glass industry and a possible 28 000 in the informal sector for glassware.

Without the ability to import, there would be many more jobs than Consol's at stake, he said.

A glass dinner set now wholesaling at R30 would probably cost R60 after the imposition of the new tariffs, and the retail price would be about R90.

The industry could import glassware and export it more cheaply than obtaining it from Consol.

Low response to Boumat offer

Finance Staff Star 22/1/91

The take-up of shares in Boumat's latest bonus offer stands at 48,61 percent. This is low compared with previous offers when acceptances went as high as 96 percent (July 1989).

This is not surprising in the light of the fact that dividends are now tax-free and Boumat's share price, at 395c, is low, reflecting the depressed state of the building industry.

The offer is in line with Boumat's policy of twice a year offering shareholders one new share for every 20 shares held. Those shareholders who have not taken

up the offer will automatically receive the 24c interim dividend declared for the six months to September 30 1990.

In making their decision shareholders are likely to have calculated that on 100 shares, their dividend receipt would be R24, whereas on a price of 395c a share the bonus offer would have given them five new shares with a current market value of R19,75.

Of the 24 794 948 bonus shares on offer, some 12 053 040 or 48,61 percent were taken up and the 602 652 new shares to be issued as a result of the offer will be listed on the stock exchange from January 25.

193

At Consol's urging, the Board of Trade & Industry has proposed slapping a 30% *ad valorem* duty on glassware. Inexpensive items would be subject to a tariff of R2 minus 70% of the landed cost. Existing glassware tariffs range from 5% to 20%. There's no word on when the final decision will be made.

Consol's plea for protection is typical: it makes half the country's glassware but its market share is under attack by lower-cost imports, particularly from Indonesia.

In years past government would have quietly granted the relief and the announcement in *The Government Gazette* would have gone barely noticed. But this time the reaction has been strong. Glassware retailers have formed the Housewares Merchants' Association, chaired by Ig Ferreira of Frasers, to fight Consol before the board.

Says Ferreira: "We are fed up with the maze of tariffs that we are expected to work our way through. We are now forced to employ an expert in-house to work out what is going on."

Ferreira points out that the proposed tariff includes not only glass products that Consol also manufactures but types of glass bowls, platters, dishes and vases that are not made locally. "Consol complains that it has lost market share but its answer to this isn't to improve its marketing, or its product range, but to scream for protection."

Consol, preferring that the issue should stay out of the public spotlight, says the question should be settled by the board behind closed doors. "Consol believes a media debate on the issue is injudicious and could be seen as attempting to influence the board's decision," observes Consol Glass MD Hennie Roos. He merely says Consol "believes it has grounds for its application."

Glass importers are not so reticent. SA Cut Glass MD Max Strous says: "The tariff is a gill net that will catch products that Consol doesn't make, doesn't want to make and will never make."

Strous adds that his company buys locally whenever it is appropriate. But SA Cut Glass supplies glasses to the hotel and restaurant trade. He says Consol's range would never cover the full spectrum required by these businesses.

There has been a swing from crockery towards glass dinnerware since a tariff on crockery was imposed in 1988. Strous says blacks are buying more glassware but this trend could be reversed if high tariffs are introduced in what is already a shrinking market.

Many products have been granted temporary tariff protection, to enable a local manufacturing facility to get established, but Ferreira points out that manufacturers often use tariffs as an excuse to increase prices.

"SA is now endeavouring to reduce tariff protection and is opening its markets to the world," Ferreira says. "Any manufacturer unable to compete in the market without anything short of enormous tariff protection does not deserve a place."

GLASSWARE INDUSTRY (193)

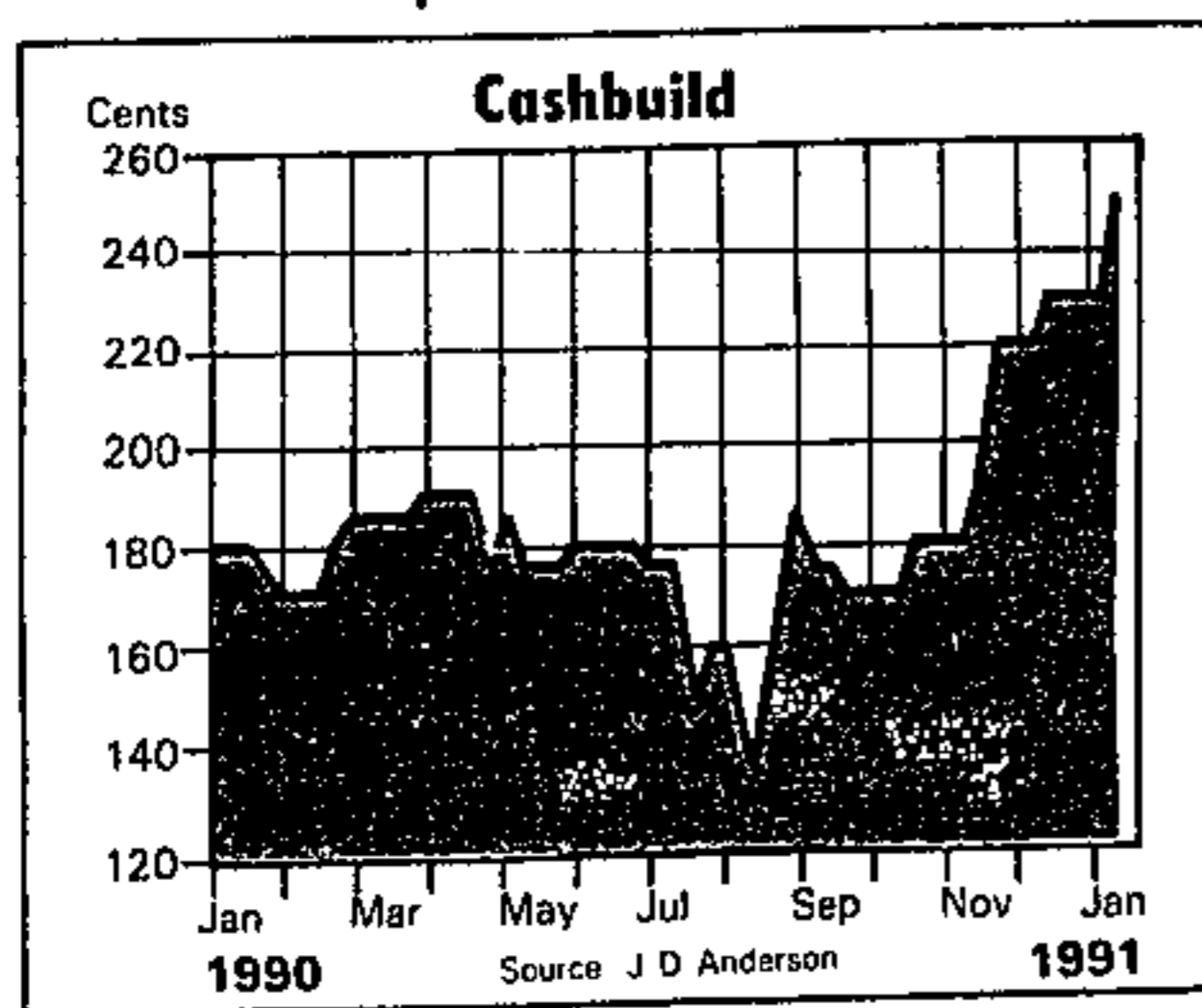
SHATTERING IMPORTS

Fm 25/11/91
Manufacturers are notorious for running to government for import protection whenever they feel the heat from foreign competitors. The problem is government, caving in to claims that jobs could be lost without tariffs or quotas, usually grants their wish.

The victims of this protection — consumers, other businesses and workers who lose their jobs because the economy is not using resources efficiently — are rarely well-organised enough to fight back. But Consol Glass's bid for high tariffs on imported glassware has been different — it's running into well-organised and well-funded opposition.



Cashbuild's Haumant expanding market share



stores in the next two years Haumant says six or seven of these will be opened by the end of this financial year, but the benefits will be seen primarily in the 1992 year

As the purchasing power of the group's customers is influenced by the economy and by crop harvests, sales are bound to advance more slowly this year, but there could still be some real growth in earnings

The share should remain attractive as a growth stock In a market where investors are seeking defensive investments, the price could appreciate further, particularly if the 1991 interim figures confirm that the earnings record is not being unduly curbed by the recession

Andrew McNulty

FM 25/1/91
CASHBUILD EXPANSION TO RESUME

Activities: Distributes wholesale and retail builders' materials

Control: Tradegro 73,1%

Chairman: D Masson, MD G R S Haumant

Capital structure: 21.4m ords Market capitalisation R58m

Share market: Price 270c Yields 4,8% on dividend, 11,3% on earnings, p e ratio, 8,8, cover, 2,4 12-month high, 280c, low, 135c Trading volume last quarter, 162 000 shares

Year to June	'87	'88	'89	'90
ST debt (Rm)	—	4.5	3	—
LT debt (Rm)	1.2	1.3	2.3	1.2
Shareholders interest	0.37	0.28	0.31	0.29
Return on equity (%)	21.4	21.4	24.4	27.7
Return on cap (%)	15.7	13.4	14.7	14.3
Turnover (Rm)	117	192	242	321
Pre-int profit (Rm)	4.7	7.5	10.3	13.6
Pre-int margin (%)	4.0	3.9	4.3	4.4
Earnings (c)	11.8	15.6	22.6	30.5
Dividends (c)	5.25	6.75	10	13
Net worth (c)	55.1	73	92.6	110

When Cashbuild's preliminary results for financial 1990 were released about five months ago the share price was languishing around 180c to give a dividend yield of 7,2% Since then the market has shown more enthusiasm towards what has been a solid and consistent record of profitability — and the record has been maintained in what has generally been a bleak year for the building supplies industry

At 270c, the yield is 4,8%, a more realistic rating for a group which in a recession year has kept sales growing by 33%, has improved both pre-interest margin and market share, and has lifted its net return on shareholders' funds to 27,7%

The year was primarily one of consolidation Chairman Donald Masson attributes the rise in the pre-interest margin from 4,31% to 4,38% to the fact that only two new stores were opened during the year, and to the improved performance of the stores bought in 1987-1988 from Frasers Most of these have been transformed to Cashbuild operations and are starting to show the operating margins expected of a traditional Cashbuild store

Though the mix changed slightly when the Buy 'n Build chain was absorbed in 1987, the group remains predominantly a cash business, with less than 5% of sales on credit With high interest rates encouraging small builders and merchants to shift towards cash buying, this was a considerable strength for Cashbuild over the past year

Among the benefits of this, reckons CE Gerald Haumant, was a further increase in market share Sales rose in real terms in 70% of the stores, with the strongest gains coming from the Buy 'n Build outlets, which have been converted to Cashbuild wholesale cash-and-carry operations The remaining six Buy 'n Build stores converted into retail discounting home centres also did well

As the table shows, productivity measures have improved steadily over the past three years Last year sales per m² of trading space rose by 30%, sales per store by 28% and sales per employee by 26%

At year-end debt consisted merely of a R1,2m long-term liability, and this was matched by a cash balance that has risen from the previous year's R14,9m to R16,7m Growth in cash resources was helped by the hiatus in the store opening programme as well as by management of working capital Debtors increased by a fifth to just over R8m but accounts payable were stretched, with an increase of 44%, to R62,2m

Stocks rose in line with sales, though Haumant says that at year-end stocks are normally at around peak levels because market demand is highest in the third quarter of the calendar year

A favourable lease finance package has been signed with a major financial institution, allowing for development of 12-15

SALES PATTERN

Sales per ...	m ² trading space	store	employee
1987	861	3 664	183
1988	902	3 767	195
1989	1 052	4 247	233
1990	1 360	5 442	294

Abacus to redeem ⁽¹⁹³⁾ overseas shareholdings

Star 25/1/91
The SA Reserve Bank has given Abacus Industrial Holdings (formerly Interboard Limited) conditional approval for the recovery of assets held by offshore entities

In an announcement yesterday Abacus also said it was to raise some R16 million by way of a rights offer to its ordinary shareholders

The assets concerned, known as the restitution assets, include some 120,4 million shares which had been attached by the Reserve Bank.

This will reduce the capitalisation of Interboard from some 160 million shares to some 40 million shares

Mercantile Bank has explained that the Reserve Bank has no objection to the return of the restitution assets to Abacus provided

● The restitution shares are converted into redeemable preference shares which will continue to be subject to the Reserve Bank attachment order;

● The redeemable preference shares are redeemed at par value of one cent each out of the proceeds of a rights offer. The proceeds of the redemption will be attached by the Reserve Bank

"Investigation subsequent to the announcement on November 19 last year continue to uncover additional assets, including additional Abacus shares, which may be included in the restitution assets", the announcement says

"Shareholders are advised to continue exercising caution in the dealing of Abacus shares" — Sapa

Abacus gets nod on ownership of recovered assets

ABACUS Industrial Holdings (formerly Interboard) has received the Reserve Bank's consent to its ownership of assets, including 120-million of its own shares, recovered from abroad, Abacus says in a cautionary statement released today.

The shares are part of assets Abacus is attempting to recover after they were allegedly gained fraudulently by offshore companies.

BEVERLY HUCKLESBY

Former Interboard MD Ed Dutton was arrested last year in connection with foreign exchange contraventions involving about R130m and is presently out on bail

Assets the company is attempting to recover include property, cash and shares in foreign companies with indirect holdings in Abacus

193 Included in the offshore-held assets were 120,4-million Abacus shares attached by the Reserve Bank. The Bank has allowed Abacus to take over the shares provided they are converted into redeemable preference shares which will be redeemed out of the proceeds of a rights offer to be conducted by Abacus.

The rights offer to raise R16m will also be used to pay off debt.

B/pay 25/1/71

Marlin moves into tiles ¹⁹³

LISTED granite producer Marlin Corporation and construction and engineering company Cementation (Africa) have completed a R10-million plant to make polished granite tiles

STimes 27/1/91

By IAN SMITH

Barracuda Granite Tile, 50% held by each group, will begin production at Newcastle in March

Initially it will make 5 000 m² of tiles a month, but capacity will be doubled in October when two more block cutters are commissioned

The joint venture will take Marlin a stage further in granite beneficiation. Barracuda will process stone from Marlin's quarries and from other producers

It is a form of diversification for Cementation, which handles major contracts in the mining industry. Cementation is controlled by powerful shareholders, including the UK's Trafalgar House group, Gold Fields of SA and SA Mutual

Marlin chairman Peter Gain says the tile plant is an attractive investment

"Adding value to the product will lead to better margins on sales. Marlin's expertise in stone supply and marketing and Cimenta-

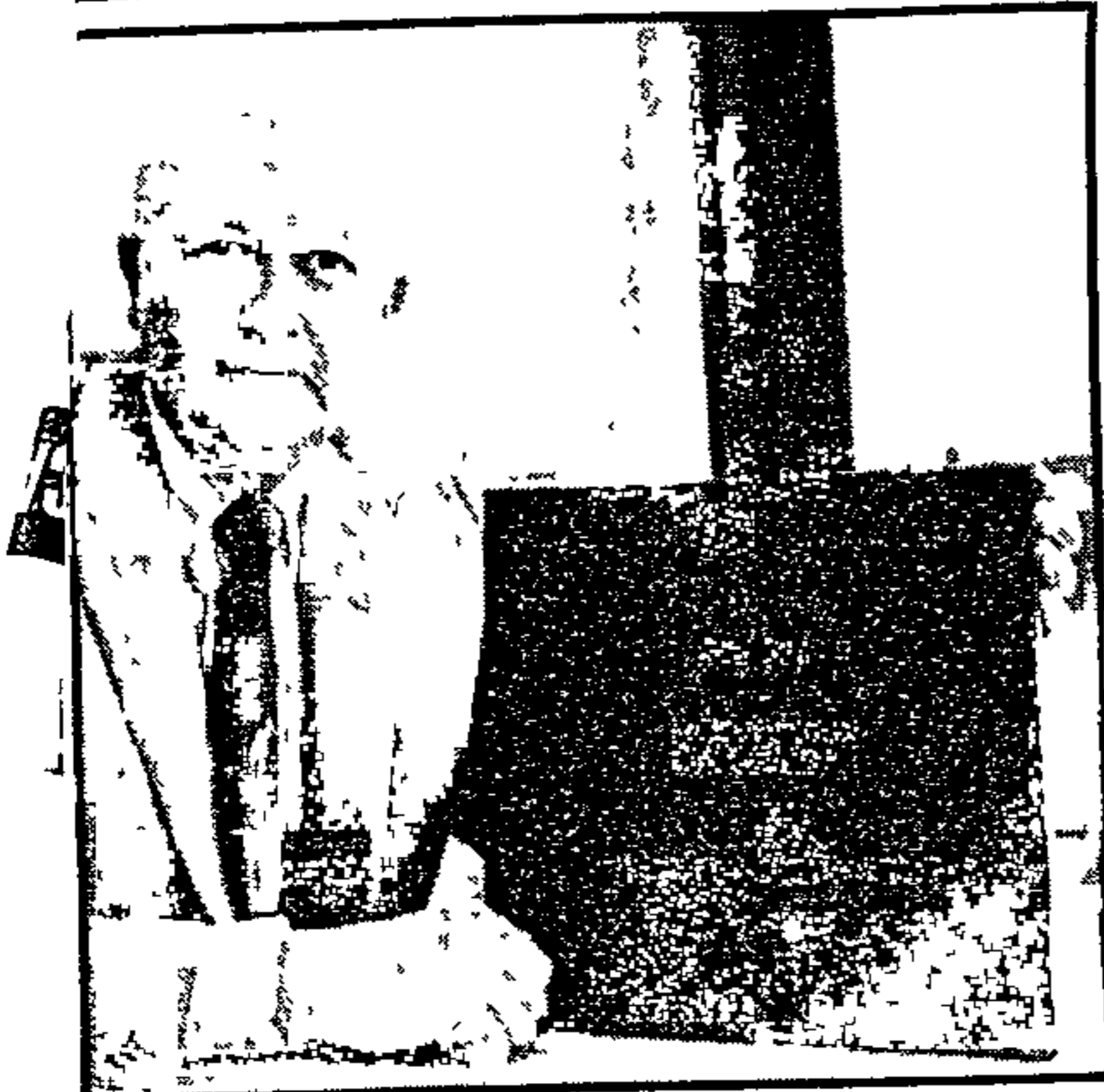
tion's skills in precision engineering applications give us confidence in Barracuda's success"

Cementation approached Marlin after its own feasibility studies showed promise

Mr Gain says "We had plans to move into tile production, probably in 1992. But we were attracted by this venture and were happy to go in as partners"

The plant was built at Newcastle because the town is fairly centrally located for the supply of stone from quarries around SA and it is on the main route to Durban, which handles practically all granite exports

Much of the production is destined for export. Granite tiles are widely used abroad for interior decor in public buildings, such as hotels and airports. It provides a durable finish which is easy to clean and maintain



PETER GAIN Far cry from palmy days Picture COBUS BODENSTEIN

Iraq cracks SA granite boomers

S/Times 27/1/91

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By IAN SMITH

THE latest victim in the Persian Gulf war is SA's granite sector.

Shares of all three listed producers have shown precipitous slides since the 1989 boom.

Italy, a major importer from SA, was re-exporting huge quantities of stone for building work in the oil-rich states of the Middle East. But sales were halted soon after Iraq invaded Kuwait on August 2

Read and mining entrepreneur Ted Grobicki, which was listed in June 1989

Less than a year later Kudu gained control of Aurora, paying 33c a share for Basil Read's 50,1% stake Aurora shares had been privately placed at 200c each

Keeley, which has been exporting for 30 years and produces nearly half of SA's output, has produced consistently good results since listing in mid-1987

But the share price has fallen from nearly 1 300c in mid-1989 to 500c The high for the past year was 1 150c last May

Marlin Corporation has suffered the biggest fall — from 800c in the first quarter of 1989 to 135c Kudu's price has tumbled from a high of 475c to 105c

Keeley administration director Rob Brown concedes the Middle East market is in disarray

Compete

He will not speculate about results in the year to February, but analysts say the group is better insulated than competitors In the half-year earnings were up 17% to R24,8-million on a 28% rise in turnover to R112,3-million

Marlin disappointed in the year to June with earnings of R16,6-million — 15,7% below the forecast made in February

Results for the half-year, due in March, will also be down, says Mr Gain

Kudu held its own in the year to June with earnings marginally up R7,9-million.

But he is confident about granite's long-term future

Cry

Marlin Corporation chairman Peter Gain says that before the war threat Saudi Arabia and Kuwait alone took 35 000 tons of granite and marble a month — "that's all on hold for the moment"

Big stockpiles have built up in Italy and in SA quarries since the invasion.

It is a far cry from the days when granite was a glamour stock, when buyers were lining up to place orders and producers could impose three price increases a year, totalling 20% or more, in stone's dollar price

The oversupply of granite, particularly the more common Rustenburg, was itself a result of the boom

Small producers rushed into production, adding to output which had already doubled to 750 000 tons in three years They were the first to cut prices, but they became victims when major producers reacted

Kudu managing director Peet du Toit believes there has been an overall 20% price decline for Rustenburg in the past year

The only listed company to fall victim to the shake-out is Aurora Granite, established by construction group Basil

Shake-up for school vacs

IF ORGANISED business gets its way, school holidays will undergo a major rescheduling

The object is to stagger holidays to minimise the occasions when hotels and other tourist facilities cannot cope with demand

The matter is being studied under the auspices of the SA Tourism Board by representatives of industrial councils, trade unions, the Department of Manpower, the SA Chamber of Business, the Handelssinstituit and seven education departments.

Among the ideas under consideration are

- The shorter September and April holidays at different times for different schools
- Holidays for some schools

Business Times Reporter

would start after those for others had ended

- Making these holidays longer and the Christmas vacation shorter to reduce the time when all have a break at the end of the year

- Having several different holiday schedules in regions where all now have the same one

In addition, industries with compulsory closures over Christmas would be encouraged to stop the practice to enable employees to take leave at other times

It is argued that the tourist infrastructure would be better used if peaks and valleys in demand were flattened This would also place less strain on transport and lead to fewer cars on the road at peaks, improving road safety

It is suggested that transport operators and hotels encourage holidays out of the present peak by additional off-season discounts

R8,5bn sales

SALES of new vehicles, spares and accessories rose by 4,6% in the three months to October compared with the same time in the previous year Sales were R8,49-billion in the three months, compared with R8,12-billion in 1989

STimes 27/1/91 (193)

Abacus victory

By JULIE WALKER

ed 5c to 40c on the restitution
announcement
Abacus shareholders are

advised to trade carefully un-
til all the cards are on the
table

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ABACUS, formerly Interboard, has retrieved assets held by foreign entities — to the benefit of shareholders.

Much hinged on the Reserve Bank's approval

Its consent was required to recover the assets, most of which is 120,3-million shares issued to the former controlling shareholder of Interboard

They are called restitution assets

Each share involved will be converted to a redeemable preference share of 1c, and will still be subject to a Reserve Bank attachment order

Redemption

The prefs will be redeemed at par by Abacus out of the proceeds of a R16-million rights offer. The R1,2-million involved will be attached by the Reserve Bank

A general meeting to approve the conversion and redemption of the restitution shares will be held before the rights offer goes ahead. The restitution shares will not take part in the rights offer

Assets are still being uncovered by Abacus, including more shares. They might be included in the restitution assets. Final details will be made known in the rights offer document

The current position is that the capitalisation of Abacus is concentrated fourfold from 160-million shares to 40-million. The share price add-

The market is advised to trade carefully until all the cards are on the table

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Pennypinchers rationalises operations

BUILDING materials company Pennypinchers Holdings (Penpin) has restructured its operations into two distinct divisions — wholesale and retail — which will result in the delisting of its subsidiary Pennypinchers Boards (Penbord).

Penpin chairman and MD Fasia Malherbe said yesterday that "the rationale for maintaining Penbord as a separately listed company is impractical and costly and Penbord does not offer the same growth opportunities for its shareholders as a unified Pennypinchers would".

Penbord — which specialises in basic lines of timber, boards and associated cabinet hardware — will become a wholly owned Penpin subsidiary

MARCIA KLEIN

Malherbe said the company continually had to adapt in order to remain competitive and profitable. In line with this, Penpin had spent the past six months restructuring its operations in the Transvaal and the Cape into two distinct retail and wholesale divisions.

The wholesale division comprises the bulk boards operation, glass, aluminium, hardware, plumbing and other supplies, ceramic tile warehousing and manufacturing operations. The wholesale operation supplies both trade customers and Penpin's retail stores.

The retail division has also been reorganised and upgraded to service the small to medium-size builder and DIY market more efficiently and cost effectively, Malherbe said. Sizes of retail stores have been increased considerably. Upgrading will continue into mid-1991, and in the

last quarter of the year Penpin will go into "an expansion phase", opening new stores in new areas. Malherbe said that "the new group structure puts us in a very strong position to achieve an outstanding performance in 1991". In the six months to end-June 1990, Penpin reported a 13,4% increase in earnings to 10,6c a share, including figures for Penbord and for unlisted Penbuild.

Minaco set to meet forecast

8/10am 31/1/91
193 MARC HASENFUSS

ALTHOUGH directors of JSE-listed Minaco Granite & Marble expect earnings to exceed their internal forecasts, the group does not expect to pay dividends this year in excess of the 3.5c prospectus forecast

Directors said in a statement a prudent dividend policy should be followed due to the acquisition of Tivoli Granite & Marble and the investment in Prairie Granite which resulted in the utilisation of funds not budgeted for

Minaco has an option to acquire a further investment in Prairie which at present seemed likely to be taken up, directors said.

The group would no longer declare a dividend at the end of this month as stated in its prospectus last year, but instead expected to declare dividends by end-February 1991 payable during April 1991.

HOPE AT LAST

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After more than a year shareholders in Abacus (formerly Interboard) can look forward to the removal of the encumbrance brought about by the actions of Interboard ex-MD Ed Dutton. The Reserve Bank last week conditionally approved the restitution to Abacus of shares, properties and other assets recovered from abroad. Abacus will also raise R16m by way of a rights offer.

Shareholders stand to gain three things:

- The recovery of properties in SA valued at approximately R20m, which will strengthen the balance sheet by some R12m, as bonds of about R7m are registered on the properties,
- Repatriation of control, and
- Reduction in issued shares from 160m to 40m pre-rights, which will have a significant impact on NAV.

A condition of Bank approval is that the 120m recovered shares will be converted into preference shares and redeemed (in favour of the Bank) at 1c each, at a total cost of R1,2m, to be met from the rights issue.

After an investigation on behalf of the Bank in 1989, by accounting firm Ernst & Young, into Interboard's foreign exchange transactions from 1981 to 1989, the Bank froze the shares held by Interboard's controlling shareholders in the Netherlands, Antilles and Guernsey. Dividends on these shares were blocked and they could not be traded. The Dutch and Antilles companies owned 72% of Interboard SA.

The Dutton affair forced Interboard to sell the flatboard division, restructure and change its name to Abacus. The flatboard division had overpaid substantially for certain manufacturing plant, which burdened the group with excessive debt in relation to the true value of underlying assets.

Abacus MD Mike Clemitson tells the *FM* that a shareholders' meeting is planned for early March to get approval for redemption of the shares and the rights offer.

Gerhard Stabber

PENPIN/PENBOARD (193)

ANOTHER SPLIT F/M 1/2/91

Management at fast-growing Pennypinchers Holdings (Penpin) no longer believes it is sensible to run the group's building materials and boards businesses separately. It will instead split the organisation into retail and wholesale operations. This, they claim, will improve growth opportunities.

The restructuring will require the delisting of subsidiary Pennypinchers Boards (Penboard), which holds the group's retail and wholesale boards operations. Penpin holds about 82% of Penboard. Even if Penboard minorities are offered a healthy premium over the current market price of 65c a share, the deal is likely to cost the holding company less than R2m.

As Penpin's working capital requirements have risen steeply in the past few years — the group has had three rights issues since listing in 1986 — it would probably prefer Penboard minorities to take shares.

Penpin financial director Percy Bishop says Penboard directors will trade their personal equity (about 3%) for shares in the holding company.

Terms awaiting approval

Terms of the deal are awaiting JSE approval but details of the offer to minorities are expected to be finalised within a month. Meanwhile, Penpin directors have advised shareholders in Penpin and Penboard to exercise caution in their dealings in the shares.

F/M 1/2/91

(193)

FOX

Penboard was listed soon after the October 1987 Crash, with its shares issued at 60c each. Though the company has performed well — EPS were up 21% at 11,7c for the 1989 year — the price has not moved much above 90c recently.

Bishop is confident the delisting will disadvantage shareholders in neither Penboard nor in Penpin. While the Penboard minorities will get a good price for their shares, he says, the holding company's EPS and net worth will not be materially affected.

Penpin's EPS are not expected to rise much, if at all, above last year's 20,5c and a repeat of the 9c a share dividend seems likely. At 145c, Penpin stands on a historical p.e of 6,7 and dividend yield of 6,2%. This compares with Penboard's p.e of 5,5 and yield of 7,7%.

Simon Cashmore

Granite looking to long-term revival

193 S/Tues 3/2/94

THE PERSIAN Gulf war may have cracked the granite sector's shiny face in the immediate future, but longer-term prospects are not bad

Share prices have softened in the past week, but the producers report bullish signs from international markets

Foreign buyers are still flocking to SA producers. There is no problem about the first price increase in a year — likely to be announced soon — in spite of stockpiles at re-exporters in Italy and at SA quarries

Although the important Middle East market has stalled, reconstruction when the war is over will be good for the world business

In addition there will be the usual building development, readily funded from oil revenues. It and reconstruction will quickly mop up surplus stocks

Investors are having a tough time rating granite shares, and results will be closely watched — particularly those of Keeley, which ends its year in February

Steep

Business Times reported last week on the steep slide in Keeley shares, but this did not take account of the listing of pyramid Kelgran, in which Keeley shareholders participated on an equal basis

The combined value of Keeley and Kelgran shares means that shareholders have suffered a much smaller decline than reported — from 1 300c at the peak to 1 000c. Holders of other shares in the sector have fared worse

By IAN SMITH

Keeley expects to improve financial results, and has programmed increased volumes this year

Marlin, which has gone through an expansionary phase in downstream activities, has warned that its results to the end of December are likely to be down

Kudu predicts better profits for the year to June

Keeley administration director Rob Brown says the European and Far East markets have not been affected by the Gulf crisis. Construction after the war could mean a boom for granite

Welcome

Reconstruction of the oil facilities and general infrastructure in the Middle East will provide a welcome boost. The work will help a slack US economy. America is an increasingly important user of granite in construction

Marlin Corporation chairman Peter Gam says there are plans for the re-building of Kuwait. These are likely to bring burgeoning demand for granite and other stone cladding

"Kuwait is one of the few countries in the world which can afford such a scheme. We can only hope that the Middle East conflict does not develop into a world war"

Mr Gam says the reconstruction of Eastern Europe also offers great prospects for granite producers

Berlin, for instance, was built of granite and it is natural that the stone will play a

big part in its reconstruction

Northern Europe is beginning to appreciate the weather-proof and durable qualities of granite as a building material

Mr Gam says there has been no fall in demand for monumental stone, mainly black granite from Belfast in the Eastern Transvaal. Demand has, in fact, been lifted by the increasing affluence of the Japanese, who use more stone in tombstones

Kudu chairman Peet du Toit says the industry has always been subject to demand cycles every seven or eight years. It is unfortunate that the US recession and the Middle East conflict have coincided

"But the low point of every downturn has always been higher than the previous low"

Consol revises tariff protection request

8/20/41/191 MARCIA KLEIN

(193)

CONSOL Glass has revised its application for increased tariff protection following discussions with the Board of Trade and Industry (BTI), says Consol Glass MD Henrie Roos

In December Consol, SA's only glass products manufacturer, applied for the imposition of a 30% ad valorem or R2 per item less 70% ad valorem formula duty on imported table and kitchen glassware

Major retailers opposed the application. They made representations to the BTI, saying thousands of jobs could be lost if the application for increased tariff protection succeeded.

Roos said Consol had now applied for the formula-duty to be replaced with a simpler form of tariff protection, which would be "moderate".

Consol tableware tariff turnabout

Consumer Reporter

Stev
5/2/91

Consol Glass has requested that its controversial application for increased tariff protection for certain categories of imported glass tableware be withdrawn.

In a statement, Consol said it had also requested that revised proposed tariffs be pub-

lished simultaneously with the withdrawal.

The move follows an outcry from glassware importers and wholesalers in recent weeks.

According to the Housewares Merchants Association, the price of glassware would have increased substantially and the choice of goods reduced if the initial applica-

tion had succeeded.

193

Thousands of jobs in the glass-cutting and retailing industries would have been in jeopardy, according to spokesman Ig Ferreira.

Consol Glass managing director Hennie Roos said the matter was discussed with the Board of Trade and Industry on January 23.

Plate Glass sheds its ⁽¹⁹³⁾ Australian retail chain

PLATE Glass & Shatterprufe Industries (PGSI) has disposed of Formex, a chain of 16 retail board outlets in Australia, as part of the group's major restructuring of its international wood division

A "recovery plan" for the division was formulated following a severe setback in financial 1989

A company announcement yesterday said Formex was bought for an undisclosed sum by Australian manufacturer and distributor of wood products, Wesfi.

Plate Glass joint chairman Bertie Lubner said the disposal cost A\$2m (about R3,9m) less than the provision made at the September interim period for the full cost of liquidating Formex had the sale to Wesfi not gone through

At the September interim stage the company had provided for below-the-line writeoffs of R74m in financial 1991 for the restructuring of the wood division, including all anticipated future costs

Financial director Michael Read said

MARCIA KLEIN

yesterday the R74m provided for included restructuring of the entire division

The wood division is focused on operations in southern Africa, with the exceptions of the DIY chain in the UK and small interests in Europe.

Read said the wood division would remain in its present form for the foreseeable future, and while the group "had stopped the bleeding" in its wood operations, it was still rationalising and "trying to get more profitable".

In the six months to end-September, PGSI posted a 1% growth in attributable earnings, after a 27% fall in attributable earnings for the year to March 1990

At the interim stage the wood division had increased its contribution to earnings from 2,4c to 43c a share, following the disposal of two major offshore operations and strong performances in southern Africa.

Reduced cover cost of Anglo Alpha dividend

CHARLOTTE MATHEWS

CEMENT producer Anglo Alpha increased its dividend by 14,8% to 132c (115c) a share in the year to end-December 1990 at the cost of lowering its dividend cover below the group's policy level of 2 times.

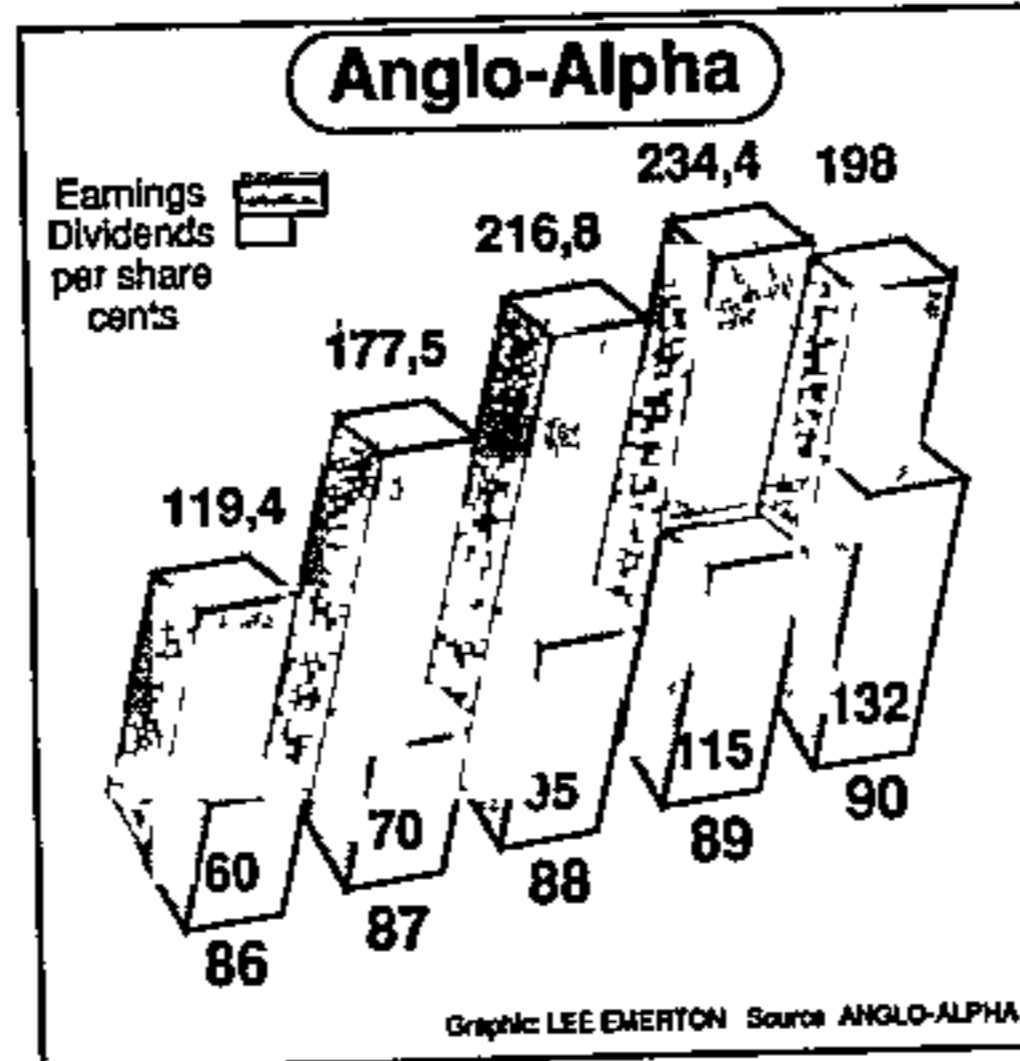
The dividend cover dropped to 1,5 times on earnings which on a current cost basis fell by 14,6% to 200c (234,3c) a share

Directors say they are satisfied that the group's relatively high cash flow and low level of estimated capex over the next five years permits the lower cover, although this policy may have to change depending on developments during the current year

Turnover rose 11,6% to R697,3m (R624,7m) The directors say sales volumes declined except in the cement division and sacks operation.

Operating income declined to R167,8m from R169,2m, reflecting an operating margin of 24,1% (27,1%)

The directors say operating margins were affected by increased fixed costs arising from the acquisition of three stone quarries in late 1989 and



higher selling and administration expenses owing to the break up of the stone industry cartels in Natal and the Cape There was also abnormal quarry equipment maintenance in the lime division

The tax rate rose to 35,8% from 33,2% because of the change in the depreciation allowance to a 20% allowance for wear and tear instead of the 50 30 20 system

After a current cost adjustment of R45m (R39,9m), reflecting Anglo Alpha's policy of inflation accounting, attributable income fell to R60,2m

(R70,5m) before an extraordinary item of R5m

This last arises from the closure of two unprofitable operations in the stone division and the looming closure of the Ulco lime operation

Anglo Alpha directors said the closure of the two stone division operations was part of the group's rationalisation programme

The Ulco lime operation will be closed at the end of February 1991 Lime customer requirements will now be met mainly from Ouplaas

The results are in line with the forecast at interim stage that earnings would decline by 15% to 20%.

Anglo Alpha MD Johan Pretorius said reductions in government spending and other attempts to curb inflation, had had a negative effect

"Although we anticipate a difficult year ahead, we expect our net earnings to be maintained at present levels through an internal drive to improve margins and increase efficiency"

Anglo Alpha shares closed at R23 yesterday, having been untraded for nearly three weeks At this price they offer a current dividend yield of 5,74%.

Anglo-Alpha earnings ¹⁹³ slip back

By Jabulani Sikhakhane

Anglo-Alpha has reported a 14,6 percent fall in attributable earnings to R60,2 million (R70,5 million) — equivalent to 201c per share for the year to December 1990.

A dividend of 89c has been declared, making a total of 132c for the year.

The fall in earnings is in line with the directors' forecast at the interim stage that earnings would fall by 15 percent to 20 percent.

Anglo-Alpha was hit by change in wear-and-tear allowances from 50:30:20 to a 20 percent straight-line method and a downturn in the building industry. *Star 7/2/91*

Turnover rose 11,6 percent to R697,3 million.

But lower sales volumes and higher selling and administration expenses caused by the break-up of the stone industry cartel in Natal and the Cape and abnormal quarry equipment maintenance in the lime division depressed operating margins.

They fell from 27,1 percent to 24,1 percent, leaving operating income down at R167,8 million from R169,2 million.

However, the group improved cash flow by 20,9 percent to R167,8 million, mainly because of reduced working capital.

This meant a lower level of average borrowings at R13,6 million (R17,5 million). As a result, gearing fell to 14,3 percent from 19,3 percent.

PLATE GLASS F14 8/2/91

CUTTING BACK

193

The Lubner brothers' recovery plan for Plate Glass, designed to counter recent changes in the international wood business, has been brought a step closer to fruition with the disposal of Formex, a chain of 16 retail board outlets in Australia. Wesfi, an Australian manufacturer and distributor of wood products, has acquired Formex as a going con-

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F14 8/2/91

193

cern

Plate Glass's PG Wood Industries suffered a 79,2c per share loss in financial 1990, mainly because the foreign operations held in Wood International lost 208,8c per share. The rationalisation programme, which included changes in the group's Johannesburg, London and Zug (Switzerland) head offices, resulted in substantial write-offs below the line, with provision made for incurred and expected costs of about R74m this year.

The November interim accounts provided for the full cost of liquidating Formex in the event of the Wesfi negotiations going awry. The disposal cost was about Aus\$2m less than the provision. Joint chairman Bertie Lubner reckons the deal will not affect group earnings or net worth this year.

Gerhard Slabber

CEMENTATION FIM 812191

TOUGHER TRADING (192)**Activities:** Civil, mining and mechanical engineering.**Control:** Trafalgar House (UK) 49%**Chairman:** R T Shaw, MD G B Lotter**Capital structure:** 9m ords Market capitalisation: R45m**Share market:** Price 500c Yields 10,0% on dividend, 20,1% on earnings, p:e ratio, 5,0, cover, 2,0 12-month high, 750c, low, 500c

Trading volume last quarter, 11 000 shares

Year to Sep	'87	'88	'89	'90
ST debt (Rm)	19,7	22,3	30,6	40,4
LT debt (Rm)	20,2	13,5	10,8	9,6
Debt equity ratio	0,51	0,32	0,50	0,67
Shareholders interest	0,29	0,30	0,30	0,32
Int & leasing cover	2,1	3,8	3,1	2,7
Return on cap (%)	8,0	10,5	10,7	10,9
Turnover (Rm)	273	314	335	356
Pre-int profit (Rm)	13,9	19,4	22,1	23,9
Pre-int margin (%)	5,1	6,2	6,6	6,7
Earnings (c)	45,8	120,5	155,1	100,6
Dividends (c)	22	42	75	50
Net worth (c)	662	737	816	779

Chairman Ron Shaw rightly cites deteriorating trading conditions and slimmer margins as the main factors behind Cementation's 35% slump in earnings last year. Shareholders who don't do their homework could reach other conclusions.

For the full year, group performance at operational level looks quite good. While turnover growth was stunted — the 6% increase in rand terms almost certainly points to reduced activity — the pre-interest margin was, in fact, marginally higher. The real damage came from significantly increased interest and tax charges (both mentioned by Shaw) together with conversion of the preference share capital into equity from the start of the year. The conversion cost the group about 8c in EPS.

But the real impact of Shaw's statement becomes apparent through a comparison of second-half performance against the first six

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THE COST RATIOS

Metpol's Pretorius assuming the chair

company influences its cost ratios, pension and other group insurance, for example, as well as single-premium policies, usually have low cost ratios, while the opposite is true for ordinary individual insurance with recurring premiums.

But the product mix he contends, need not

was transferred from net income, an increase of 23% on the previous year's transfer (in 1989 the transfer to reserves rose by 45% against that of the year before)

Scholtz notes that Metpol "has done extensive analysis and projections concerning the Aids issue," and it has to be assumed that adequate provisions have been made to cope with claims, both in regard to policy conditions and claims.

Given Metpol's record, the share, priced around 700c, should be seen as an attractive haven for investment funds — especially as the black insurance market has substantial growth potential.

Gerald Hirshon

CEMENTATION FIM 812191

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New R50m plant for Blue Circle Cement

BLUE Circle Cement (BCC) has started construction of a new R50m cement blending plant and depot at Kaalfontein, near Kempton Park

The initial production target is 250 000 tons a year, but can be extended to reach 750 000 tons a year, a statement released by the group last week said

MARC HASENFUSS

Work began in November, and completion is scheduled for December.

The plant has been located to give BCC an optimum presence in the growing market in cement blends in the PWV and Free State Goldfields

Kaalfontein is well served by both road and

rail links, and within convenient reach of fly-ash supplies from Ash Resources at Lethabo, while cement will be brought in from BCC's Liechtenburg factory

The R14m construction contract has been awarded to CA Brand Civil Engineering, subcontracted to Babcock Industrial Contractors.

Granite tile factory opens in Newcastle

BIDON 14/21 91 (193)
CEMENTATION Company (Africa) chairman Ronnie Shaw officially opened a R10m granite tile factory in Newcastle, Natal, on Tuesday

The Barracuda Granite Tile factory is a joint venture between the engineering and mining contractor and granite producer Marlin Corporation

The factory's computer-controlled equipment was manufactured and supplied by Pedrim of Italy, factory manager Martin Maher said.

The first four years' production of 5 200m² of tiles a month has been marketed

abroad already. However, the plant is being expanded and output will be doubled in October, Shaw said. While the company anticipated selling almost the entire output on export markets, where demand was well in excess of supply, the Middle East situation would affect short-term demand.

Management was confident of negotiating a second export contract and some production might also be sold locally. Director Alistair Douglas said Barracuda, the second factory in SA to manufacture tiles, represented a new stage in the beneficiation of SA granite.

Plate Glass takes out the splinters



MIKE READ Ride it or dump it we sold Picture TOM EDLEY

PLATE GLASS has put its international business under the magnifying glass. That's the word from PG financial director Mike Read.

Every few weeks (or so it seems) I receive a news release saying PG has disposed of another foreign operation. The latest said it had sold Formex, a 16-store retail chain selling board products in Australia.

Australia was PG's first foray abroad 20 years ago Mr Read says the group had a choice if it were to grow

Either it could expand geographically in its areas of expertise, or it could expand at home into diversified businesses It chose the first

Has it come full circle? "Not at all What you have seen is a reassessment of both our overseas glass and wood interests

"The international glass division will focus on automotive glass and the wood one will now concentrate on its Southern African activities

"In spite of these disposals the group is still expanding its non-SA business"

Success has been achieved and will come again But times are tough now

Mr Read says "The cost of taking financial rands out of the country to fund business abroad is huge

"We have been forced to grow out of retained income and borrowings"

Gearing became PG's enemy No 1.

The group took out £73-million in 1983 to get established in Britain Last year it sold the flat-glass operations built up there for £100-million

"That is flattering, it was not all profit," says Mr

Inevitably, the growers of hardwood began to make noises about local beneficiation of their produce, and imposed various taxes and duties on exports

"Possibly we did not read the market or react soon enough," says Mr Read

"But we were faced with a decision either to invest heavily in those countries so that the wood could be benefited, or to sell out

"We believed that our strengths outside Southern Africa lay more in autoglass than timber beneficiation, and could not see a better return on investment in timber"

So it was with Formex It was doing fine until September when the economy took a crack. Again faced with a ride it or dump it decision, PG sold

It made more than ample provisions for any losses on disposals

The wood division is to concentrate on the highly successful Central and Southern African timber and board business

Mr Read says "There are great opportunities if Africa opens up"

PG Bison is a success story, chipping in 106c a share to total earnings of 355c in the past year

In the year to March glass contributed 1¼ times the bottom line, wood incurring a loss In 1989, wood made a quarter of the profits

This year, losses from the wood division will be much smaller and it will make a positive contribution

Next year, contributions from the developing glass outlets will start to make their mark

Shareholders in for the longer term will be fairly rewarded by the group's rand-hedge qualities But the shares look a bit pricey on 13 times historic earnings at the current R48

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COMPANIES

Masonite's earnings shrink

^{B 10 am 19/11/91}
DURBAN-based building materials manufacturer Masonite (Africa) reported a hefty drop in year-end earnings as the deteriorating local and international economic climate made its presence felt on the group's main markets

Attributable profit fell 22% to ⁽¹⁹³⁾ R7,4m (R9,5m) for the year to end-December 1990, translating into earnings a share of 108c (140c)

A final dividend of 23c a share was declared, cutting the total payout by 23% to 43c (56c), covered 2,5 times

Turnover increased 11% to R113m (R102m), but narrower margins saw pre-tax earnings plunge 21% to R12,1m (R15,3m).

The group, in which US-based Masonite Corporation holds a 67% controlling stake, manufactures hardboard, insulation board, prefabricated accommodation units and ceiling panels. It is also involved in forestry development.

Chairman Alan Wilson said productivity

MARC HASENFUSS

gains were achieved through increased production throughput. Increased export allowances and afforestation costs led to a significantly lower overall tax rate.

Masonite's R10m new refiner at Estcourt had been operational since November and the project had met completion and cost targets, said Wilson.

Looking to the future, Wilson said the group had budgeted for an improved performance in 1991, but the degree of economic and political uncertainty remained high, both locally and internationally.

"However, the group views the future positively and in particular has high expectations for strong growth in markets such as affordable housing and schools, where the company is well positioned."

Masonite shares were untraded yesterday at 750c, which shows a slight recovery from its 675c low earlier this month. The share peaked at R12,75 a year ago.

Fralex making two acquisitions

By Jabulani Sikhakhane

Despite the tougher trading conditions which saw earnings fall 28,6 percent to 44,6c per share in the six months ending December, Fraser Alexander (Fralex) is expected to announce two major acquisitions which could more than double its size and after-tax profits.

A dividend of 6,5c (8c) is being paid

Chairman Peter Flack says one acquisition in the waste handling area which will be funded internally, will be signed today

The other, a bulk material handling and waste handling company, will be funded 42 percent by issue

of Fralex paper and the balance in cash

Last October Fralex acquired a bulk handling and coal washing facility in the UK, which partly contributed to the sharp increase in gearing from 40 percent to 70 percent.

Fralex's core business is in the handling of mining waste, construction and the manufacturing of concrete products. The group also mines and handles bulk coal

Discussing the results, Mr Flack said Fralex was hit by cut-backs from its major customers particularly during the first quarter. Also unrest in black townships curtailed infrastructural development,

which in turn had negative impact on the concrete division.

Mr Flack says the concrete division is currently sitting with three months of stock and the working week has been reduced to four days and may soon be cut to three days

Fralex was also awarded lower price increases than the previous years. Increases averaged 10 percent from 15 percent in the last financial year

However, there was a slight improvement in the second quarter as a result of new contracts. The coal division also performed better due partly to firmer coal prices

As a result, turnover

rose 6,8 percent to R104,735 million (R98,094 million)

But squeezed margins and higher gearing meant that the net income attributable to ordinary shares (before extraordinary items) fell 27,4 percent to R5,559 million from R7,661 million

Mr Flack says gearing is budgeted to come down to 62 percent by year-end

Directors expect that earnings for the six months ending June will show an improvement on the review period

Pyramid Fralex, which holds 72,9 percent of Fraser Alexander, also reported 28,5 percent decline in earnings to 25,1c (35,1c)

Cement 'rot' fears allayed

MARC HASENFUSS (193)

CEMENT industry experts have disputed fears that many of SA's older constructions such as large dams, bridges and skyscrapers could be riddled with "concrete cancer".

Portland Cement Institute deputy executive director Brian Addis said the chemical process, known as alkali-silica reaction (ASR), which has extensively damaged Johannesburg's M1 motorway supports, was "an extremely rare occurrence".

He said ASR only took place in structures built more than 20 years ago. The reaction happened when concrete retained a high moisture level and there were enough alkalis present to combine with a reactive aggregate — a substance used in cement.

"The M1 portal was an unfortunate coincidence as the design attracted a lot of water." 09/04/11/2/91

Buildings were resistant to ASR as their foundations and central supports were well insulated.

Although dam walls were higher risk areas due to high moisture content, no afflicted dam walls had been reported, Addis said.

ASR cancer had been diagnosed in the support structures of Settler's Way in Port Elizabeth.

Testing for high alkali levels now ensured "cancer-free" cement, he said.

143. BUSINESS OPPORTUNITIES

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Builders are self-sufficient

20
193

THE building industry in the far northern Transvaal is almost totally self-sufficient in supplies and struggling to meet market demands

Brickworks, sawmills and stoneworks are capable of meeting the region's requirements, although extraordinary supplies not manufactured in the area can be quickly transported there by road or rail from the PWV

One company which has managed to grow with the times is concrete and cement manufacturer Petermix, which has served the region for 14 years

It was the first to establish a cement blending and bagging facility outside of the PWV-based PPC cartel

A second plant came on line last year, providing Petermix with additional bulk

facilities and railway sidings

Improvements to the original site include the laying of 15 000m² of concrete paving, the erection of precast walling on site, the construction of a laboratory and a 300m² office block and the erection of a 400m² change house and ablution block for workers

Streamline

A further 1 000 tons of bulk cementation storage capacity and the laying of a third railway siding formed the second phase of the new development and allowed the company to streamline its operations.

Petermix director Keith Baragwanath says the new development has resulted in a drop in shrinkage and has improved service con-

tinuity, with the storage and distribution operation now at a single site.

The additional railway sidings have given the company the capability of handling 46 rail-trucks with a total bulk storage capacity of about 3 000 tons.

Phase three of the company's expansion include the installation of a second cement packing machine with an 8 000 pocket a day capacity.

Baragwanath says the original production target was set to meet a predicted market demand of about 3 500 pockets a day, but after six months in operation demand has outstripped capacity

In order to cut down waiting times, a second packaging plant, imported from Germany, was installed and market demand

satisfied.

All seven cements produced at the plant have received SABS approval and are distributed to both industry and retail outlets within a 300km radius of the Petermix plant

Baragwanath says the company is gearing up to double output this year

Increasing

"We are looking at increasing the production capacity of our general purpose SABS PC 30 approved cement, which is the most popular and accepted cement in the local industry," he says.

Pietersburg Crushers, also part of the Petermix group, is the major supplier of high quality SABS 1033 certified road stone to the local industry

Control quarrying, urge angry residents

Staff Reporter

Angry farmers and residents crammed the hall of the Muldersdrif Farmers and Residents Association (MFRA) last night to protest against the "uncontrolled and illegal" escalation of industries and sand quarries in the area

About 300 people complained about the loss of top soil and the

increase in noise and water pollution

A motion was passed to urge authorities to recognise uncontrolled quarrying as being detrimental to the environment and to include it in the Environment Conservation Act

MFRA chairman David Frykberg said stone crushing plants, sand quarries, cement and brick factories, construction com-

panies, scaffolding storage and scrap yards were becoming difficult to control

He said illegal and uncontrolled quarrying was probably the biggest threat to the area

"Whilst the MFRA is obviously not opposed to mining or industry per se, it is opposed to the ad hoc and uncontrolled nature of some of these undertakings," he said

Cash-flush M & R raises interim dividend payout

CHARLOTTE MATHEWS

CASH holdings of R130m and a strong balance sheet have prompted industrial holding company Murray & Roberts (M & R) to declare a 15% improved dividend in the six months to December on a 6% increase in earnings a share

A dividend of 46c (40c) has been declared on earnings of 208c (197c) a share. Attributable earnings rose 10% to R74,7m from R67,6m

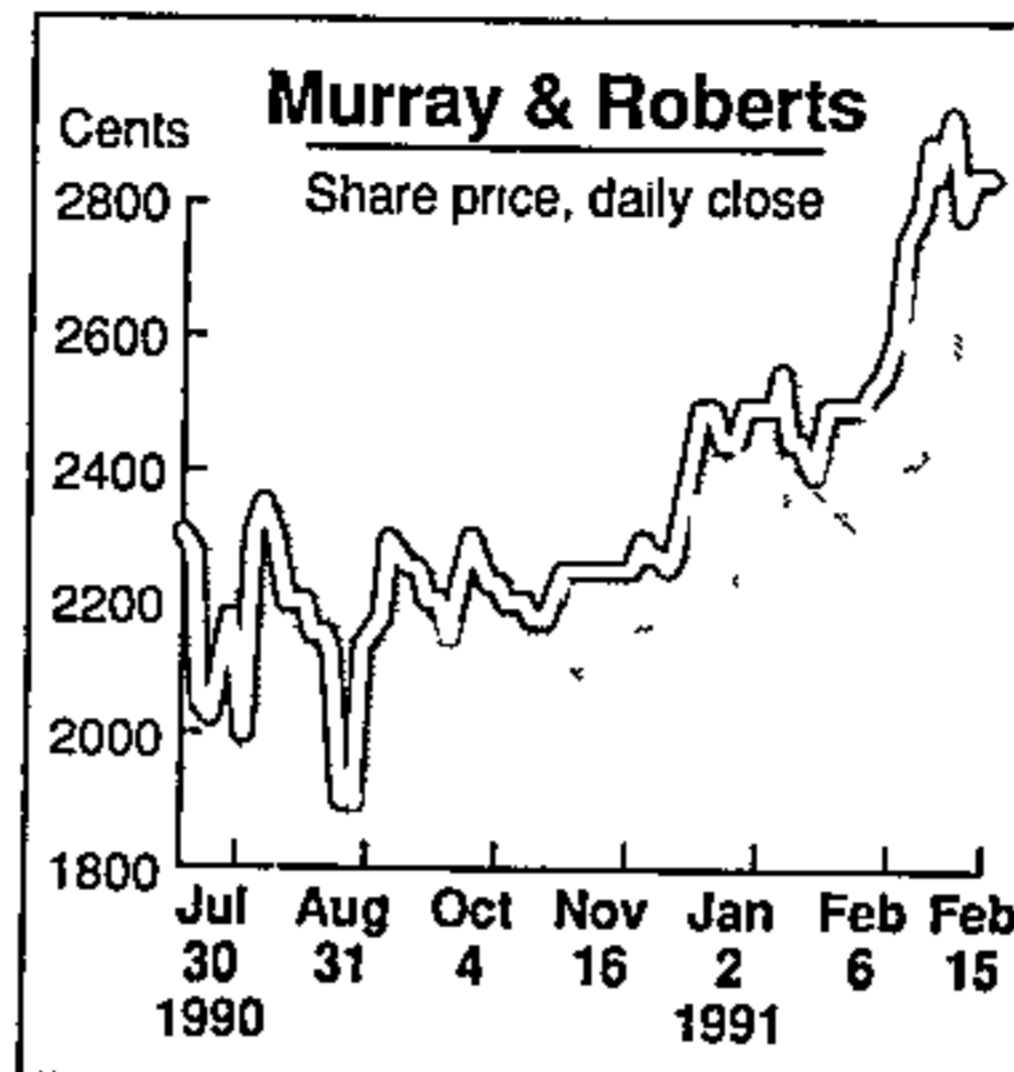
On turnover growth of 14% to R2,2bn (R1,9bn), operating profit rose 9% to R143,4m (R131,4m). This reflects operating margins of just under the target figure of 6,5%

M & R CE Dave Brink said in an interview the decline in margins was due mainly to lower capacity utilisation on lower volumes

The division which had performed most disappointingly in this period was suppliers and services. It contributed R26m (R34m) to operating profit

"There is very low demand for quarry products, ready mixed concrete and bricks," Brink explained. "In the brick industry especially, prices are poor and demand is low, reflecting the slowdown in low-cost housing in SA."

Nevertheless M & R had bought three brick companies — Corocrete, Brakpan Bricks and the remaining



Graphic: FIONA KRISCH Source: JSE

50% of Tricrete — in the last six months, indicating its confidence in the future of this sector

Brink believed the engineering division had the basis for sustainable growth in spite of the recession

M & R spent R60m on acquisitions in the last six months — "and you can expect some more, maybe some major ones," Brink said

He was not pessimistic about the next six months, but conceded it would be a difficult time. "We are getting closer to the time when we can say we made it through the recession," he said

One of Brink's objectives is to see M & R shares recover blue chip status

EVERITE FIM 113/91

CUT IN HALF (193)

Swiss-controlled Everite is yet another group being hit hard by dwindling demand in the local building and construction market

Conditions became so bad during the six months to end-December that management decided to publish a cautionary notice four months into the period to warn shareholders of the impending profit slide

FIM

1/3/91

(193)

FOX

Though there has been some success in improving the management of assets and fixed costs (which involved 400 retrenchments), net profit fell by 54% with the dividend cut nearly in half MD George Thomas attributes the poor market largely to township unrest and the failure of funds earmarked for low-cost housing to find their way into the market.

No relief is in sight Thomas sees no short-term recovery for the local building and construction industries, though he remains optimistic about longer-term prospects given recent developments on the political front and the prospect of interest rates softening.

The average 10% drop in Everite's sales volumes brought production activity in some areas to below 50% of capacity Thomas

reckons this has positive benefits, in that opportunities now exist to complete the plant refurbishment programme for the use of non-asbestos fibres with minimum disruption

Sales of the group's building materials held up fairly well, dropping by some 7% in a homebuilding market in which volumes declined by up to 15% The big problem for Everite, however, is that infrastructural development has almost come to a standstill Sales volumes of pipes were down about 21%.

Overall performance was lifted by the profit contributions of associated companies DPI and Unipipe, as well as investment income For financial 1990 the contribution to net income was 43,6%, but in the 1991 first-

FOX

FIM 1/3/91

(193)

PROFIT SQUEEZE

Six months to	Dec 31 '89	Jun 30 '90	Dec 31 '90
Turnover (Rm)	162	190	166
Operating prof (Rm)	26,6	27,2	19,5
Net profit (Rm)	7,8	10,6	4,1
Earnings (c)	10,3	11,3	4,7
Dividend (c)	7,5	5,5	4,0

half the figure climbed to 68,5% The balance sheet remains solid Interest-bearing debt continues to fall — down 23% from a year ago and down 13% from year-end Net current assets improved by just under 2% over the past six months Thomas is confident that the stock/turnover ratio is fine and debtors are well under control

Having previously suffered from the disabilities of labour unrest and the dependence on the building and construction industries, the share has been a dull performer over the past 16 months, trading around 250c Longer-term prospects look sound and Thomas reckons when the turnaround comes it will be quick The share now trades about 35% below NAV and is not expensive

Gerhard Slabber

Blue Circle lifts dividend

By Ann Crotty

193

Building materials manufacturer and supplier, Blue Circle has reported a 13,5 percent drop in earnings to 285,2c (329,8c) a share for the 12 months to end-December but has lifted the dividend to 115c (110c) a share

Turnover was up 5 percent to R776 million (R741 million) which presumably represents a volume decline. Operating income dropped 6 percent to R118,9 million (R126,9 million) with margins squeezed by the lower volumes — from 17,1 percent to 15,3 percent

Finance charges were down slightly to R6,9 million (R7,5 million). This is in line with the drop in the group's net borrowings — down from R42 million to R23 million. The relatively healthy cash position explains why the group could afford to increase its dividend payment

Attributable income was down 13,5 percent to R78,5 million (R90,8 million) *skw 1/3/91*

The group earned extraordinary income of R2,5 million

Blue Circle puts up better show than expected

B1000
11/3/91

LIZ ROUSE

193

BLUE CIRCLE, the cement and engineering products group, put up a better than expected performance in the second half of 1989 and the earnings drop for the year was limited to 13,5%

At mid-year it reported earnings 15% below the first half of 1989. The interim report forecast a deterioration in sales volumes and profit for the second half.

Earnings a share for the year to end-December, excluding extraordinary items, amounted to 285,2c (329,8c). The final dividend has been maintained at 70c making total distribution 115c (110c). Dividend cover has decreased to 2,5 times from 3 times.

Group financial director Angus Morrison said that demand for cement and engineering products held up better than expected while a further drop in volumes was experienced in the materials division.

Turnover was up 4,7% to R776m (R741m) reflecting generally lower volumes. This, coupled with the high fixed cost structure of operations, led to a 6,3% reduction in operating income to R118,9m (R126,9m).

The group's balance sheet was strengthened further and showed borrowings at only 4,6% of shareholders' funds, down from 9,1% at the end of 1989. Interest charges declined to R6,9m (R7,5m) as net borrowings dropped to R23,3m from just over R42m.

The effective tax rate increased from 22,6% to 28,8% due to the withdrawal of the 50/30/20 tax allowances and the exhaustion of the cement division's assessed tax loss.

Attributable income from associated companies fell slightly to R10,4m (R10,7m), reflecting lower demand for construction materials.

Group attributable income amounted to R78,57m (R90,86m). Extraordinary items accounted for R2,5m (R552 000) which makes earnings a share, including extraordinary items, 294,6c (331,8c).

Sacob slams Consol's protection application

Financial Editor

CONSOL GLASS has made a new application for an increase in the tariff on imported glassware intended for kitchen and table use, according to a notice in the Government Gazette.

This comes within weeks of an announcement by the firm that it was withdrawing an earlier application for tariff protection.

The original application was strongly opposed by the Cape Town Chamber of Commerce, Sacob and the Houseware Merchants Association.

A report in the latest issue of the Chamber of Commerce's weekly Bulletin said the original application would have increased retail glassware prices by between 180% and 400% resulting in lower sales and endangering thousands of jobs in the distribution chain for imported glassware.

The new application asks for smaller but still significant increases in the protective tariff.

The November application asked for all existing tariffs of between 5% and 20% to be increased to a flat rate

of 30% or 200c each less 70% ad valorem.

The new application asks only for an additional 10% tariff.

In four categories the tariff requested will amount to a three-fold increase — from 5% to 15% and in five other categories the tariff requested will rise by 50% from 20% to 30%.

The items concerned are non-luxury glassware such as dinner plates and tea cups and the poorer section of the community would be most affected.

The chamber said although the scale of the increases had been reduced, the principle remained that it was inappropriate to increase protection for local industry at a time when SA should be preparing to become a competitor on the international scene.

"Retailers and wholesalers had looked abroad for suitable products because of Consol's limited ability to meet the demands of the market in terms of quality, variety and availability," said the chamber.

Rand steady

Brick-makers build stocks ¹⁹³

CLAY-BRICK manufacturers operated at about 70% of capacity last year because of a depressed economy and no supply problems are expected in 1991

Except for isolated areas of unexpected demand, the industry has met builders' requirements, says Pierre Peens, president of the Clay Brick Association

Some producers worked through the yearend holidays, supporting the necessary stock of 400-million bricks required by the building industry. Stocks are an acceptable six weeks' reserve, topped up by daily production

Mr Peens says "The industry's projection for 1991 is that demand for clay bricks will be sustained and no further tapering off is expected following recent announcements suggesting a softening in interest rates"

Medium-term projections through to 1995 indicate that demand for clay bricks will be met by the brick-makers using existing and planned capacity increases

The opening of a R35-million automated tunnel kiln at Midrand has been welcomed as a sound investment in the long-term future of the

Business Times Reporter

building industry, says Mr Peens

SA has about 105 clay-brick producers with a capacity of more than 4-million bricks a year worth R1-billion. They employ about 30 000

S/Times 3/3/91.
Preferred

Low-income housing is one area where clay-brick manufacturers can make a contribution to offset the urgent need for homes and soften the effect of the economic downturn. The association has identified clay bricks as a preferred building material among low-income groups

"Based on these findings, the association has developed the Brickmark Housing system to satisfy the aspiring needs of low-income groups. Approved by the Agreement Board, the system allows for single-leaf clay-brick construction which is weather proof"

The Brickmark Housing System has been well received by developers and will be launched this month

Bricks in plentiful supply

The brick industry does not expect any supply problems this year, says Mr Pierre Peens, president of the Clay Brick Association.

Although the building industry is generally depressed, brick manufacturers have operated at about 70 percent of capacity throughout most of 1990 and the supply position remains satisfactory in most of the country.

"Some manufacturers have worked through the holiday period, thus supporting the nec-

Star 5/3/91
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essary stock levels of 400 million bricks currently required by the industry," says Mr Peens

"This amount represents an acceptable six-week reserve which is topped up daily from current production"

Projections through to 1995 indicate that the total demand for bricks will be met by manufacturers using their current and planned capacities

Certainly, the brick industry welcomes the recent opening of

Cullinan Brick's R35 million tunnel kiln — said to be the most sophisticated brick supply system in the world

"This is a sound investment in the long-term future of the building industry," says Mr Peens

With more than 105 clay brick producers in South Africa, manufacturing capacity is estimated at more than 4 billion bricks a year

This represents a potential turnover of about R1 billion

ANGLO-ALPHA

F M 8/3/91.

HOPING TO HOLD EARNINGS

193

Activities: Produces and distributes cement, other building materials and industrial minerals
Control: Holderbank Financiere Glaris of Switzerland 34%

Chairman: P Byland, MD J Pretorius

Capital structure: 30,1m ords Market capitalisation R707m

Share market: Price 2 350c Yields 5,6% on dividend, 14,9% on earnings, p e ratio, 6,7, cover, 2,7 12-month high, 2 600c, low, 1 975c Trading volume last quarter, 19 300 shares

Year to Dec 31†	'87	'88	'89	'90
ST debt (Rm)	67,3	50,3	42,6	15,2
LT debt (Rm)	150,8	80,8	104,6	95,5
Debt equity ratio	0,28	0,23	0,11	0,07
Shareholders interest	0,73	0,68	0,82	0,84
Int & leasing cover	4,5	8,3	10,4	12,0
Return on cap (%)	11,4	20,9	10,7	9,6
Turnover (Rm)	418	522	625	697
Pre-int profit (Rm)	102	155	180	176
Pre-int margin (%)	23,7	28,1	27,4	22,4
Earnings (c)	185,5	324,6	367,3	349,8
Dividends (c)	70	95	115	132
Net worth (c)	1 633	1 893	4 551	5 124

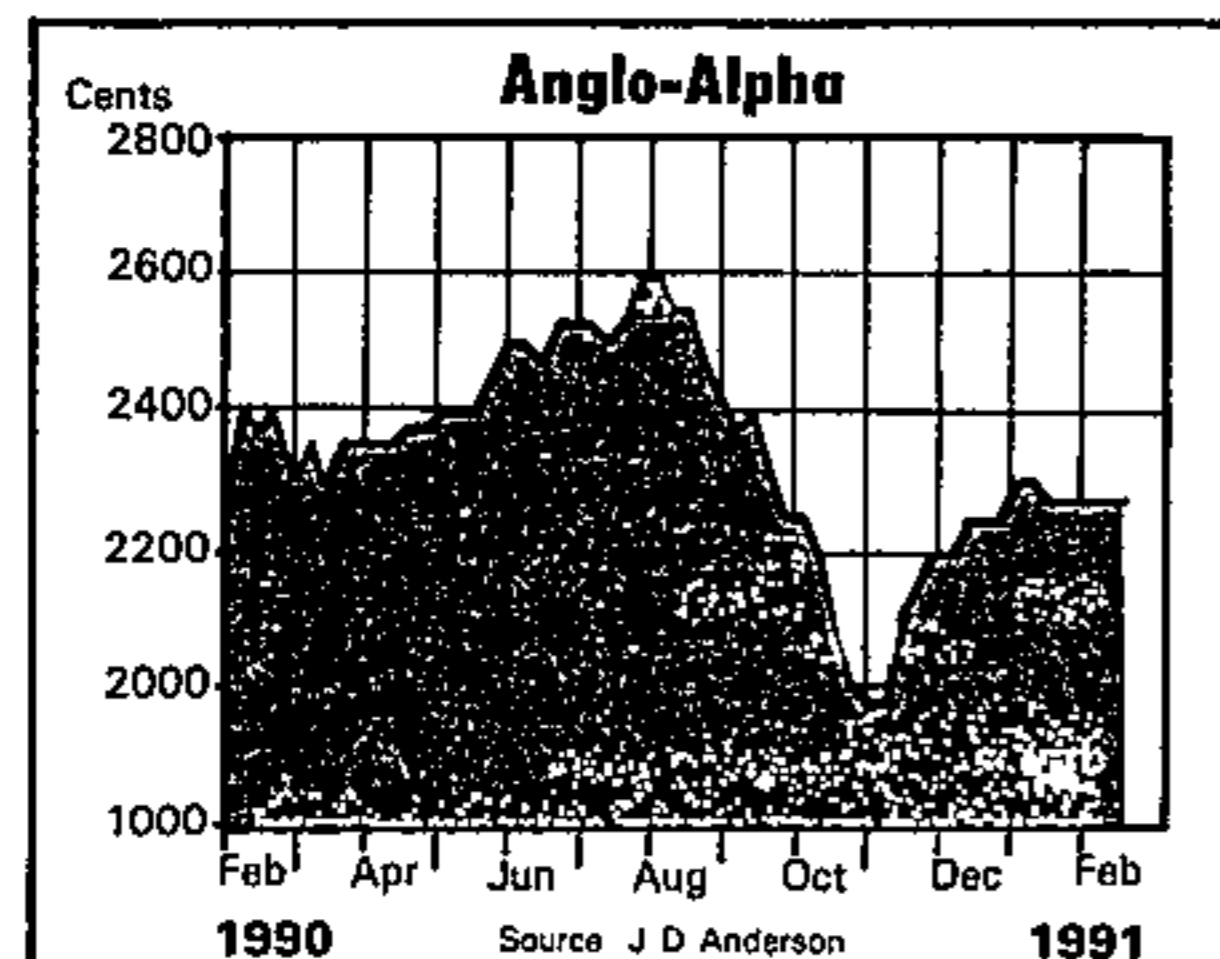
† Historical cost basis used throughout

The steady decline in infrastructural development, high interest rates and changes in tax legislation will continue to hurt Anglo-Alpha's performance this year. Cash flow is expected to decrease by 50%, mainly because of tax payments and a doubling in the debt equity ratio. Management, however, hopes to maintain earnings.

Tough conditions caught up with the group in financial 1990. Despite a 4,7% decline in EPS, compound EPS growth over the past five years is a commendable 19,23%. Emphasis on asset management brought about a reduction in working capital, which helped cash flow. Though tax payments increased by R24,7m, cash flow increased from R123,3m to R149,1m.

Interest-bearing debt was cut for the fifth consecutive year. Likewise interest and leasing cover also improved to a healthy 12 times. The debt equity ratio at 0,07 has probably reached its lowest point for the time being.

MD Johan Pretorius feels strongly about



Anglo-Alpha's Pretorius tax changes will cost dearly

the changes in tax legislation. He maintains that scrapping the wear-and-tear allowances will cost industry dearly. Replacement of the 50/30/20 tax allowances on plant with a 20% straight line allowance will damage SA's ability to export.

Cement accounts for about 50% of turnover and earnings and 55% of assets. These

PROFIT SOURCES

	Turnover (Rm)		Taxed Profit (Rm)	
	1989	1990	1989	1990
Cement	320	372	32,9	30,0
Stone	124	135	13,6	6,5
Industrial	200	217	12,5	14,2
Other	10	10	11,5	9,5
Total	654	734	70,5	60,2

percentages have not changed much in the past four years. Cement was also the only division to show an increase in net operating income, thanks to higher volumes.

Kiln utilisation increased to 72% (69%), excluding mothballed plants. Pretorius notes that the marginal sales volume increase came from recovery of market share lost in the first half of 1989 due to major kiln repairs at two plants. High salary and wage increases squeezed operating margins but changes in tax legislation had the biggest effect on the bottom line. The effective tax rate increased from 36,9% to 45,7% and, coupled with an increase in current cost adjustment due to the revaluation of assets, the division's net taxed income eased to R30m from R32,9m.

Anglo-Alpha reckons the division will spend about R124m (present-day cost) on capex over the next five years on refurbishing kilns and plant replacement.

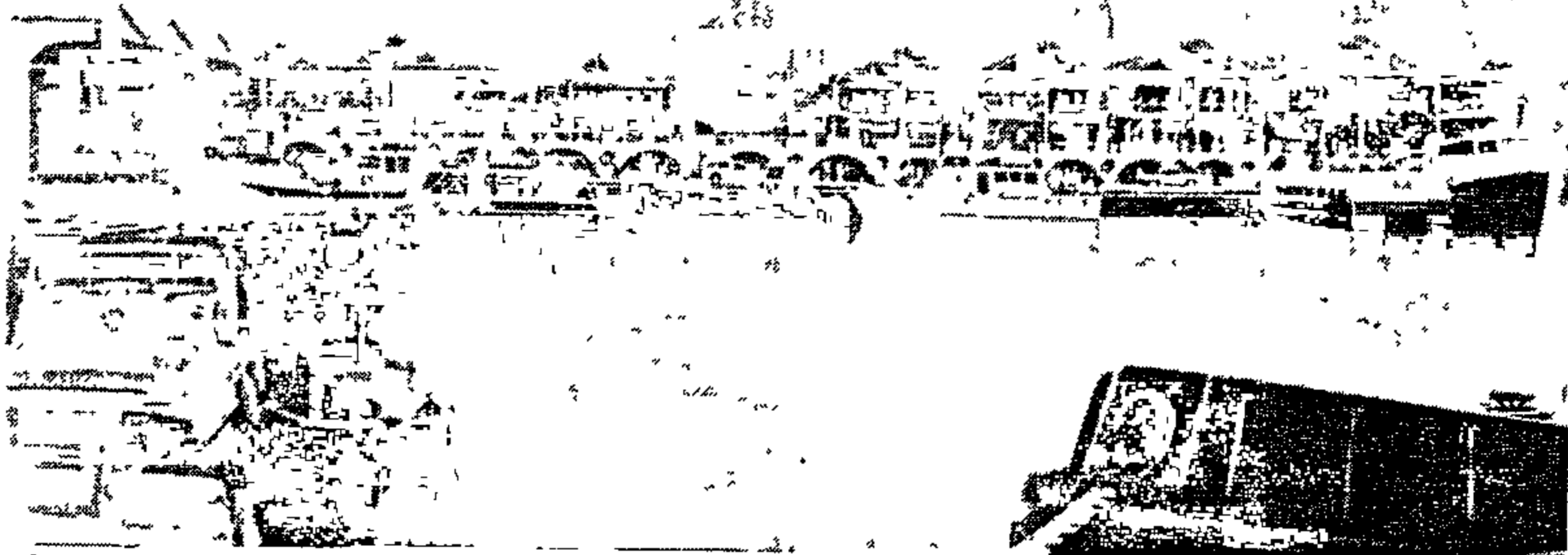
The stone division suffered most from the slowdown. Net operating income fell a hefty 47,2%. Management used the pruning knife and two unprofitable operations were closed. Despite the acquisition of three quarries in the last half of 1989, and a consequent increase in market share, the division's total sales volumes declined by 3,4%.

The industrial division held up better with only an 11% drop in operating profit on a slightly higher turnover. Increased costs arising from higher quarry equipment maintenance were the main cause of deterioration.

The immediate future for cement producers seems unexciting. The longer-term view is that there is a big pent-up demand for housing. The SA Cement Producers' Association expects construction activity will be generated mainly by a large number of small projects. The slack economy may cause many of these to be shelved — as has happened with some road construction contracts.

EPS performance will largely depend on infrastructural development. Medium-term, Anglo-Alpha expects growth to come from improved efficiencies and modernised facilities, rather than higher volumes. The share price rallied from R20 to R23,50 over the past four months, but further growth is unlikely in near term.

Gerhard Slabber



An architect's perspective of the new R70m retail complex at the V&A Waterfront development in Cape Town.

SA's building industry 'faces a formidable task'

B/day 13/3/91

Reports by
PETER GALLI and CHARLOTTE MATHEWS

MEETING the housing and infrastructural construction needs of a modern society was a massive challenge for SA's building industry, Toncoro MD Errol Rutherford said at a media briefing in Durban.

Toncoro is the parent company of brick manufacturer Corobrik.

"Builders can look forward to unparalleled rates of affordable housing construction, but the timeframe for this is still unclear," he said.

Rutherford, who is president of the Natal Chamber of Industries, said government had for some time held back on infrastructure because, with major changes in the offing, future needs could not be based on existing demographics.

While the long-term outlook for the building industry should improve with the imminent repeal of the

Group Areas Act, prospects were presently overshadowed by other socio-economic factors.

The building industry was headed for a similar year to 1990, with no upturn in sight, Rutherford said.

"The repeal of the Group Areas Act represents such a radical normalisation of society that few people can yet see through all the implications it will bring."

Affordability still remained a key factor in the housing market, he added. Even with a long-term shift in wage patterns, there was still a need for low rental accommodation to meet the needs of the lower income group.

National marketing director Keith Nurcombe said SA needed one central housing strategy that would involve less talk and be

more focused.

"It looks as though a single ministry for housing is on the cards, with a strategy for national housing being developed," he added.

In an attempt to address this problem, Corobrik has developed a range of innovative walling systems for the low-income market.

Marketed under the umbrella name of Corowall, the systems are based on the concept of single-skin exterior walling.

"This new system means genuine clay brick walls

now became a viable option in the low-income field."

Nurcombe said Corobrik had found a way to slow the surging cost of low-income housing by offering face-brick as an alternative.

Using various options, Corobrik had developed four prototype homes to test the system. The homes cost an average of R32 000, including plumbing and electrical installations.

While the costs were marginally higher than concrete block, if maintenance costs were taken into account, clay brick became the most cost-effective solution, he said.

Sales slump puts cement plans on ice

S/Times 17/3/91 (193)

EXPANSION plans in the cement industry have been put on ice with production capacity exceeding expected sales this year by about 50%

The big-three members of the cement cartel, Pretoria Portland Cement, Anglo-Alpha and Blue Circle Cement, can produce 12-million tons a year and demand this year is expected to be less than eight million tons

Lower sales are expected for the rest of the year, with some industry leaders predicting a fall of about 50%

The cement cartel has sufficient capacity to meet projected demand for the next five or six years and none of the three major players has any plans for expansion

Nevertheless, BCC plans to increase production by about 80 000 tons through a R50-million cement blending plant and depot at Kaalfontein near Kempton Park to supply the PWV area

The plant has been designed to produce 500 000 tons of blended cement a year, but can be expanded to produce up to 750 000 tons. However, as this is a blend of fly-ash and cement, it will

By DON ROBERTSON

mean a total increase in production of only 80 000 tons

The Kaalfontein site covers 22ha and includes its own rail siding as well as multi-cell silo complex, a blending and packaging plant, a warehouse, laboratory and administration block

The plant is within convenient reach of fly-ash supplies from Ash Resources at Lethabo Cement will be brought in from BCC's factory at Lichtenberg

Efficient

Last December Chris Wroggemann, financial director of PPC, said Anglo-Alpha and BCC were operating at near full capacity and that PPC would have to consider expanding production if it hoped to maintain market share

Anglo-Alpha and BCC, however, claim they are operating at well below full capacity and no plans for production increases are on the cards

Carl Grim, managing director of the cement division at BCC, says the company was operating at 75% of

capacity last year, utilising dry-kiln production, which is more energy efficient. If wet-kiln production were included, capacity would be about 68%

Ronnie Searle, deputy managing director of Anglo-Alpha, says his company is operating at about 72% of capacity based on dry-kiln production

This year Anglo-Alpha will stop production at two kilns at its Dudfield factory for much needed maintenance costing about R40-million

This will ensure that these kilns are able to meet any increase in demand in the longer term. During the maintenance period, other cement operations in the group will have to work at full capacity

Mr Searle says it would be unwise for any of the companies in the cartel to increase production with the current large number of cement plants in mothballs

PPC's R250-million Dwaalboom plant has been mothballed since its commissioning. The plant has a capacity of 600 000 tons of clinker a year, but could be upgraded into a full-scale cement plant at a cost of about R120-million

Fewer customers for Gefco's asbestos

Star 18/3/91

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By Jabulani Sikhakhane

Gencor must be patting itself on the back for divesting out of asbestos producers, Gefco and Msauli, in a management buyout in mid-1988

Markets for asbestos (particularly the amosite type) are shrinking and certain Far Eastern customers have advised Gefco that they will embark on a phase-out plan in the near future. This development will seriously affect the viability of the Penge mine which operated at a loss for most of financial 1990.

In a continued effort to reduce dependence on asbestos, Gefco has acquired a controlling interest in Annandale Colliery near Newcastle in Natal. After a R4 million conversion from a raw coal venture into a full washing and sizing operation, Annandale is expected to show a profit of R3 million on an annualised basis.

On the Von Brandis gold project, the directors report that due to a weaker gold price and insufficient ore reserves, the decision to start up has been delayed.

For the year ended-December, Gefco's earnings plunged to 24,4c (61,1c) and also the dividend 8c (22,5c).

Msauli, in which Gefco holds 33 percent, reports a decline of 45 percent in earnings to 153c (280,7c) and the dividend is 33 percent lower at 50c (75c).

Gefco was partly hit by production problems at the Kuruman and Penge mines. This limited growth in turnover to only 9,37 percent at R108,123 million (R98,858 million).

Lower output coupled with the cost of re-opening underground and milling plants, sent unit costs of production soaring by 30 percent.

But with only marginal price increases in US dollar terms and a steady rand, these higher costs could not be recouped. Added to this was a R6,1 million write-off against income as provision for the rehabilitation of the environment.

As a result, income from operations fell to R9,921 million (R31,297 million). But it must be pointed out that this figure includes a R7,5 million interest received and dividend income of R1,5 million.

Without these two items, income from operations would have been a paltry R921 000, leaving margins of only 0,85 percent compared with the actual margin of 9,17 percent which is down from 31,6 percent.

In the case of Msauli fibre production fell 11 percent due to mining problems. This hit sales, with turnover falling 5,3 percent to R70,158 million (R74,092 million).

Lower production and inflationary pressures pushed up the unit cost of production by 29 percent. As a result margins fell from 30 percent to 17 percent - leaving operating income of R12,049 million (R22,417 million). Operating income includes R2,7 million interest received.

Looking ahead, both Gefco and Msauli expect a much tougher year. Gefco reports that there is a worldwide shortage of longer grades of chrysotile (blue fibre), which augurs well for marginally better price increases than those obtained in 1990.

Msauli is conducting a feasibility study for the erection of a plant to extract fibre from the tailings dam at a cost of R4,9 million. This will not only result in additional fibre being made available, but should have a positive effect on unit costs of production.

Anglo-Alpha shows improved strength

Star 18/3/91

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Building material supplier Anglo-Alpha is, like most South African companies, facing a tough year with unexciting prospects

In the latest annual report, chairman Peter Byland is not forecasting any improvement in earnings for 1991. He says, however, that every effort will be made to maintain current earnings.

Anglo-Alpha is primarily engaged in the production of cement, stone aggregates, building sand, lime and limestone products, industrial minerals, paper sacks and ready-mixed concrete.

The group also has significant interests in companies which utilise its products and manufacture products related to its business, such as fly ash, slagment, plastic bags and fertilizer.

In the year to December, group turnover climbed 12 percent from R624,7 million to R697,3 million. Relatively higher costs, however, resulted in operating profit falling 1 percent from R169,2 million to R167,8 million.

Income from investments shrank 32 percent from R13,9 million to R9,5 million and finance costs fell 22 percent from R17,5 million to R13,6 million.

The outcome was a one percent decline in pre-tax profit from R165,7 million to R163,7 million. An increase in the effective tax rate from 33,2 percent to 35,8 percent resulted in after-tax profit falling 5 percent from R110,6 million to R105,1 million.

Diagonal Street LYNNE PEACH

After taking preference dividends and outside shareholders' interest into account, attributable profit decreased 5 percent from R110,4 million to R105,2 million.

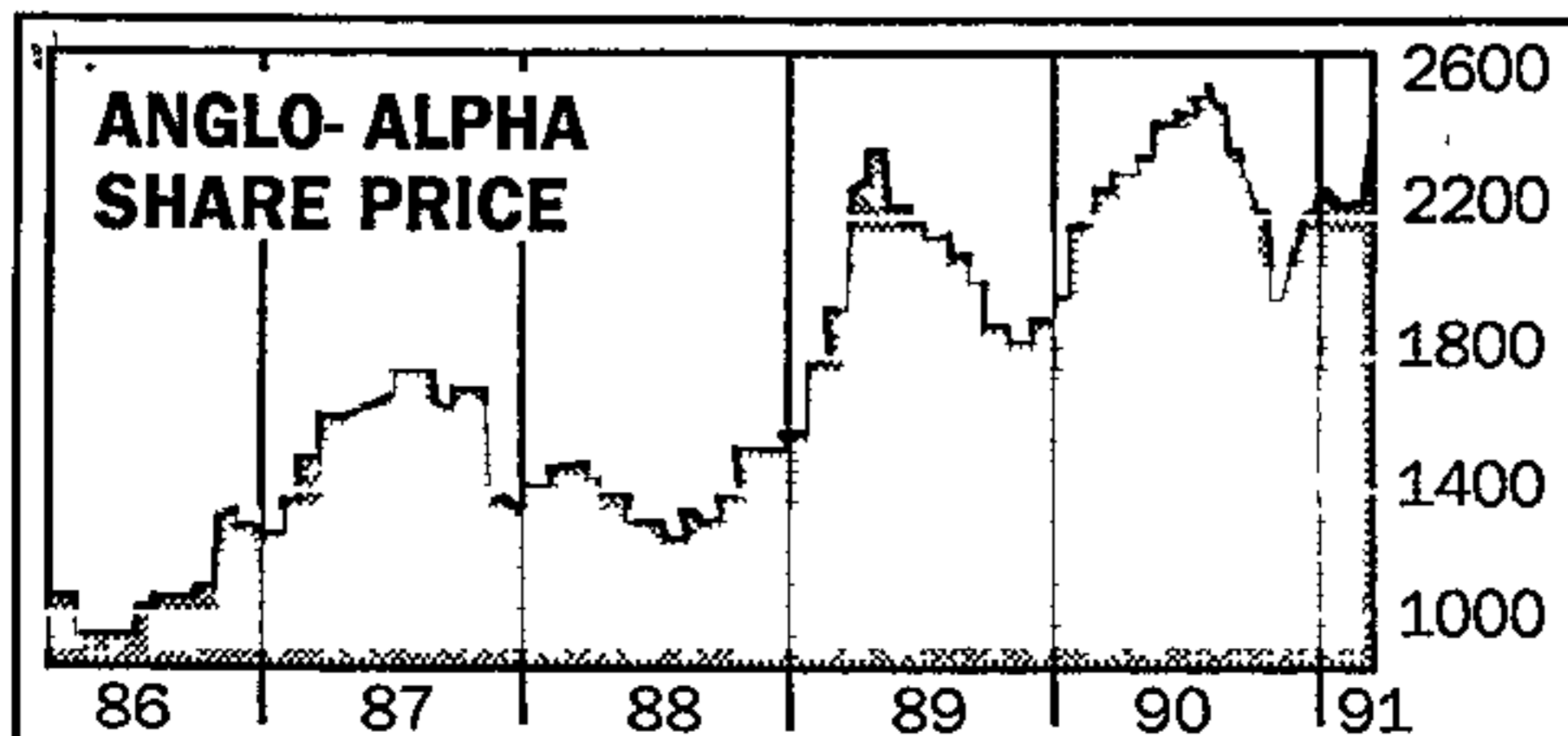
Earnings per share dropped from 367,2c to 349,8c. The dividend for the year amounted to 132c a share, nearly 15 percent higher than the previous year's payout of 115c.

The balance sheet shows improved strength with gearing down from 19,3 percent to 14,8 percent. Net asset value, on current cost basis, has appreciated 13 percent from R44,21 a share to R49,78.

Mr Byland predicts that cash flow will decrease 50 percent this year due to tax payments and that the debt to equity ratio will double.

Anglo-Alpha, priced at R24,50 is trading on a price earnings ratio of 7,0 and provides a dividend yield of 5,4 percent. It could be worthwhile starting to accumulate the share on price weakness with a view to benefiting when the economy turns around, possibly some time in 1992.

COMMENT: In mid-1990 Anglo-Alpha's share price toppled from R26 to R20 before recovering to R23 by year-end. The recent rise to R24,50 places the share price in a favourable trend.



Asbestos alternatives catching on fast

^{B/day 19/3/91}
IN spite of scientific agreement that asbestos can safely be used under modern control measures, fibre-cement producers are bowing to worldwide concern over its health effects and are replacing asbestos with other fibres

SA's largest consumer of asbestos, Everite, plans to phase the fibre out of all its products except water pipes by October 1992

Executive director Mark Cvitanich said the company has made substantial progress in developing cement reinforced with organic fibres such as hemp, wood and sisal

"Most flat sheets — roofing slates, ceiling boards and partitions — can be made without asbestos," he said

The alternative fibres are not tough enough to manufacture pipe with

ROBERT LAING

However, since the World Health Organisation has ruled that digested asbestos poses no threat and only inhaled fibre is dangerous, Cvitanich said there was no reason to develop asbestos-free pipe

Boost

Pat Hart, chairman of both SA's asbestos producers Msauli and Gefco, said demand for asbestos had dropped slightly last year, but attributed this to the slump in the building industry and not to health concern.

"The market will decide on the future on asbestos. I doubt builders are going to pay more for a product which is less strong

"The demand for low-cost housing is bound to boost asbestos sales"

Asbestos is known to cause three fatal lung diseases asbestosis, scarring of lung tissue, lung cancer, and mesothelioma, a tumour that strangles by thickening the lung lining

According to Everite research most current cases of asbestos-related diseases are a result of excessive exposures 20 or more years ago in factories or mining areas where conditions were extremely dusty

Asbestosis is an occupational disease only, requiring more than 40 years of workplace exposure before it manifests itself. Mesothelioma is caused by excessive exposure to blue asbestos (crocidolite) or brown asbestos (amosite)

Since the industry uses only white asbestos (chrysotile), it would not affect people living in houses made from building material containing asbestos

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Blue Circle waits for demand

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BLUE CIRCLE should maintain its earnings this year despite continued lower demand for construction materials, says chairman Trevor Coulson in his annual review for the year to end-December 1990.

The longer-term view is promising due to the inevitable growth in the mass housing sector and supporting infrastructure. With considerable unutilised capacity available, the cement group will benefit from any increased demand.

A continuation of reduced investment expenditure by both the public and private sectors is expected to have a negative impact on the demand for construction products supplied by the group and its associates.

However, Blue Circle is asset rich and a high cash generator. The balance sheet is stronger than it has been in the past and the group can withstand short to medium-term downturns.

Coulson says in the year ahead the undergeared group will continue to identify suitable opportunities to complement or add to its existing operations.

The 1990 balance sheet shows that finance charges of just over R9m (R9,1m) are covered 13,2 times by profits, whereas the target minimum is 4 times. Borrowings

LIZ ROUSE

as a percentage of shareholders' funds have declined to 4,6% from 9,1% in 1989 -- with net borrowings falling to R23,3m from R42m. Liabilities as a percentage of shareholders' funds are down to 29% from 39,2%.

The current ratio is 1,6 (1,1). Return on shareholders' funds at 20,3% is in line with the group target of 20%.

Blue Circle MD Graham Hardy in his review, outlines the future emphasis in the cement division on improved storage, distribution and product flexibility as well as increased milling capacity.

After a series of acquisitions in the materials division over the past few years, capital expenditure will be confined to essential replacements and facility improvements. The engineering division is focusing on market penetration and export opportunities, says Hardy.

In 1990 Blue Circle was able to limit the drop in earnings to 13,5% and paid a higher total dividend of 115c (110c). Sales volumes dropped 2% in the cement division and 15,7% in the materials division, while engineering volumes were similar to those of 1989.

ASBESTOS BLUES 193

Earnings from both of SA's major asbestos producers were hammered last year by soaring working costs, while the industry's long-term bogeyman — the environmental lobby — is threatening to whittle away yet more business from **Gefco** and perhaps close the Penge mine

Certain Far East customers for Gefco's amosite asbestos, which they use to manufacture interior panelling, have indicated they intend phasing out asbestos in favour of other materials

The unexpected development comes im-

MSAULI SLIDES

12 months to Dec 31	'89	'90
Turnover (Rm)	74.1	70.1
Pre-tax profit (Rm)	22.4	12.0
Attributable (Rm)	18.1	9.9
Earnings (c)	280.7	153.0
Dividends (c)	75.0	50.0

mediately after Gefco incurred heavy costs in reopening underground works at Penge, which had been closed for the past two years, while the mine ran down stocks and treated a low-grade surface dump. Management has now had to rationalise and lay off 200 workers

Comments chairman Pat Hart "It's a tricky situation, because it is not clear how quickly these customers intend phasing out asbestos. It could take them three years, in which case we need the mine. At the other extreme, we may be forced to close down quickly, after building up a stockpile"

Hart points out prices for Gefco's crocidolite (blue) asbestos should improve marginally in US dollar terms, but says "the group will be "hard pressed" to maintain last year's earnings and dividend

Demand is booming for the chrysotile (white) asbestos produced by **Msauli**, but the mine cannot meet demand because of underground mining problems and output fell 11% last year. Lower production plus inflation, which Hart says is running at around 19%, despite what the official CPI figures say, resulted in a 29% jump in production costs

Msauli also faces some heavy capital commitments if management decides to go ahead with a plant to recover asbestos fibre from the tailings dump. That will cost about R4.5m this year, in addition to normal capex of R2.8m, with another R1.5m budgeted for environmental rehabilitation. This full

GEFCO SLUMPS

12 months to Dec 31	'89	'90
Turnover (Rm)	98.5	108.1
Pre-tax profit (Rm)	30.8	9.2
Attributable (Rm)	23.7	8.7
Earnings (c)	66.1	24.4
Dividends (c)	22.5	8.0

amount can be funded internally, but at the cost of heavy pressure on the dividend. Hart says options for funding the proposed plant are being considered. Whatever decision is reached, he is forecasting lower earnings for 1991

The two companies now jointly control the Von Brandis gold mine, with 50% each, after buying out former partner Phelps Dodge. However, a decision to start operations has been further delayed because of the gold price

Hart says the feasibility study for the mine was based on a gold price of US\$400/oz and a milled production rate of 4 000 t/month. For the mine to be feasible at current gold prices, production would have to be boosted to about 5 000 t/month, but insufficient ore reserves have been developed to maintain that rate. If the gold price remains where it is, commissioning will only take place once sufficient development has been completed

In another move aimed at diversifying from total dependence on asbestos, Gefco has acquired control of the Annandale Colliery near Newcastle. The mine has a contract to supply about 100 000 t/year of washed duff coal to one of the coal majors exporting through Richards Bay. About R4m is being spent on the construction of a washing and sizing plant and Hart says the mine should make annual taxed profit of about R3m

Gefco's interest will be between 51% and 86% depending on whether certain third parties, which Hart will not name, exercise options to participate

Brendan Ryan

D&H compensates for expected lower earnings

By Ann Crotty *Star 25/7/91*

A special dividend of 40c a share should help to sustain shareholders' support for Darling & Hodgson and counter the dampening effect of a downward revision for earnings in financial '91.

Results for the six months to end-February see a sharp 20 percent drop in earnings to 38,1c (47,6c) a share. The ordinary interim dividend was held at 10,5c a share.

The interim performance was hit by an unexpectedly sharp decline in demand for the group's products. (The group supplies products to the construction and building industries.)

As the directors note, at the year-end in August '90 it was forecast that earnings for financial '91 would be approximately 10 percent below those of financial '90. But "in the light of prevailing conditions in the markets served by the group and the payment of the special dividend, it is expected that earnings for the year will be of the order of 15 — 20 percent lower than last year."

The special dividend, which will cost R25,95 million, is expected to reduce future annualised earnings by approximately 3,6c a share.

Cash balances at end-February '91 have more than doubled to R54,6 million (R22,8 million) and

represented 14 percent of the group's total assets.

The tough trading conditions and D&H's cash-rich situation makes it an ideal time for the group to buy up assets. But according to the directors, although they have been looking for acquisitions over the past few years few have met the group's strict criteria. This, and the disappointing earnings performance presumably prompted the special dividend payment.

Despite the special dividend payment the group still has a very strong financial structure and is in a position to make an acquisition of at least R100 million.

During the review period, turnover was down 3 percent to R288,3 million (R297,7 million), pre-tax income dropped 12 percent to R44,7 million (R51 million), the tax rate was up from 33 percent to 40 percent, there was a reduction in earnings attributable to outside shareholders, and attributable earnings were down 20 percent to R24,7 million (R30,8 million).

Assuming a 17 percent drop in earnings, the full year earnings figure would be around 80c a share. At its current price of 550c the share is on a prospective price/earnings rating of 6,8 times.

Cash-flush D&H pays out a special dividend

By day 25/3/91
MARC HASENFUSS

DARLING & Hodgson (D & H) reported a 20% drop in interim earnings on the back of a fall in demand for building materials, but shareholders will be rewarded with a 40c special dividend

Earnings for the Malbak-held group slipped to R25,7m (R31m) or 38,1c (47,6c) a share for the six months to February 1991

Turnover declined a slender 3% to R288m (R298m), while the the group's tax rate increased to 40,2% (33,1%), pushing taxation up 6% to R18m (R17m) following the absorption of past assessed tax losses

The interim dividend was maintained at 10,5c a share

Pipe manufacturer Rocla and Blue Circle's materials division were hard hit by falling demand, while the Lock division performed well and the de-

cline in Blue Circle's cement business was less than anticipated D & H holds a 42% stake in Blue Circle

MD Richard Bruyns pointed out that, while earnings were down 20%, a direct comparison with the previous interim period was not valid. The 47,6c a share earned last year included an exceptional profit of 3,3c a share on the sale of a block of land from the Midrand Joint Venture and an assessed loss benefit of 3,4c a share

On a comparable recurrent basis the earnings adjust to 40,9c, a drop of 7%

No further income had been taken from the Midrand Joint Venture, and sales continued at reasonable levels

Cash-rich D & H will pay shareholders a special 40c a share dividend from its cash balance which totals R54,6m

Bruyns said, in the circumstances, shareholders might be able to do more with the cash in the short term than the group could "We have built up substantial resources over the past three years to help fund expansion and possible acquisitions"

He said the group had explored a number of promising opportunities of which a few met D & H's strict acqui-

sition criteria

"We have taken a policy decision to remain focused within our areas of expertise. Given these qualifications, we have reached the position where our cash resources considerably exceed any anticipated requirements"

He said the group could easily make an acquisition of R100m after paying the special dividend

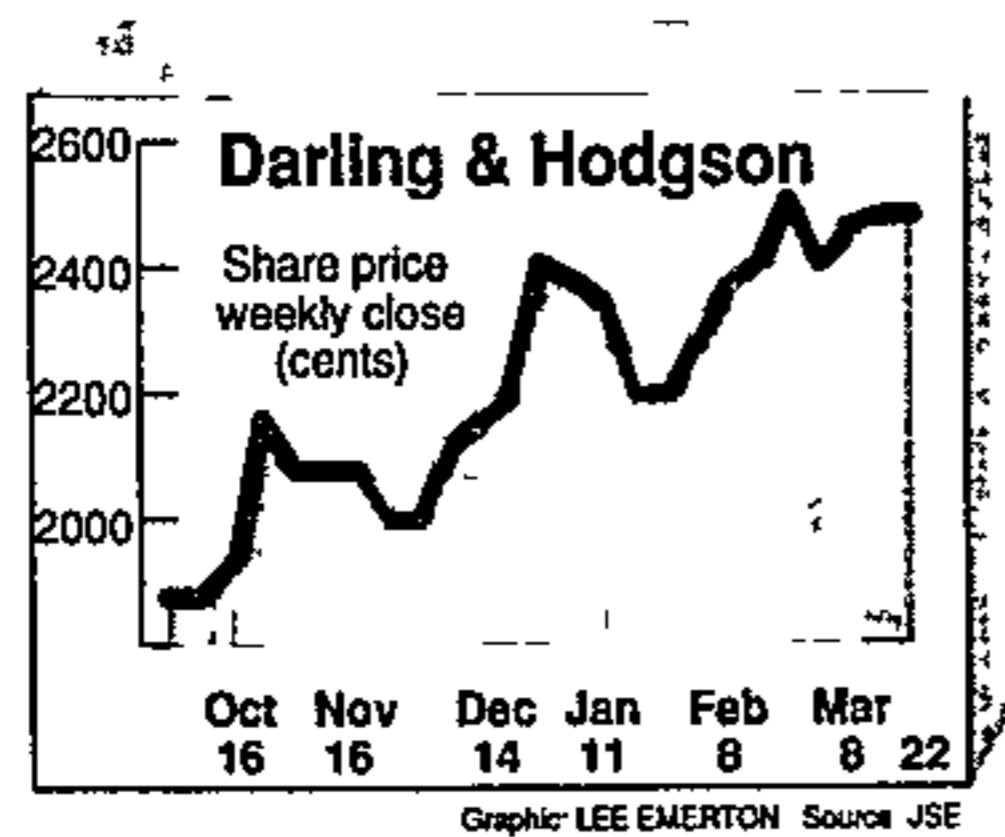
Looking ahead, Bruyns said the effect of the harshening recession on demand for group products, and the payment of the special dividend, had led to directors revising their forecast for the year from a 10% decline in earnings to between 15-20%

Level

The forecast took into account the significant increase in tax rate and the forecast decline was in fact only about 10% when compared with the equivalent fully taxed earnings

D & H shares are priced at 550c, at which level the historical earnings and dividend yields are 17,7% and 5,8% respectively, compared to the actuaries index yields for the industrial holdings sector of 7,9% and 2,6%

The share bottomed at 370c in October last year, but climbed 25c to its current 550c high last week



Masonite pins hopes on lower interest rates

Alan Wilson
27/3/91. MARC HASENFUSS 193
A LOWERING of interest rates this year could favourably affect Masonite's second half earnings, said chairman Alan Wilson in his annual review

The export market would remain difficult and dependent on the rand's value against major currencies

Cost containment programmes would continue, and Wilson expected savings from the new R11m refiner at Masonite's Estcourt factory to have a positive effect

Wilson said increased spending on schools and housing should benefit Masonite and its subsidiary, Ezebilt

He said products had been developed which could help to alleviate the crises in these areas, but stressed that less traditional building and finance methods needed to be accepted

New products had been developed for the construction industry, and the temporary housing and school markets

held great promise once the economic and socio-political environment improved, Wilson said

"We believe that the nineties will bring considerable opportunities and it is imperative that new products are introduced timely."

The afforestation of newly purchased land 30km from Masonite's factory would result in transport costs savings, he said



● WILSON

Despite a 19% increase in export levels, oversupplied markets in Europe and the Pacific Rim countries put pressure on prices, causing Masonite's earnings to fall 22% to R7,4m (R9,5m) or to 108c (140c) a share for the year to end December 1990

Only processed granite paid well, results show

Bloom 28/3/91

193
ROBERT LAING

ONLY beneficiated granite offered good profit last year, according to the results of two quarry groups.

Minaco Granite & Marble, SA's major producer of dimension stone slabs, fared better than Kudu Granite, which only quarries. However, both results showed the expected upturn in the granite market failed to arrive.

Low demand for grey Rustenburg granite, poor recovery grades and high rainfall pushed Kudu into the red in last year's December quarter. The group made an attributable loss of R1,7m compared with earnings of R971 000 in the previous quarter.

Kudu's take-over of troubled Aurora Granite increased its turnover by 31% to R8,7m in the last quarter, but its operating profit of R1,6m fell to a loss of R867 000. The group passed its interim dividend, showing a loss of 3,9c a share for the six months to end-December (results were not

published for the same period in 1989)

MD Peet du Toit said a substantial price increase for Rustenburg material had been accepted from major customers and overseas volume requirements looked encouraging, so the group should return to profitability in the six months to end-June.

The forecasts management made at Minaco's listing in April 1990 were saved by its beneficiation division — the contribution from its quarry operations was R0,7m below expectations.

The group declared a dividend of 3,5c for the 10 months ended December and earnings per share were 17,4c (20,8c annualised).

Directors said large export orders were coming in for blocks and processed products, local orders for beneficiated material remained high and they were confident of increased activity in the coming year.

BLUE CIRCLE FM 29/3/91 (193)

CLOSING THE RATING GAP

Activities: Manufactures and supplies building and construction materials as well as engineering products

Control: Blue Circle Industries Plc and D&H each hold 42,4%

Chairman: T G Coulson, MD G D Hardy

Capital structure: 27,6m ords Market capitalisation R606m

Share market: Price 2 200c Yields 5,2% on dividend, 13,0% on earnings, p e ratio, 7,7, cover, 2,5 12-month high, 2 200c, low, 1 250c Trading volume last quarter, 73 000 shares

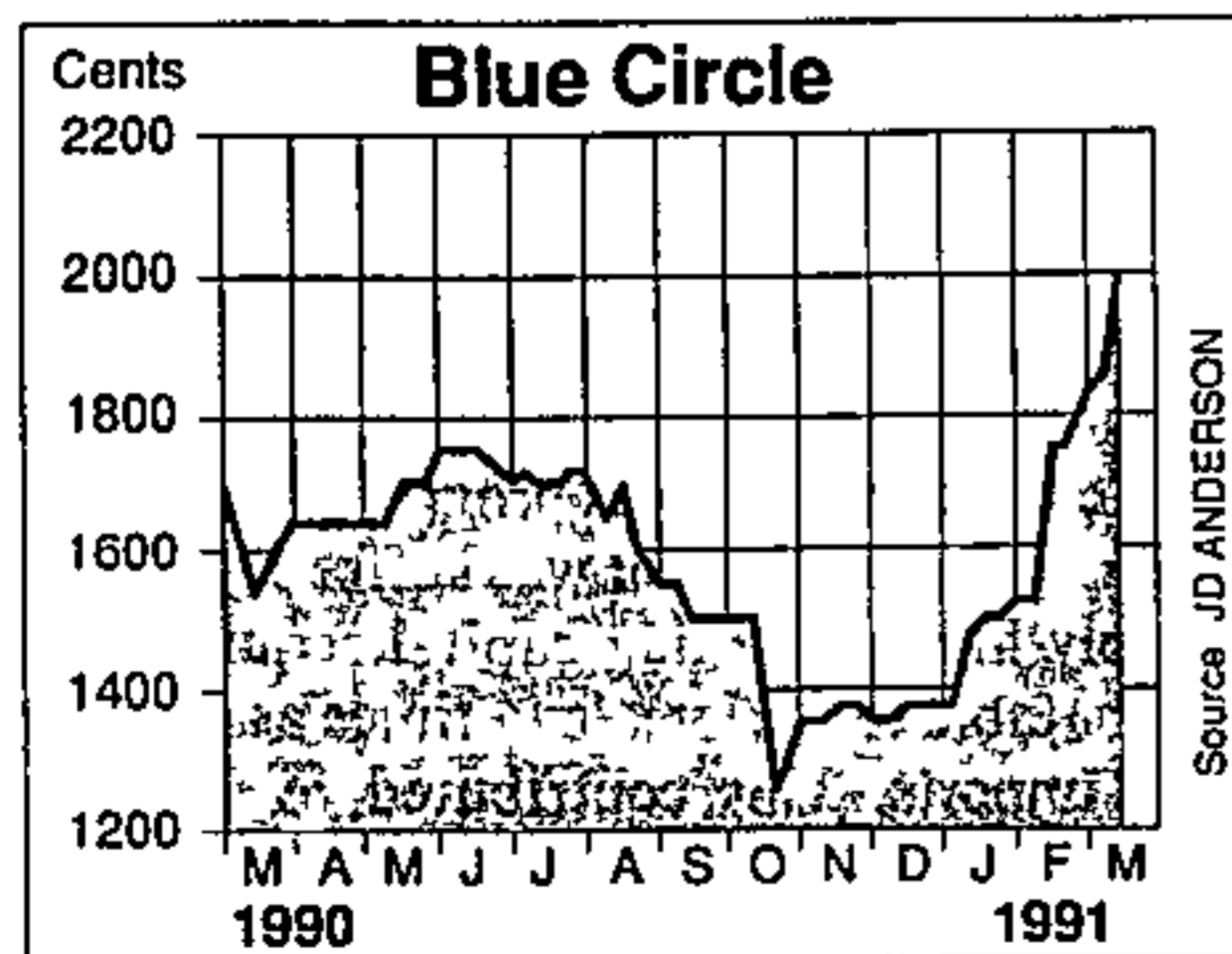
Year to Dec 31	'87	'88	'89	'90
ST debt (Rm)	37,5	43,3	48,8	3,7
LT debt (Rm)	74,7	41,2	9,1	42,3
Debt equity ratio	0,44	0,14	0,09	0,05
Shareholders interest	0,50	0,61	0,68	0,72
Int & leasing cover	3,9	6,3	16,9	17,2
Return on cap (%)	16,7	19,8	18,7	17,0
Turnover (Rm)	378	527	741	776
Pre-int profit (Rm)	72,6	110,2	126,9	119,0
Pre-int margin (%)	25,9	20,9	17,1	15,3
Earnings (c)	151,2	305,5	329,8	385,2
Dividends (c)	50	100	110	115
Net worth (c)	755	1 129	1 315	1 472

* On basis of partial deferred tax

Investors have long rated Blue Circle well behind cement rivals Anglo Alpha and Pretoria Portland Cement (PPC), but the surge in Blue Circle's share price in the past few months — it has climbed 950c since October to a high of 2 200c — appears to indicate a big improvement in market sentiment

The share now stands on a p e of 7,7 and dividend yield of 5,2%. This compares with Anglo Alpha's earnings multiple of 7,0 and 5,4% yield (on a current-cost accounting basis) and PPC's 12,4 and 4,5%

Ironically, Blue Circle's improved status comes at a time when the group has reported its first drop in earnings for five years. All three major suppliers of these products are feeling the effects of the soft cement market. In the year to end-December, attributable income fell 13,5% to R78,6m, while turnover climbed just 4,7% to R776m. EPS slipped but a cut in dividend cover from 3,0 to 2,5 times enabled the board to lift the dividend. Management hopes to arrest the earnings



Blue Circle's Coulson
a cash generator

slide this year but does not expect much, if any, improvement on 1990's performance

The steep rise in the price can be explained, in part, by the fact that the group's results are better than expected at the interim — when attributable earnings were down 14,9% — and, more important, by the way management has responded to declining sales volumes

Recession and the subsequent cuts in construction expenditure by the public and private sectors hurt sales across the board at Blue Circle's cement, materials and engineering divisions. However, the group finds itself in a much stronger position than in 1985, for example, when an 80% plunge in earnings put considerable strain on the balance sheet

In fact, chairman Trevor Coulson says the group's balance sheet has never been better. He adds that the group is asset rich and is a cash generator which can comfortably withstand short-to-medium-term downturns.

A look at the balance sheet seems to support Coulson's view. Gearing is down to a modest 5%, net borrowings were cut 44,5% to R23,3m — with most of the interest-bearing debt moving from short-term to less expensive long-term liabilities — and interest and leasing cover improved to 17,2 times. Working capital continued to be held to below 14% of turnover.

Though the group looked to improved efficiencies and rationalisation — as well as capital expenditure curbs — to counter the effects of falling sales, productivity still suffered. Return on shareholders' funds fell from 27,3% to just above the group's minimum target of 20% and return on gross assets employed slipped from 24% to 19,5%. Operating margins continued to shrink and

averaged 15,3% against 25,9% in 1987

The main culprit was the materials division that supplies aggregates, ready-mixed concrete, mortars and plasters to the construction industry. While the cement and engineering divisions managed to increase, in rand terms, their contribution to group earnings, income from the materials operations slumped 32,6%. Its contribution to group income before interest and tax dropped from 40% to 29%, with cement accounting for 55% (46%) and engineering 16% (14%).

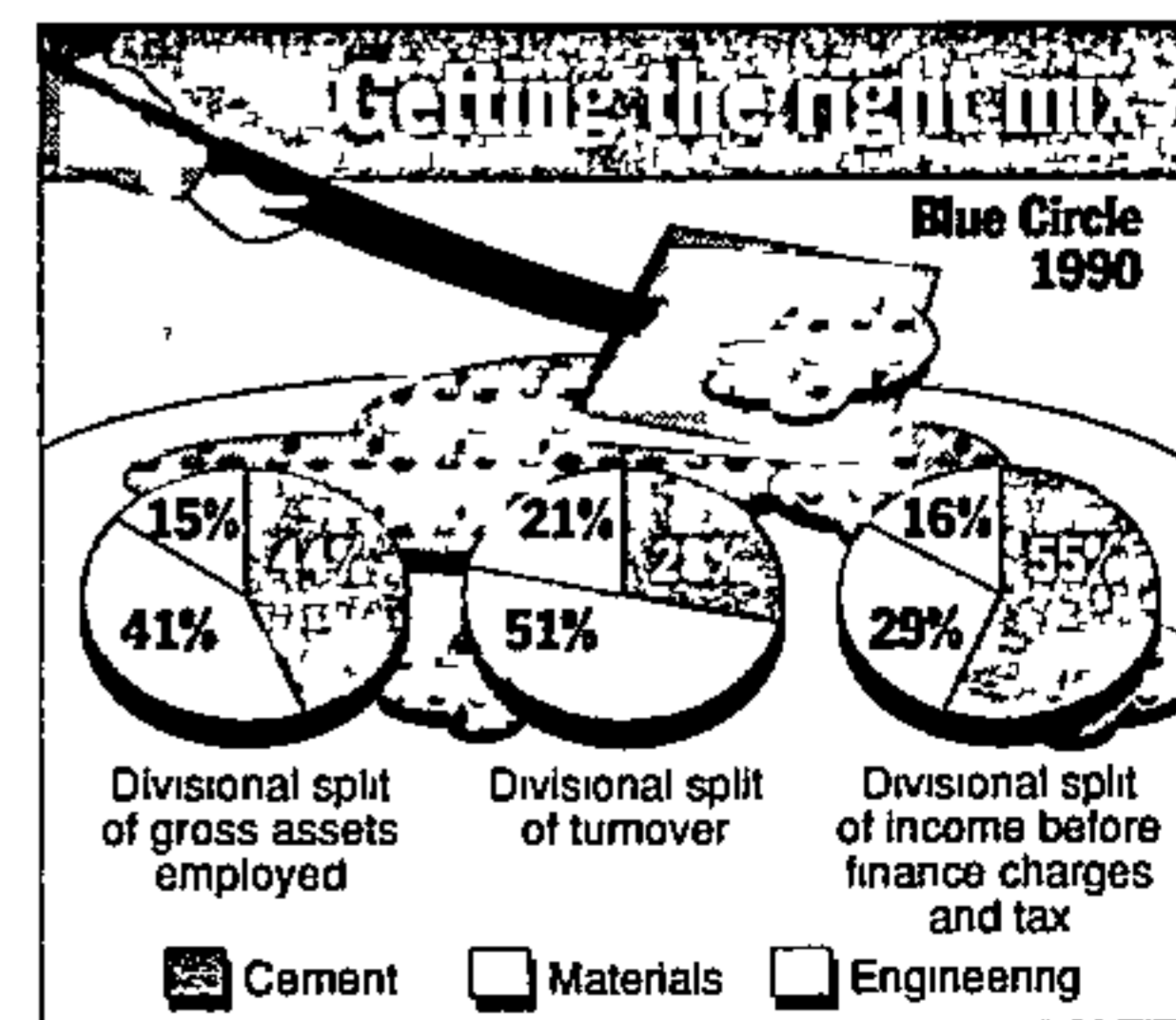
Group MD Graham Hardy expects sales volumes, particularly in the materials division, to continue to decline in the current year, though less steeply than in 1990. He acknowledges that, to sustain earnings, further rationalisation and improved efficiencies will have to be achieved.

Hardy adds that the materials division should glean further productivity benefits from rationalisation brought about by the merger with Murray & Roberts' aggregate business in 1989. Costs incurred as a result of closures and lay offs will be absorbed in the current trading year.

Hardy estimates that the materials division is operating at 60% of capacity with the cement division working at 70% and engineering about 75%. Despite this, the group is to go ahead with a major expansion of its cement operations that is budgeted to cost R235m in the next three years. A delay in this spending programme — it was due to begin last year — was one of the reasons why the group's effective tax rate rose from 22,6% to 28,8%.

The expansion will not only increase capacity but also improve the flexibility of the cement operation. Capital expenditure this year will climb from R66m to about R85m. This will push borrowings up to between R40m-R50m but, Hardy says, gearing is unlikely to rise above 8%. He adds that the effect on cash flow will be minimal.

The increased capacity of Blue Circle's



Continue →
P.T.O.

PGSI's arm in Oz rakes in cash

By JULIE WALKER

PGSI's Australian associate, O'Brien Glass, has made big bucks out of a quid pro quo deal with Pilkington.

O'Brien has bought Pilkington's automotive glass business and building glass consumer outlets in Sydney, Melbourne and Brisbane

It has sold to Pilkington its building glass wholesale operations

O'Brien will no longer make safety glass for buildings. But it will still make windcreens for the replacement market

After provisions for rationalisation costs, the deal will generate a net positive cash flow of R58-million to O'Brien. Its profits should grow and borrowings fall.

5/7/93
3/1/91
Niche 193

PGSI has focused on the niche of replacement automotive glass in its other foreign operations

Last May the group concluded a similar deal in the UK when the building glass interests were sold at a premium and automotive glass outlets bought.

PGSI has 650 automotive glass replacement outlets in Europe, America, Australia and Southern Africa. Their turnover is R1,5-billion a year.

Chairman Ronnie Lubner is confident of achieving excellent returns and high profits. The share price is R57, well above the September low of R33,75, but R7 off the peak of a year ago.

Genmin, Keeley pool granite interests ¹⁹³

ROBERT LAING

GENMIN and Keeley are to pool their granite interests

A deal struck between the two mining companies combines their granite interests while expanding Genmin's Impala Platinum's (Implats) mineral rights and guarantees Keeley's stevedore subsidiary work *8 (Day 31491)*.

The two groups said in a statement today that Genmin had acquired 28% of Keeley and 14% of Keeley's holding company Kelgran for R94,8m plus 28% of the Transkei Pioneer Mining Company (TPC)

In terms of the deal, Kelgran has sold Bafokeng Minerals' platinum prospecting rights to Genmin for R7m

The deal also gives Genmin the right to acquire control of Keeley after five years

Keeley Group CE Fred Keeley said last night "The agreement gives us a very strong partner to help us remain SA's largest granite producer. Pooling our interests with Genmin will let us develop the industry further"

The deal allows for extensions in both companies — Implats gains Bafokeng Minerals' platinum rights while Keeley shares Genmin's granite interests

A further advantage is that Genmin will use Keeley Stevedoring to load its base minerals at Durban docks, Keeley said

The agreement would have an insignificant effect on the net asset value of Genmin, Keeley or Kelgran shares, the statement said

Inflation sends Masonite's costs spiralling

By Des Parker ~~5/14/91~~ 4/14/91

Inflation pushed operating costs to unacceptable levels last year, says Masonite chairman and managing director Alan Wilson in a comment on the building group's 23 percent fall in earnings last year.

He says in the annual report for the year to December 31 that the combination of inflation and recession, both at home and abroad, lay behind the decline for the US-controlled manufacturer of mineral-fibre ceiling board.

Although turnover rose 11 percent, to R113,09 million (R102,01 million), the reduced earnings meant shareholders

saw their dividends cut by 28 percent to 43c a share from 56c last year.

The increase in borrowings, to R7,93 million, resulting in a rise in interest of R1,66 million over 1989, was to fund purchase of a new refiner plant for the Estcourt mill and the afforestation of land acquired the previous year.

Total capital expenditure was R16 million.

In spite of a heavy decline in demand from some distributors, Masonite's sales fell only two percent from the 1989 level.

Exports provided an important alternative outlet — sales abroad rose in volume by 19 percent — although they were

limited in Europe and Pacific Rim countries by timber surpluses there.

While production was not lost at any Natal facilities as a result of civil violence, it did cause raised fatigue and stress levels among workers.

Stayaways

However, at the group's Ezibit Products subsidiary, which is based in Pretoria, stayaways led to several days' production being lost.

Nevertheless, the effect of high interest rates and unrest were offset by sound management, which resulted in sales rising by a total of 13 percent.

193

"Afforestation of newly purchased land within 30km of the factory continued throughout the year. The significance of this will be felt in future years because of the savings in transport costs."

Prospects for this year depend on interest rates — which have been lowered since the report was written — and the exchange rate of the rand against major currencies.

While greater spending on schools and housing should benefit the group — several products have been developed specifically for these areas — "less traditional building and finance methods need to be accepted."

Activities: Manufactures hardboard and related products

Control: Masonite Corp USA 66,7%

Chairman and MD: A H Wilson

Capital structure: 6,8m ord's Market capitalisation R51m

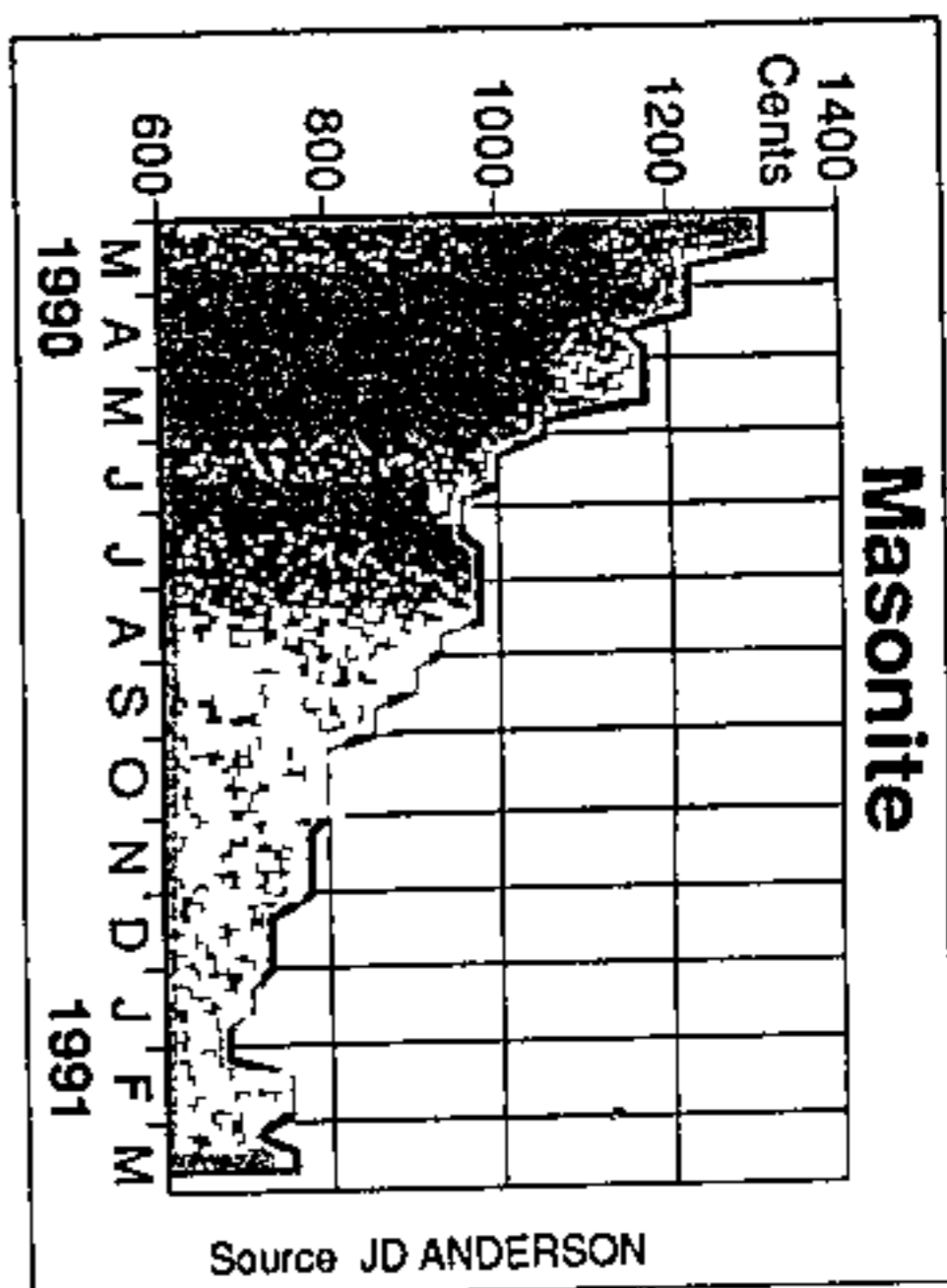
Share market: Price 750c Yields 5,7% on dividend, 14,5% on earnings, p e ratio, 6,9, cover, 2,5 12-month high, 1 175c, low, 675c
Trading volume last quarter, 78 000 shares

Year to Dec	'87	'88	'89	'90
ST debt (Rm)	—	—	2,5	2,3
LT debt (Rm)	0,3	—	5,4	13,6
Debt equity ratio	—	—	0,15	0,34
Shareholders interest	0,59	0,61	0,58	0,53
Int & leasing cover	n/a	n/a	71,8	5,9
Return on cap (%)	18,6	24,9	20,9	12,6
Turnover (Rm)	74,3	90,4	108,0	113,1
Pre-int profit (Rm)	9,5	15,3	15,4	12,1
Pre-int margin (%)	12,8	16,9	15,1	10,7
Earnings (c)	102	134	140	109
Dividends (c)	72	67	56	43
Net worth (c)	457	544	628	694

In a sense, 1991 is going to be a watershed year for Masonite. Since 1988 a lot of money has been spent on enhancing future raw material supplies and upgrading plant and equipment. Now the question is whether the benefits, in reduced costs and improved efficiencies, are going to be enough to offset the costs of the capex programme.

The programme has proceeded with a sort of military precision that is a credit to the group. Main elements have been the acquisition and afforestation of land closer to the Escourt processing plant, and the replacement of four small refiner machines with a single large unit, which has the capacity to meet most of the wood fibre requirements of the two hardboard production lines.

In all, Masonite has spent more than R28m during the past two years. This exceeded the group's book value of fixed assets at the end of the 1988 financial year. That the programme was carefully planned and paced is borne out by the fact that it has been accomplished without hammering the balance sheet. True, net cash resources of R7m



Source JD ANDERSON

at end-1988 have been replaced with net borrowings of close to R16m, but the debt equity ratio is still only 0,34 which, in normal circumstances, would present no problems.

But circumstances now are hardly normal. With local demand sluggish, a greater portion of output has had to be directed to less profitable export markets, which contributed in 1990 to a slide in operating margins from 15,1% to 10,7%, costing Masonite about R5m in operating income. And, with little prospect of this situation reversing in the short term, it can be assumed that profits are going to remain under pressure for the time being.

Then there is the question of interest charges. The new refiner was completed (on schedule) only in November and the borrowings taken on to finance this project have not

yet made their full impact on the income statement. Last year's interest charge of R2m, though R1,8m up on the previous year, still amounted to less than 13% of the year-end debt total. So unless borrowings are reduced — unlikely, as there are still outstanding capex commitments of R9m — it looks like 1991's interest charge could be up to R1m higher than the 1990 figure.

CE Alan Wilson notes that if interest rates come down, this could impact favourably on second-half results, though he was referring largely to the favourable effect on demand for the year as a whole, this is simply likely to relieve upward pressure on the annual interest charge, and will not by itself bring it down.

An offsetting factor is that the group will have the benefit of its new refining plant, said to be capable of producing more consistent quality at lower cost than the four units it has replaced. This will undoubtedly stand Masonite in good stead in the longer term but, as regards the current year, it is asking for miracles to expect that the benefits of this plant will be sufficient to offset current pressure on margins as well as the higher interest burden.

In common with almost every other company, what Masonite really needs is an upturn in the economy. It needs the higher margins applicable locally and a significant upturn in sales to compensate for the much-

DATES TO REMEMBER

Last day to register for dividends:

Friday Apr 12: Assore 200c; Bearman 15c; Engen 42c; Omma 22c; Prosure 33c; Vektra 6c

Meetings:

Monday Apr 8: HLH (S) (Sandton);

Metpol (Cape Town)

Tuesday Apr 9: Asseng.

Wednesday Apr 10: Drop-Inn (S) (Cape Town); Nu-World (Sandton); T & N (Durban).

Thursday Apr 11: Fedsure.

All meetings are in Johannesburg unless otherwise stated.

S = Special meeting

expanded asset base to restore economies of scale to what they were a few years ago — the deterioration here being reflected in the decline in the asset-turn ratio from 1,5 in 1988 to the current 1,3.

The short-term outlook is reflected in the marked down-rating of the share which, over the past 12 months, has fallen by 40% from 1 250c to 750c. There are indications of support at this level, but a sustained recovery will probably have to wait until the profit outlook clarifies.

Brian Thompson

INTO GRANITE (193)

Genmin's move into the granite business through the acquisition of Keeley Group Holdings (Keeley) and Kelgran should benefit both groups. And this is only the first of a number of developments to come from the group's minerals division.

Genmin will take control after five years of the country's largest granite producer in an industry which SA dominates internationally. Minerals division MD Fred Roux sees this business as one of the few mining fields left in SA with the potential for both overall expansion and to add value through further local beneficiation.

From Keeley's viewpoint, chairman Fred Keeley says the deal links his group with a powerful, large shareholder and solves the problem of ensuring long-term growth of his business after he steps down in five to 10 years.

Granite is totally unlike traditional mining businesses such as gold or ferrochrome, because it involves product differentiation and consumer taste. The decorative aspect of the material is important, meaning factors like attractiveness and quality of the stone as well as consistency of colour, are crucial to the

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continue →

FOX

FM 12/4/91

(193)

business

Roux freely admits these are aspects about which Genmin knows little. That's why Keeley retains control for the next five years, during which time he will train Genmin executives in the business.

After five years, Genmin will buy another 2% of the shares held by Keeley Trust, thereby gaining control of Keeley Group and Kelgran. Fred Keeley says his options at this stage on staying in the business and keeping his remaining shares are flexible.

The Genmin executive most closely involved with the Keeley operations at this stage is Minerals Division senior manager Tom Dale. He says the international market for raw dimension stone in 1989 was some 30 Mt, worth between US\$3bn and \$4bn, of which granite accounted for 40% compared with only 10% some 20 years ago.

"We see this market penetration by granite continuing, while further beneficiation through cutting and polishing the material locally could increase the value of the business for us by up to sixfold," he says.

But, with Anglo American Corp already involved through Impala Granite, what's to stop granite going the same way as ferrochrome, vanadium and gold into oversupply and recession?

"Production differentiation," is Roux's answer. "Fred Keeley has identified and acquired the best quality granite reserves in the country and this, with his intimate knowledge of the changing market, is what will count."

Genmin is paying R94,8m for 49% of the Keeley Trust's controlling stakes in Keeley Group Holdings and Kelgran and is giving the trust an effective 28,1% stake — worth R13,6m based on historic cost — in granite company Transkei Pioneer Mining (TPM). Genmin bought 75% of TPM last year.

Roux says this gives Keeley equal stakes in both TPM and his own granite operations, which means there is no conflict of interest in where the profits come from. TPM will be merged with Keeley at an unspecified later stage when it is running profitably.

Roux calculates that, on the historical cost of TPM, Genmin paid a net price of 528c a Keeley share to acquire control. This represents a premium of 10% on the current market price of 480c. The remaining 2% will be bought at the market price in five years time and an offer to minorities will then be made at the market price.

Roux indicates this is the first of a number of minerals projects that Genmin is working on but declines to provide further details at this time.

Brendan Ryan

Italtile is hit by recession in building

(Bus/T) S/Times 14/4/91

193

CERAMICS group Italtile is barely holding its ground under the weight of the severe recession in the building sector

A fall in sales volumes halted the strong turnover growth which has marked Italtile's progress since its listing in August 1988

Group turnover increased 10,2% in the year to February 28, a decline in real terms

In spite of low margins caused by cut-throat competition and more difficulty than expected in the commissioning of plant, the fall in operating profit was limited to 3,3% — down from R23-million to R22,3-million

Earnings fell 18% from 92,9c a share to 76,1c, largely because of higher interest payments. But the total dividend has been maintained at 18c, and is still covered 4,2 times

Executive chairman Gianni Ravazzotti says the building industry has always been cyclical

By IAN SMITH

"To some extent we have been cushioned from the worst effects by an increase in the number of alterations and additions, which generally call for our products

"But there is no doubt that the larger size of the group has exposed us to more of the downturn's effects"

Mr Ravazzotti is confident that Italtile is holding the market share it seeks

Technology

Through the difficult trading period Italtile completed a major expansion programme involving an investment of R40-million. Net borrowings are up to R16-million, but the debt-equity ratio is a reasonable 17%

"We are happy with that level, and we have no plans for more borrowings," says Mr Ravazzotti.

"We are a conservative group and an asset management programme introduced during the year has produced good results through the stabilisation of stocks and better debt collection"

Commissioning of plant at Babelegi has brought about the largest ceramic tile factory in SA. It uses the latest European technology and production is close to capacity.

Mr Ravazzotti forecasts another decline in the real value of buildings completed in the current year. He says there will probably not be any real growth in turnover

Italtile, however, hopes to maintain margins and earnings

Blue Circle group biding time

Star 22/4/91

Declining sales volumes put the reins on Blue Circle's performance in the past year and a continuation of reduced capital expenditure is expected to have an adverse impact on this year's results

However, in the annual report, chairman Trevor Coulson points out that the company is asset-rich and is a high cash generator and can comfortably withstand short-to-medium-term downturns

He says the group is budgeting for maintained earnings in 1991

As far as longer-term prospects are concerned, growth in the mass housing sector, together with its supporting infrastructure, will translate into increased demand for construction materials

The group has under-utilised capacity available to meet such demand, he says.

The main business of Blue Circle is the manufacture and supply of basic materials to the construction and building industry

It also manufactures and distributes engineering products.

In the past year, the cement division accounted for 55 percent of group operating profit, while the materials division accounted for 29 percent and engineering for 16 percent

The major shareholders are UK-based Blue Circle Industries and JSE-listed Darling & Hodgson, each with holdings of 42,4 percent of the equity.

In the year to December, group turnover increased five percent from R771 million to R776 million, while operating profit dropped six percent from R126,9 million to R119 million

Diagonal Street

LYNNE PEACH

193

because of poor performance in the materials division

After an eight percent decline in finance charges from R7,5 million to R6,9 million, pre-tax profit fell six percent from R119,4 million to R112,0 million

Exhaustion of assessed losses in the cement division contributed to the effective tax rate rising from 22,6 percent to 28,8 percent

A further marginal increase in the effective tax rate is expected in 1991

The increased tax resulted in taxed profit falling 14 percent from R92,4 million to R79,8 million

After taking into account minority shareholders' interest and attributable income from associated companies, profit attributable to ordinary shareholders amounted to R78,6 million

This was 14 percent lower

than the previous year's profit of R90,9 million

Earnings per share retreated from 329,8c to 285,2c

The dividend for the year rose five percent from 110c to 115c

The balance sheet discloses a significant reduction in net borrowings from R42,1 million to R23,3 million

As a result, gearing improved from 9,1 percent to 4,6 percent

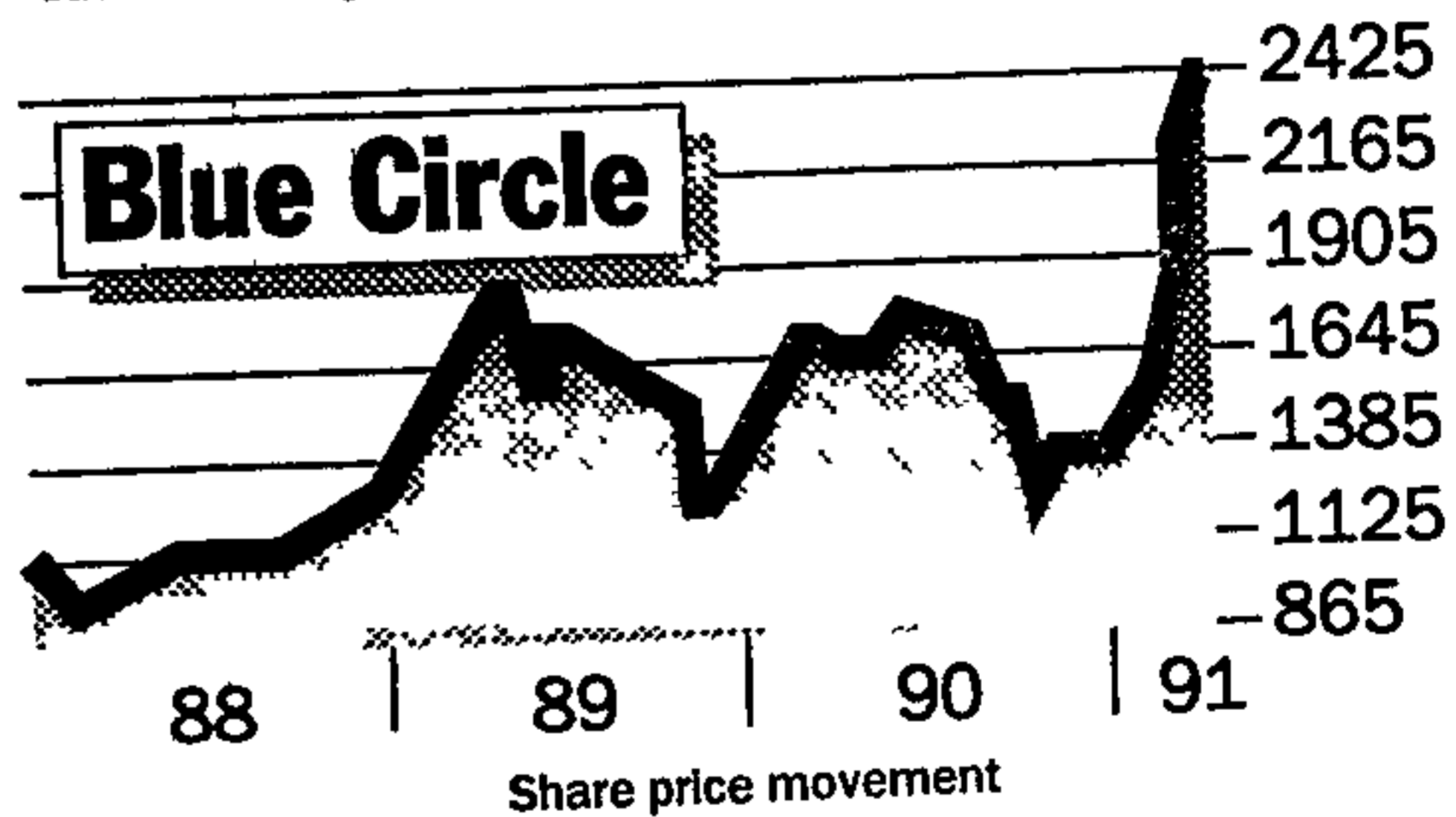
Net asset value appreciated 13 percent over the year from R13,20 a share to R14,93

Blue Circle, priced at R24,25, is trading on a P/E ratio of 8,5 and provides a dividend yield of 4,7 percent

Longer-term prospects for the financially sound group are attractive and shareholders are advised to hold on to their shares

COMMENT Blue Circle's share price found support at R12,55 in the last quarter of 1990 and proceeded to escalate to its current level of R24,25

Although the uptrend remains intact, the share is looking very overbought, which means some price correction may occur



Clemitson resigned CE post

A REPORT published in Business Day on April 12, and headlined "Clemitson dismissed from top Abacus post", stated that ex-CE of Abacus Mike Clemitson had been dismissed and relegated to the position of non-executive director (193)

Clemitson and Abacus chairman Trevor Coulson says the report was factually incorrect. In a statement, Coulson says that Clemitson resigned from

BRENT VON MELVILLE

Business Day 26/4/91
the company in 1990, but was asked to remain in his executive position until the end of February 1991

Coulson says he then invited Clemitson to retain his association with the group as a non-executive director, which is his present position. Business Day apologises for the misinformation

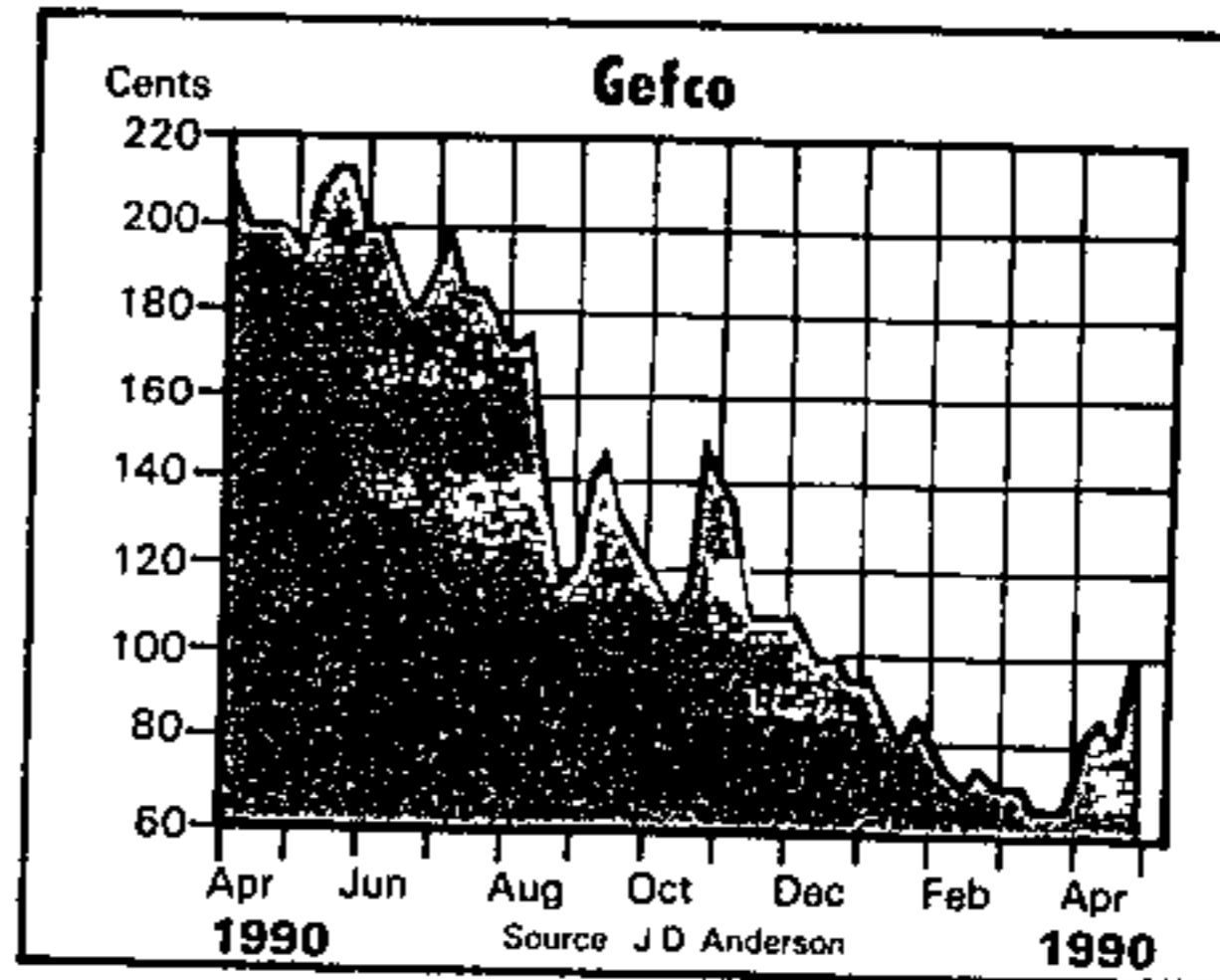
R25m orders for Marlin

GRANITE producer Marlin group has won orders worth R25-million. The listed group's recently acquired subsidiary Marble Pentelic has been awarded contracts in SA

Sunday Times (Durban)
for cladding and flooring worth R18-million. They include the new NBS head office in Durban. *S/S/91*
A Canadian subsidiary has won a contract to supply

granite for a construction project in Quebec province. The granite will be supplied from one of the group's quarries in North America.

FM 10/5/91 (193)



Annandale to make profits of R3m annually. Gefco and Msauli now wholly own Von Brandis, after buying out the 50% stake not already held by them from former partner Phelps Dodge. However, the low gold price is delaying the start of production at the mine. The feasibility study was based on a gold price of US\$400/oz and a milled production rate of 4 000 t/month. For the mine to be worthwhile at current gold prices, milled production would have to be increased to 5 000 t/month, but development work so far has not opened up enough ore reserves to support that rate of production.

Hart says the decision to commission the mine is being delayed until sufficient ore reserves are available.

While demand for Gefco's blue asbestos remains firm, Hart expects to lose markets in the Far East for its amosite product because a number of customers using it to manufacture interior panelling have indicated they intend phasing it out in preference for other materials. This decision has forced management to rationalise operations at the Penge mine. Penge had just incurred heavy expenditure to re-open the mine, which had been closed for the past two years. Hart says Penge should make a slight profit this year.

The weakening rand should help profits this year but revenues will be hit by the cancellation of the Category A allowances and the withdrawal of the export marketing allowances early next year. Hart reckons the group will remain profitable in 1991 but whether a dividend will be paid depends on capex commitments.

Gefco has performed well since the management buyout but the outlook for the group in the year ahead appears flat. There is little incentive to buy the share.

Brendan Ryan

GEFCO FM 10/5/91

DIVERSIFYING

(193)

Activities: Mines blue and amosite asbestos. Holds 32,9% of Msauli Asbestos and 50% of the Von Brandis gold prospect.

Control: Directors 48,4%

Chairman: H P Hart

Capital structure: 35,9m ords. Market capitalisation R32m

Share market: Price 90c. Yields 8,9% on dividend, 27,1% on earnings, p e ratio, 3,7, cover, 3,1. 12-month high, 225c, low, 62c. Trading volume last quarter, 1,6m shares

Year to Dec	'87	'88	'89	'90
Turnover (Rm)	64	84	99	108
Pre-tax profit (Rm)	(4.8)	14.7	30.8	9.2
Earnings (c)	(15)	39	66	24
Dividends (c)	—	12.5	22.5	8

After two boom years the country's major asbestos producer came back to earth with a thump in 1990. Several factors combined to hit earnings, including a further erosion of markets by the environmental lobby.


Gefco and sister company Msauli can produce sparkling results when market conditions allow, but the long-term trend for the asbestos business is a declining one. Health concerns will continue to whittle away at the various remaining markets for the material.

In recognition of this, management has been seeking to diversify the group's business. Gefco has now raised its stake in the Von Brandis gold project to 50% and has also bought control of the Annandale Colliery near Newcastle. Plans are to spend R4m on a washing and sizing plant to treat 60 000 t/month of raw coal to meet a contract for washed duff coal negotiated to supply one of the Richards Bay Coal Terminal exporters. Chairman Pat Hart declines to name the exporter concerned. He expects

term investments Liberty Holdings and Livestock are probably the best points of entry
Andrew McNulty

MSAULI Fm 10/5/91

CAPEX DRAG

193 

Msauli's earnings slumped last year, thanks to a combination of mining production problems and stagnant commodity prices. And,

Activities: Produces white asbestos from a mine in KaNgwane Holds 50% of the Von Brandis gold project

Control: Gefco 32,9%

Chairman: H P Hart

Capital structure: 6,45m ords Market capitalisation R20m

Share market: Price 310c Yields 16,1% on dividend, 49,3% on earnings, p e ratio, 2,0, cover, 3,1 12-month high, 650c, low, 250c

Trading volume last quarter, 160 000 shares

Year to Dec	'87	'88	'89	'90
Turnover (Rm)	40.4	57.0	74.1	70.2
Pre-tax profit (Rm)	2.0	11.4	22.4	12.0
Earnings (c)	31.6	177.2	280.7	153.0
Dividends (c)	—	35	75	50

while conditions should improve during 1991, cash flow could be severely squeezed by heavy capital expenditure commitments

Management is considering building a dump retreatment plant to recover asbestos fibre from the mine's tailings dump. This would help to hold down the rate at which production costs are rising as a result of inflation and the greater depth of the mine workings

Chairman Pat Hart says unit production costs soared 29% last year, though this partly reflected the effect of the underground mining problems which caused an 11% drop in production to about 100 000 t

Normal capex for 1991 is estimated at R2,8m. If a go decision is taken on the retreatment plant this could rise to R7,7m. Hart points out Msauli's finances are healthy and the company can fund this full amount internally but at the penalty of heavy pressure on the dividend

That's obviously something to be avoided, and Hart says other methods of funding the capex are being looked at. Cash balances held by Msauli dropped to R4m at end-December from R21,6m a year previously. Msauli now holds a 50% stake in the Von Brandis mine and has contributed a total of R8,4m so far to the project

Hart expects Msauli will get back to normal production rates this year. The quality of the mine's product is such that it has never had any problems selling its full output, unlike Gefco. However, Hart expects export prices to remain flat for a second consecutive year. Prices rose just 5% in US dollar terms during 1990

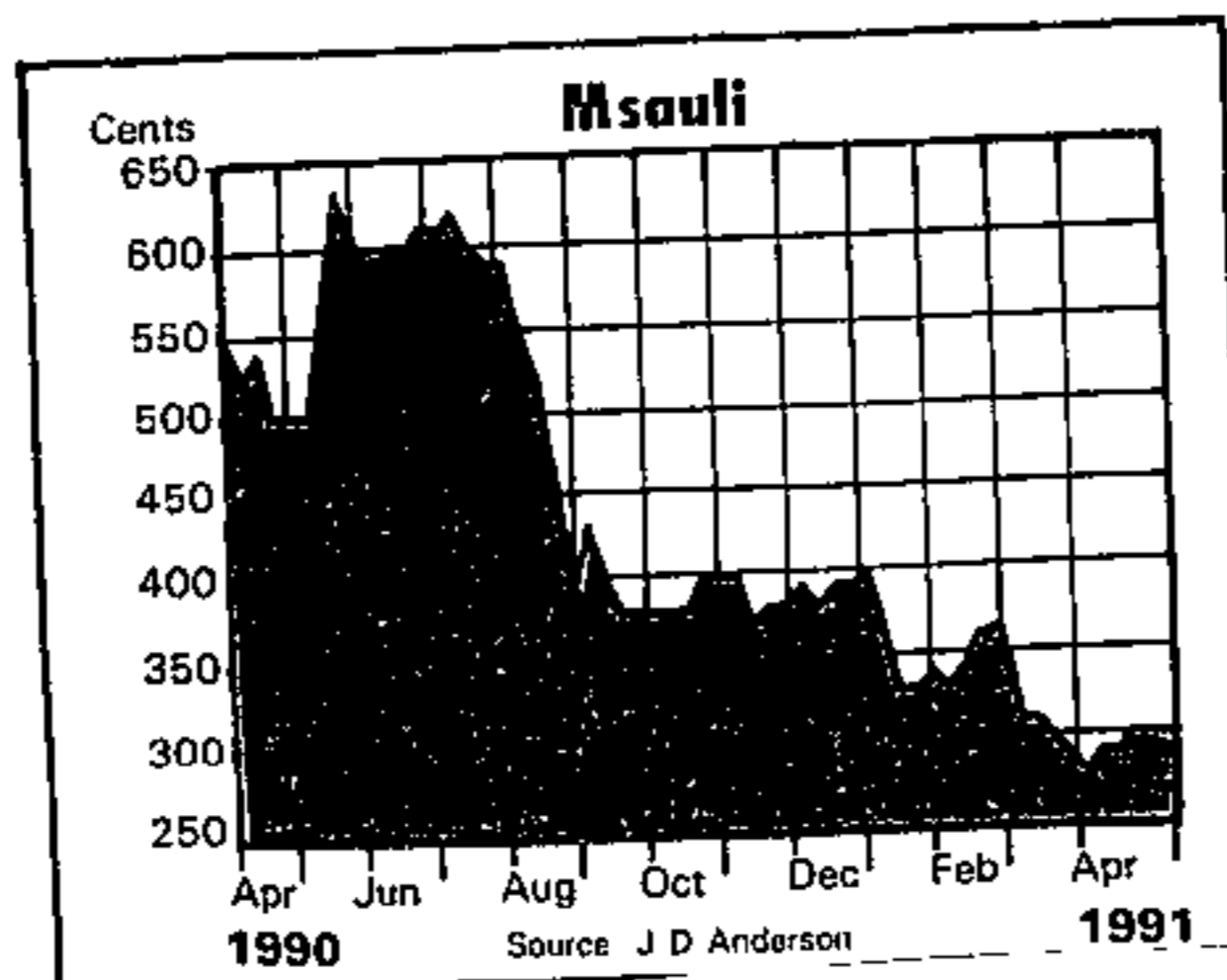
This year's revenues will be helped by the weaker rand which has dropped about 11% against the dollar since January. During



Msauli's Hart export prices to remain flat

1990 Msauli received minimal assistance from the rand because it held its ground against the dollar following the SA Reserve Bank's policy on combating inflation. Like Gefco, the outlook for Msauli is an unexciting 12 months

Brendan Ryan



Reduced⁽¹⁹³⁾ tax burden helps PPC lift profit

By Derek Tommey
Star 16/5/91

Pretoria Portland Cement (PPC), SA's largest manufacturer of cement and lime, has been able to increase its interim dividend by seven percent from 42c to 45c despite difficult trading conditions.

Although pre-tax profit declined in the six months to March, a sharp cut in tax payments resulted in taxed profits rising 7,7 percent.

The company is forecasting that earnings for the full year should show an increase in line with those in the first half.

Turnover in cash terms rose five percent from R358,8 million to R377,0 million.

But this conceals a seven percent fall in the volume of cement sales and a 14 percent drop in the volume of lime sales.

Operating income dropped seven percent to R79,7 million, while investment income fell 43 percent to R6,1 million. Interest income was also down.

Overall

The overall result was that pre-tax profit dropped 11 percent from R96,3 million to R85,8 million.

But a fall in tax payments from R48,3 million to R33,5 million enabled PPC to report an attributable profit of R50,6 million (R47,0 million), equal to 125,7c (117,3c) a share.

Financial director Chris Wroggeman says the drop in tax payments arose from a R2,2-million saving after the lowering of the official company tax rate and substantial allowances on current mining capital expenditure.

The drop in investment income reflects the reduction in cash invested.

Cement sales in the second half of the year are expected to be similar to those of the first half, but lime volumes could show a further small decline.

Capital expenditure in the half year was R34,5 million (R61,4 million), while capital commitments totalled R83,4 million (R117,5 million).

PPC feels the pinch, but earnings are up

(193)

Brent von Melville

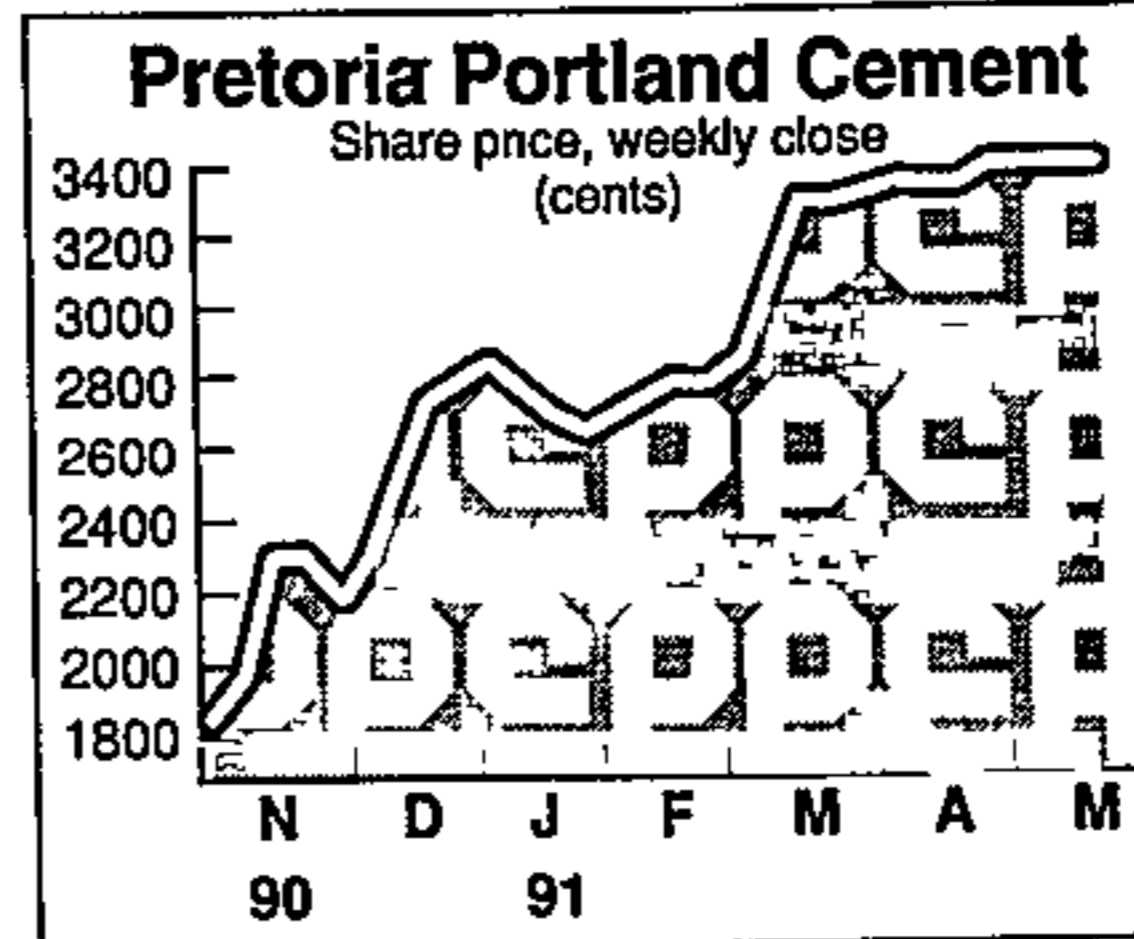
SA's premier cement and lime producer PPC has again thwarted depressed market pressures to post a 7% improvement in earnings to 125,7c (117,3c) for the six months to end-March

The dividend outlay was also raised 7% to 45c (42c). The improvement came on a 5% rise in turnover to R377m (R358,6m) but on a slight decline in operating income to R79,7m (R85,7m), on a 7% decline in cement and a 14% decline in lime volumes

MD Ted Hodgkiss attributed the drop in lime volumes — which accounted for about 25% (29%) of sales over the six-month period — to reduced demand from primary users of lime, which are the steel and gold and uranium producers. Iscor accounts for 40% of lime sales

Net investment income also fell 43% to R6,1m (R10,6m). Financial director Chris Wrogemann said PPC had reduced cash investments as a result of its cashflow position and this had caused a corresponding drop in interest received

The balance sheet showed no cash invested compared to R42m at last year-end while total borrowings increased from R32,5m to R51m, lifting gearing to 9%



Graphic: LEE EMERTON Source: INET

from 6%

Attributable profits were up 8% to R50,6m (R47,0m), helped along by a 31% drop in the tax charge to R33,5m (R48,3m)

Wrogemann said the drop in the effective tax rate arose from the lowering of the official company tax rate, as well as substantial allowances on current mining capital expenditure

Capex for the period amounted to R34,5m and commitments stood at R83,4m. Hodgkiss said that based on present demand, it was unlikely the group would bring its mothballed Dwaalboom factory back on line for "several years"

Whole page

Industrial ceramics

Brittleness the main problem engineers have to overcome

BID 16/5/91 193

TECHNOLOGIES ranging from materials science to micro-electronics, and from aerodynamics to energy supply, have been revolutionised by the development of ceramics, says SA Ceramics Society vice-president Stewart Hart.

The industry is dominated by Japan, the US and Western Europe — with the mancrifion for success being science rather than control of raw materials

Silicon

"Many advanced components are manufactured using ceramic made from a silicon base — in other words, sand

"But although a follower in world ceramics technology, SA has established itself in a number of niche markets, such as electricity generation and mining," he says

Although an ancient skill, ceramics technology has

Fibreglass has made its mark

BID 16/5/91 193

OVER the past decade or so, fibreglass has taken a range of markets by storm, showing such traditional materials as wood and steel into the background

In addition to its high strength-to-mass ratio, it is easy to manufacture and repair, long lasting, corrosion-resistant and requires minimal maintenance

Fibreglass ranks among the least sophisticated of the advanced composites on the market

Entry levels for entrepreneurs are low and returns in this high-bulk market are relatively high

Largely because of this, fibreglass products threatened to fall into disrepute some years ago, when

Construction

The product is also extensively used by the construction industry — as roof sheeting and side cladding, as well as in the construction of hothouses

In the transport industry, its high strength-to-mass ratio has won it favour

APT marketing director

More recently, the increasing sophistication of aerospace technology, coupled with the pressure of the energy crisis, has fuelled ceramics development

"The race is on to produce faster and more fuel efficient aircraft — and in both cases operating temperatures increase beyond the tolerance of most metals

"Ceramics fabrication technology doesn't lend itself to the manufacture of large components — it wouldn't pay

"Where ceramics come into their own is in smaller components and as a lining to pipes and furnaces, as well as in wall and floor cladding where resistance to heat, abrasion or chemicals is a requirement

"Most of the time, ceramics technology complements metals technology more than it competes," he says

Integrity

"Metals can maintain their structural integrity up to temperatures of around 1 000 degrees C — but ceramics can function at 2 000C degrees C and over"

Although the initial cost can be higher than for metal components, thanks to the relatively limited range of applications in use, they are potentially competitive — and even today ceramics can be more cost effective than metals in the long term

The challenge facing engineers and researchers in the ceramics field is brittleness — and to a large extent this problem can be overcome by design

"You can't simply replace a metal part with a ceramic one," says Hart

"It is a completely different technology, with different design criteria

"One advantage to ceramics is their capacity for being moulded to suit the application, so fewer component parts are required"

But, he says, until the problem of brittleness has been overcome the world is unlikely to see the broad use of ceramics that was predicted a few decades ago

"The brittleness factor throws the life expectancy of ceramic parts into question," he says

"That is why we have yet to see a wholly ceramic internal combustion engine — although ceramics are being used as components in some commercial vehicles"

for and against the fibreglass industry

At manufacturing level, far less fuel is needed to produce fibreglass than steel and its inert, corrosion-resistant properties make it ideal for storage of potentially harmful substances

Lightweight

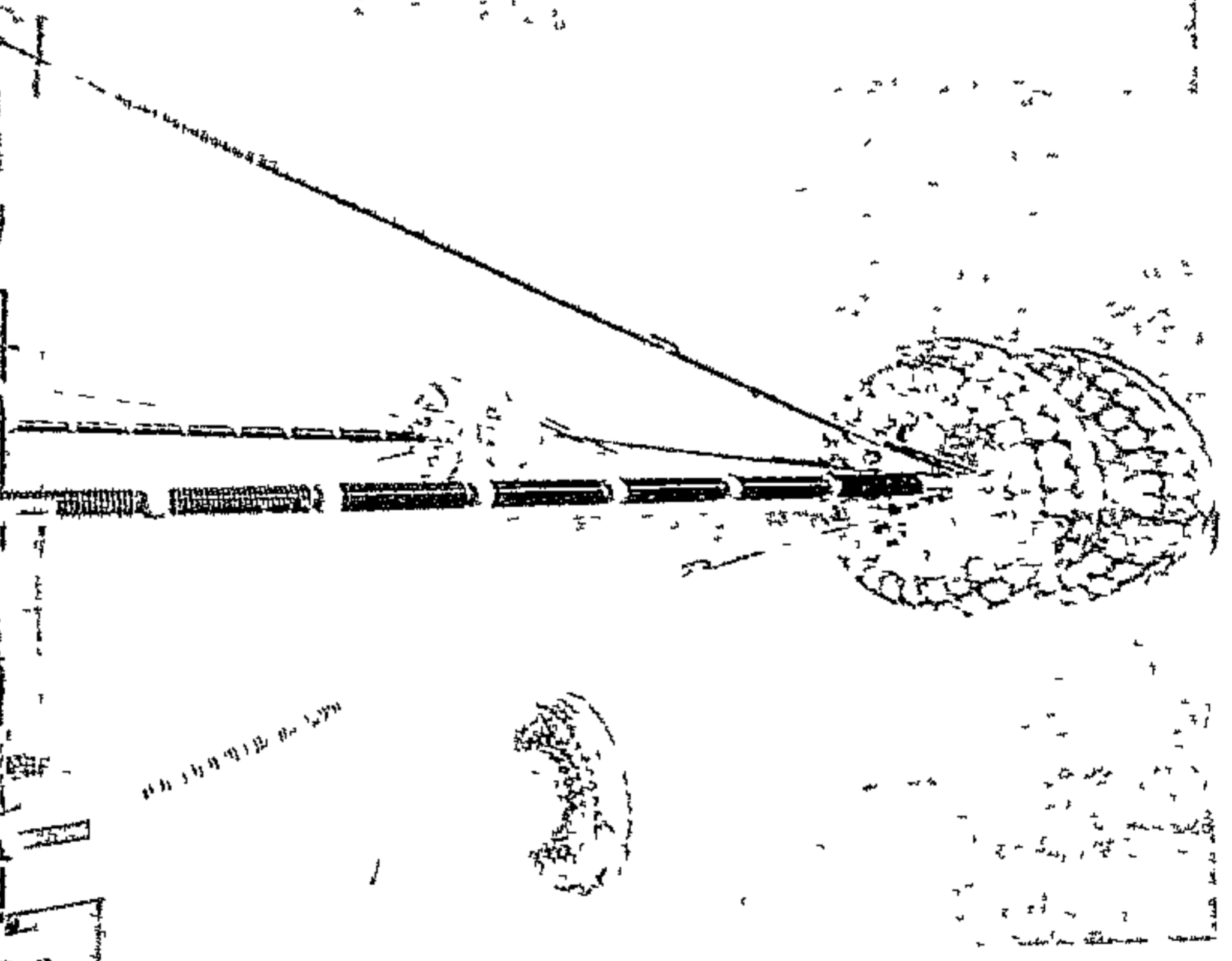
Being lightweight, it could also cut fuel consumption if used in the construction of vehicles

On the other hand, although far easier to repair — and therefore re-use after damage — than steel, it cannot be recycled — a factor that strongly mitigates against its extensive use by the automotive industry

Environmental consciousness could work both

Information technology is set for a boost

BID 16/5/91 193



THE use of ferro-electric ceramics could multiply the information storage capacity of computer memory chips tenfold

In the process, it could bring about a revolution in information technology

This development, which is probably still some years from commercial release, is the latest in a series of parallel advances in micro-electronic and ceramics technology

For years, the two technologies have progressed hand in hand — and today an estimated 80% of ceramics components on the world market are linked in some way to electronics

CSIR sensor systems programme manager Andre Neppen says "Ceramics technology has opened up new fields and enhanced the performance of established systems

Capacity

"Two characteristics make functional ceramics especially useful

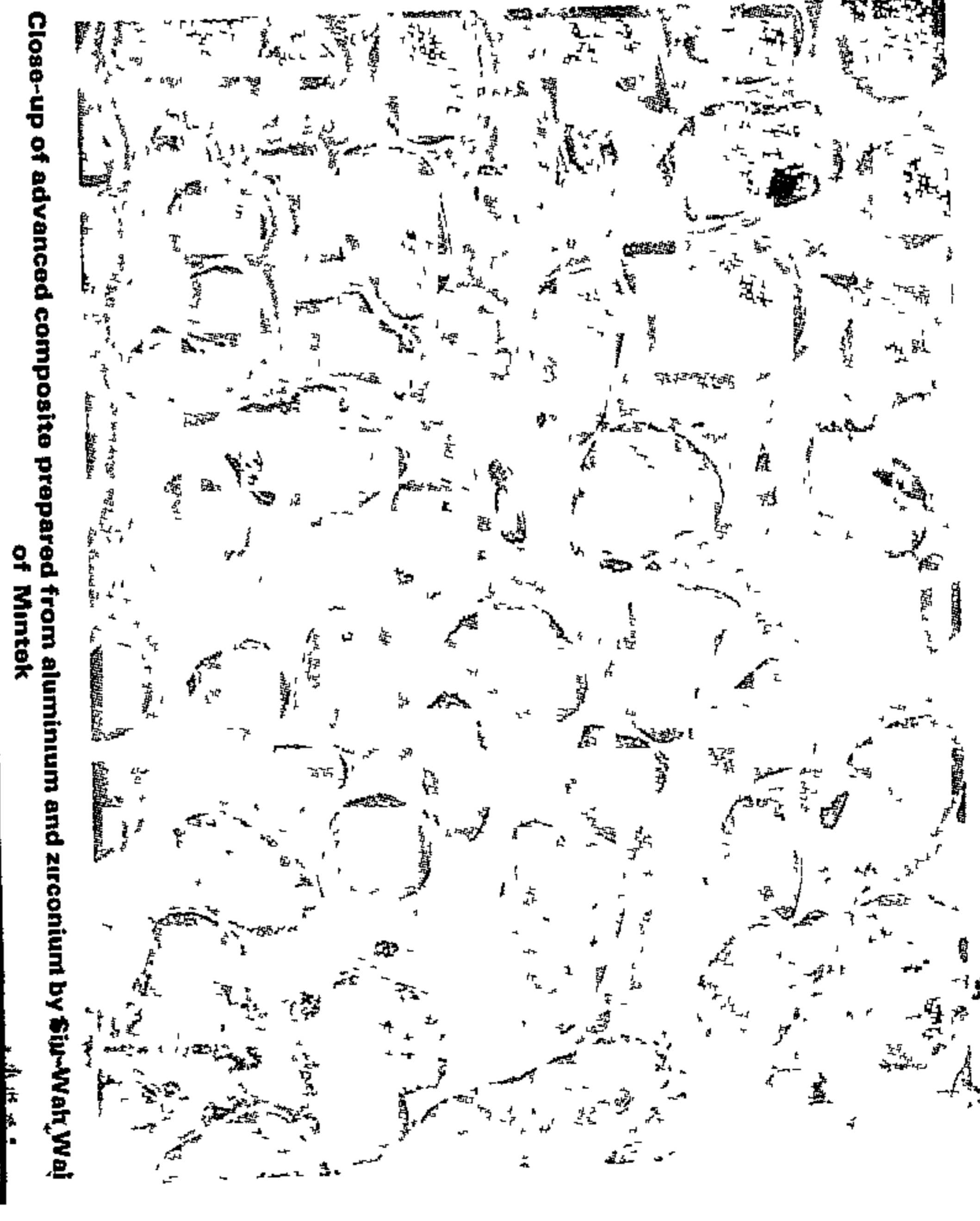
"Firstly, they can be manufactured to high tolerances due to their capacity to be moulded and machined

"Secondly, they offer high efficiency in energy conversion"

Their characteristics set them apart from alternative materials, he says

"No other material suitable for the manufacture of, for instance, capacitors or acoustic and ultrasonic sensors, has the same combination of properties

"It is also valued as a substrate in memory chips, where its dielectric qualities — giving it capacity to protect the other components from contamination as well as insulate and store electric charge — are unequalled"



Close-up of advanced composite prepared from aluminum and zirconium by Sil-Walt, Weil of Mintek

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Telephone insulators — the start of the electrical insulator business in South Africa

Versatility is one of the most significant features of ceramics and advanced composites, encouraging multiple usage

FOR STRENGTH AND PROTECTION OF DEBRIS

Business Day SURVEY

Advanced materials are capable of feats of heat and abrasion resistance and strength at elevated temperatures that go way beyond the limits of conventional steels and alloys. Local interest is focused on their development for abrasion-resistant applications in the mining and transport industries. VAL

Local tiles among best in the world

THE quality of locally manufactured industrial floor and wall tiles can hold its own against any on the international market. The new SA could see export opportunities opening in this industry, says National Ceramics Industries (NCI) MD Klaus Schultz.

He says the local market is around R40m a year — of which NCI holds a 70% share. But manufacturers are feeling the pinch of the economic downturn. "A number of large projects and plans for factory upgrades have been put on hold and this has made a dent in our order books. "But balancing out the downturn, we have received a number of orders from the mining industry, which is under pressure from trade unions to upgrade the living facilities of its workforce," Schultz says. Conditions in the industry will improve as soon as



Aeroform UK works manager Tony Toll (left) with Resitex MD Quentin Southey next to the larger of the two auto-claves.

Demand for lighter, stronger materials

THE demand for materials lighter, stronger, more energy-efficient and corrosion-resisting lies behind the evolution of advanced composites, says Quentin Southey, MD of Barlow Rand subsidiary Resitex. Advanced composites made their debut in the aerospace industry, where their strength-to-weight ratio made them ideal for use in primary and secondary structures, but as awareness of their benefits increased, so their range of applications widened. "The versatility of fibre-reinforced polymers is the key to market growth," says Southey. "We have developed a number of niche products ranging from underground pipe cladding to pressure vessels which can be tailor-

made to particular applications, and we offer sophisticated design capabilities which enable us to meet customers' requirements. Resitex is also making inroads into the automotive and sporting goods industries.

Range "Potential products range from panels for car doors and train carriages to wheels for specialist cars, racing car chassis and, in the sporting goods arena, golf shafts, tennis rackets, fishing rods and cars."

Resitex, which is owned by MS&A Industrial, part of the Middelburg Steel & Alloys group, recently completed an investment programme with the installation of two auto-claves.

FOR years, materials scientists, journalists and sophisticated industrialists the world over have been proclaiming that "metals are dead". We have entered a new age — that of advanced materials — and claim some, "everything worth finding out about conventional alloys has been found". It is true that dramatic breakthroughs have been achieved using modern substrates for conventional materials ranging from electronics to aerodynamics, advanced materials are proving capable of feats of heat and abrasion resistance, strength at elevated temperatures and stiffness

The 'new age' does not spell death for metals

that go way beyond the limits of conventional steels and alloys. But, says Mintek Physical Metallurgy Division assistant director Dr Mike Corrie, most of the hype surrounding these materials ignores certain basic facts of physics. Advanced materials have extended the range of physics, for instance, through their ability to operate at much higher temperatures than conventional metals and their vastly improved strength to mass ratios.

But at this stage, outside of a few specialised fields such as aircraft development, there is no sign that they have begun to make

conventional metals irrelevant. Instead, experience has shown that less than 5% of novel materials are likely to achieve useful applications, and not more than 1% will rise to positions of importance.

Part of the mystique surrounding advanced materials relates to their exceptional range. "Anything a researcher can dream up that is different from a mainstream material could be defined as an advanced material," says Corrie. "From graphite-fibre reinforced polymer to metallic matrix composite, from intermetallic single crystal to transition metal silicide, anything goes.

"New materials appear, develop and become extinct in this overheated evolutionary broth without, in most cases, ever being produced commercially. "Revolutionary" products blossom and die or, in rare cases, find some viable niche application. "For instance, a decade or so ago, metallic glasses were the rage — but today, although they have filled some useful applications, they are largely passe."

"These products, obtained through rapid cooling of metals to cause them to solidify without crystallising, are used in the manufacture of permanent magnets — for instance in electric car windows. "Selected ceramic materials have entered service in a handful of applications,

wherever they are the best material to do the job — for instance, in wear tiles used by the mining and food processing industry, furnace components and abrasion-resistant pipe linings. "But their impact on metals has been minimal," he says. Research is continuing on intermetallics — chemical compounds of two metals — which are believed to have potential in the manufacture of high-speed, high-temperature jet engines. But this research has been focused on military aircraft, and Corrie says it is likely to fade out with recent changes in the global political situation. He is cynical of enthusiasm over intermetallic-matrix composites — comprised of an advanced ceramic compound incorporated in an intermetallic matrix. "Although not a ton of these substances has been produced for commercial application, their proponents are predicting their use in the as yet undesignated National Aerospace Plan (Nasp). "The pundits have it that, if the US is to maintain its lead in aeronautical technology, it must embark on a bold and innovative scheme — to build a rocket-powered aircraft that can take off horizontally, fly above the earth's atmosphere at speeds that would take it from Washington to Tokyo in two hours, and land again. "Such a machine could not be built out of conventional materials — and the result has been accelerated

development programmes for advanced composite materials around the US." Research is being concentrated on materials in the "early commercial" stage of development. These include metal-matrix composites (MMCs) — metallic compounds containing ceramic particles, carbon-carbon composites (C-Cs) — formed of a fine weave of carbon compounds hardened at high temperatures, ceramic matrix composites (CMCs) — a weave of fibres of two different ceramics solidified at high temperature, and titanium aluminides — a chemical compound between titanium and aluminium.

Hybrid At the same time, some hybrid materials — such as a titanium aluminium-silicon carbide MMC — which have not reached commercial viability — are the subject of intense development and small samples are commercially available. But they are a long way from providing an answer to the Nasp challenge. The most developed of the advanced composites are the MMCs, and research on aluminium MMCs is being carried out around the world, including at Mintek. Local interest is focused on their development for abrasion-resistant applications in the mining and transport industries — but it is too soon to tell how much impact they will have.

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Substitute for asbestos takes off

BANNED as a health hazard in many countries and soon to be restricted in SA, asbestos cement is nonetheless a useful product. It would have been missed in the construction industry if it weren't for an excellent substitute that is

Quality of steel is steadily improving

A DOWNWARD trend in demand for refractories resulting from the slump in the world steel market has yet to make itself felt in SA, says Cullinan Refractories chief executive Ed Harbuz. "We are experiencing a dip in demand for refractories — the ceramic lining used inside furnaces — but it's a short-term phenomenon. "Local companies are still installing ferro-

alloy furnaces. "The quantities of steel consumed may be static or falling, but the quality is improving." "On the international market, on the other hand, the fact that refractory performance is improving in a declining market is making itself felt."

Harbuz says there is no reason to expect a change for the worse in local demand. **Boost** "With the lifting of sanctions, the local steel industry will receive a boost as it becomes possible to export more steel of higher quality. "At the same time, we will probably see an increase in the local consumption of steel in the manufacture of goods and components for the local and export market."

The local market is also being buoyed by demand from the platinum and ferro-alloy industries, where long-term production is increasing. Harbuz says the value of the local refractory market is around R600m a year — of which the two main players, Cullinan and Vereeniging Refractories, hold about a 70% share.

Local interest is focused on their development for abrasion-resistant applications in the mining and transport industries — but it is too soon to tell how much impact they will have.

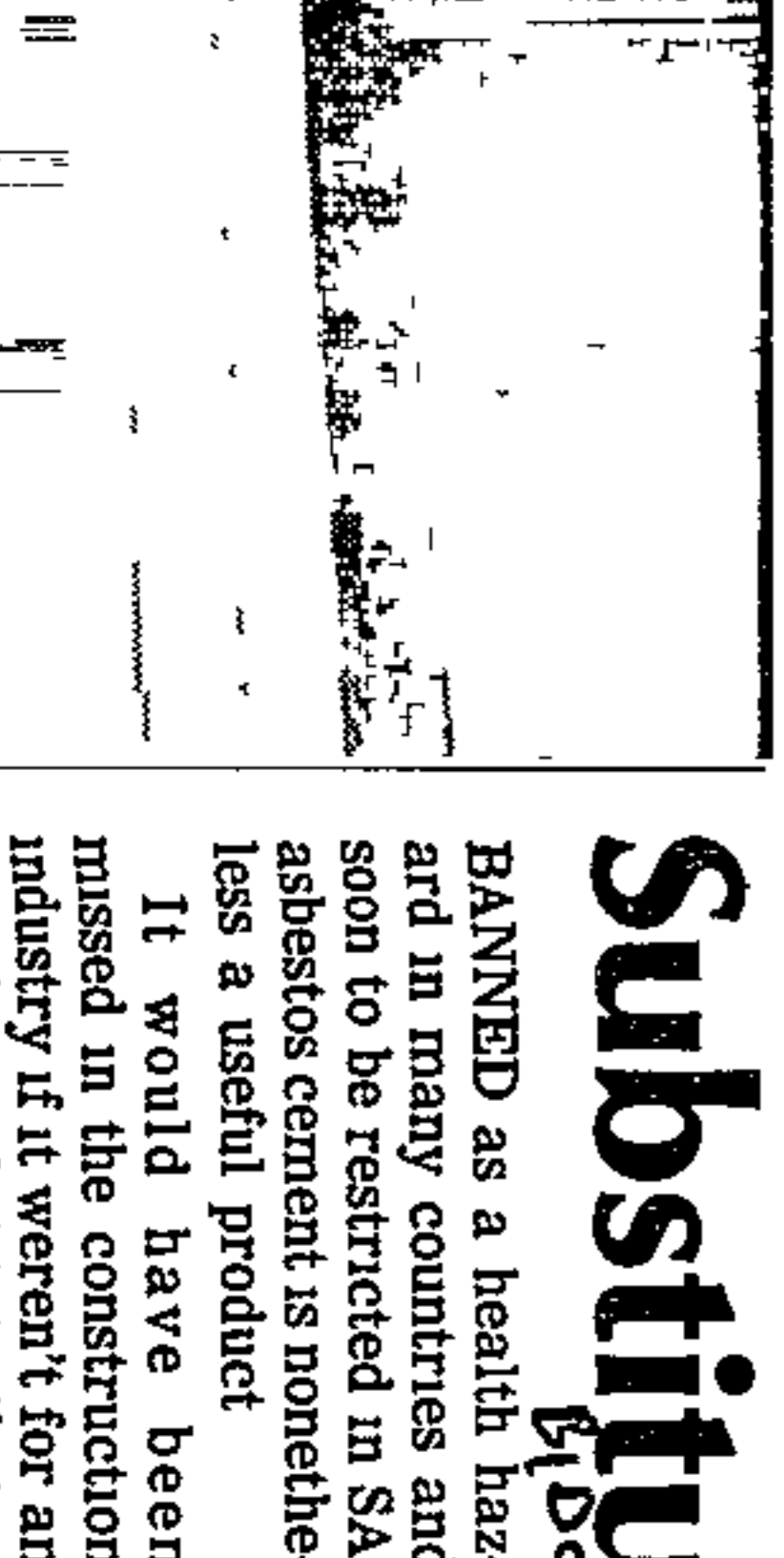
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Debex challenge to imported products

QUALITY alumina ceramic wear-resistant components and systems from an SA manufacturer are challenging imported equipment industries

"Good ceramic tiles don't depend only on the percentage of alumina content —



Glass-reinforced concrete has also replaced the asbestos cement used in panel-type heaters. It is also recognised internationally as a valuable cladding material. "In San Francisco,

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Its products find a market wherever abrasion, corrosion, erosion or impact wear are a problem.

Share

It has grabbed market share in several areas previously supplied by imports, among them milling media and wear-resistant tiles for use in the gold and coal mining industries. Ceramics are also found in the pharmaceutical industry, where their inert properties are ideal for the milling of fine powders, the paint industry, for milling the colouration powders, in the power generation industry, in ash conditioner paddles and in wear-resistant lining on the pipes which pump pulverised fuel

Labour must be more reliable if export market is to succeed

EXPORT markets probably have lost an estimated 10% of productivity as a result of stayaways and advanced composites — but a change of heart on the part of labour is essential, say businessmen.

Restex MID Quentin Southey says "We import most of our raw materials, but there is potential for us to become an exporter of fabricated components."

"Potentially, the returns could be excellent."

"Profit margins on the raw materials are low, while those on fabricated components are high."

Contender

"With labour costs as low as 25% of those of its overseas competitors, SA could be a strong contender in the export market — if only we could improve labour productivity."

But National Ceramics Industries MID Klaus Schultz says productivity is less of an issue than co-operation.

"Productivity is a management issue. What we need from labour is a greater willingness to work with rather than against us."

"Over the past year, we

have built up a wide range of products in the grinding media and catalyst support categories.

"The quality of our products compares favourably with imported and local equivalents and local manufacture provides added benefits in terms of service, price and availability."

Contract

The Debex range of standard and custom-designed products gives evidence of the versatility of ceramics and their suitability to a wide range of applications — from processing highly abrasive industrial slurries to milling circuits.

An advantage held by the company lies in its perfection of dry powder technology.

This process produces an even mix of finely ground ingredients which may be moulded by a variety of techniques to produce perfectly formed and dimensioned

during processing, and the pressing technology, are equally important.

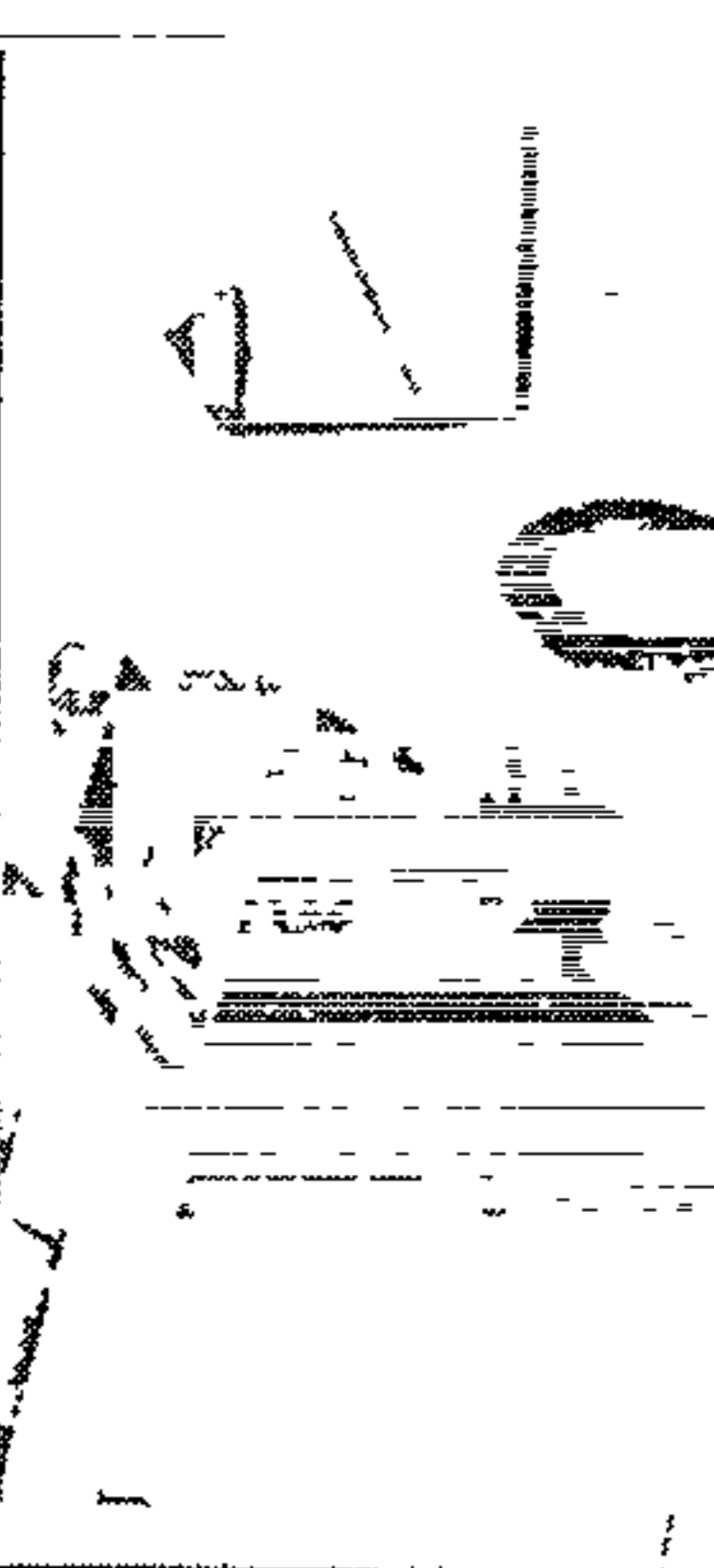
"In one sliding wear application, the combination of our production processes and experience has enabled us to make one of the best locally manufactured alumina tiles available."

Debex recently supplied the first locally made ceramic mixer blades for use in the mineral processing industry, and it has also landed a Rilm contract from a major mining house for the supply of ceramic wear tiles.

In another SA first, the company has supplied ceramic-lined humidifier blades to a large steel producer, using a design which enabled the successful replacement of existing metal components with ceramic

Research is concerned with the use of ceramic inserts for battery component manufacture.

Custom-made ceramic vortex finders and spigots



Wear-resistant alumina ceramic tile linings for industrial and mining equipment such as this underflow box are widely used.

The combination of custom-designed capings and hard wearing material has also proved successful in boiler ash conditioning applications.

These blades are supplied to the power generation industry.

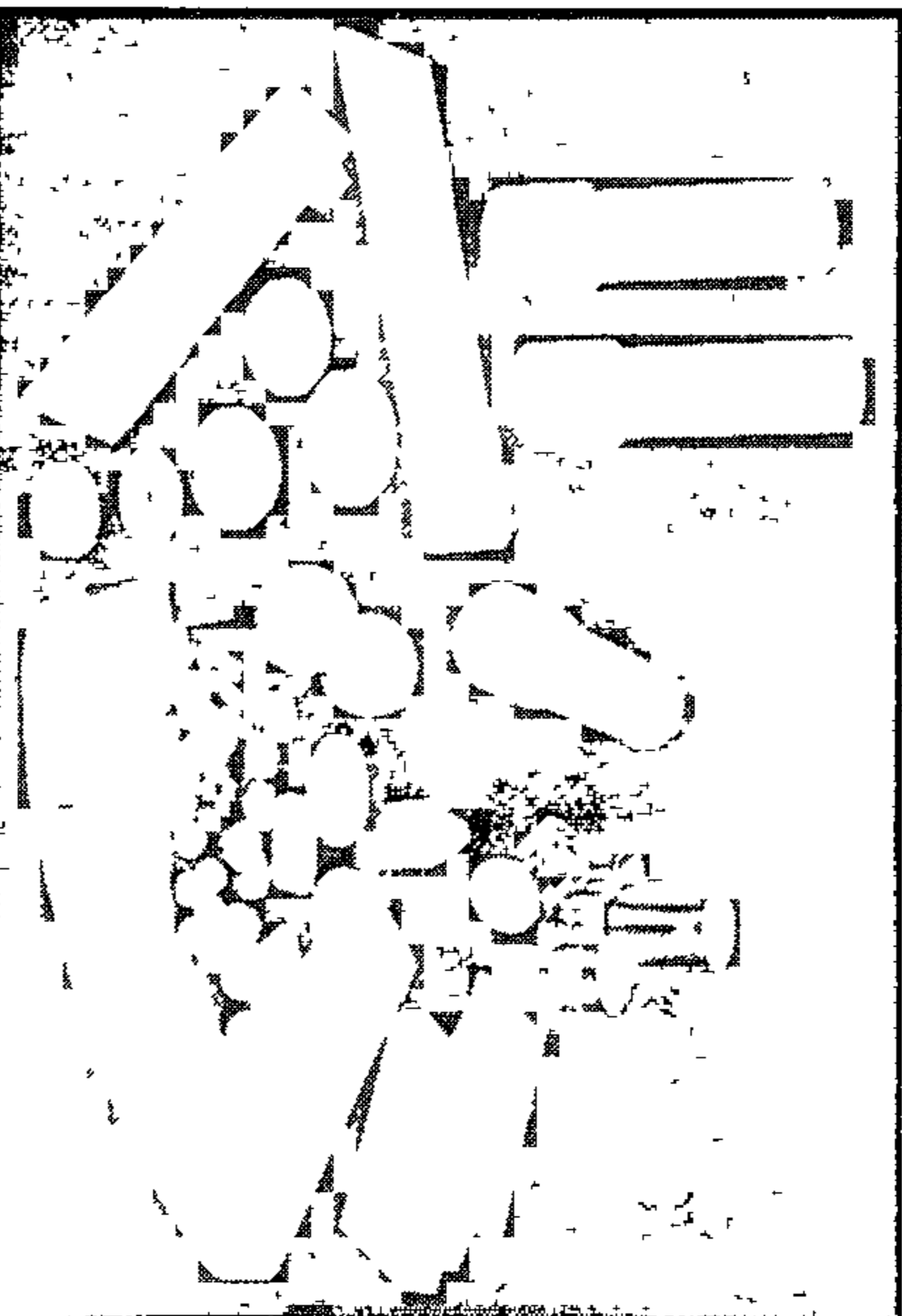
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Custom-made ceramic vortex finders and spigots

are also providing competition for the conventional stainless steel variety used in the coal industry.

Debex also recently supplied and fitted alumina ceramic tiles for the cyclone underflow boxes in the wash plant at a large gold complex.

Here, the capability to custom-make products made it possible to profile the tiles, minimising weak points in the protective liners.



Layout of alumina ceramic wear-resistant components of various types show the versatility of this tough advanced material which can be processed into geometries suitable for everything from milling to mixer blades.

While access may be limited at the high-tech end of the markets, lower grade ceramic and advanced composite products — such as the manufacture of fibreglass sporting equipment and many ceramic components — lend themselves to small entrepreneurial operations.

Approached with confidence, these industries could go a long way to compensating for the steady erosion of the steel market, which is generally accepted as inevitable over the long term.

In its latest annual report, Iscor says the steel industry was seriously threatened during the last

local market.

Glass-reinforced concrete, a composite of concrete and glass fibre, is suitable for a diverse range of applications.

Panels

GRC Marketing MD Peter Rademan says "We have supplied around R13m worth of precast panels to the first two phases of development at the University of the North, and a third phase is under consideration."

"In addition, we are negotiating with universities in neighbouring states for construction panels."

"We also manufacture drainage and irrigation channels for the mining and agricultural industries."

"At GRC, we hold an estimated 80% share of this market, for which we manufacture some 700 sections daily, each 1.2m long."

San Andreas fault are clad in glass-reinforced concrete panels — and every one remained standing after the last earthquake, he says.

"In terms of bonding, tensile and compression strength, it is as effective as asbestos cement, or perhaps slightly better."

"Glass-reinforced concrete absorbs shock, and in a quake it moves with the buildings rather than simply falling off."

"In addition, it offers double the impact resistance of asbestos cement."

On the local scene, it has met with a different kind of success.

The new Human Sciences Research Council headquarters in Pretoria, which won a Fulton Award for architectural design last year, is wholly clad in insulating panels.

Being denser than asbes-

Alumina products rank just behind diamonds

NEXT to diamonds, the hardest of all natural substances, alumina ceramics, have been promulgated as the material of the future.

Under abrasive conditions, no material can compete with it in terms of hardness and wear-resistance.

Yet, says Moh-9 MD Faan Viljoen, few have realised the full potential of the material.

"In addition to its unique chemical, mechanical, thermal and insulating properties, alumina ceramics can be formed into any shape, featuring characteristics designed for specific applications," he says.

SA entered the field of high-tech industrial ceramics when Moh-9 started producing high density alumina products which had previously been imported from the US.

Moh-9 is so named because alumina ceramic rates 9 on the measure of hardness scale — one point behind diamond.

Today, the company — local leader in the research, design and manufacture of wear-resistant alumina ceramics — is the largest and most advanced manufacturer in the field in Africa.

The past few years have seen the company introduce a number of innovations these has been

Furnace

Heat resistance is another characteristic of ceramics, making them an essential component in modern furnace technology.

Recently, Moh-9 and Iscor joined forces in the development of ceramic furnace tray cones for melting point furnaces.

"These tray cones, which had previously been imported, accounted for 83% of the furnace's operating cost."

"By recovering used cones, it was estimated Iscor could achieve a saving of 40% — but Iscor's goal was to achieve a 70% saving," says Viljoen.

Iscor manufactured a copper casting mould, which it supplied to Moh-9,

Advantage

In the SA context, however, glass-reinforced cement has one big advantage over the asbestos alternative which cannot be overlooked.

"Entry levels to the industry are low," Rademan says.

"With an asbestos cement operation an investment of millions was necessary, with the result that operations were concentrated in a few hands."

"But a glass-fibre cement factory is within

estimating present sales at around 300 000m² a year, as compared with the 15-million/m² a year asbestos cement market.

"Over the past five years, we have put together about 20 factory operations for export to a number of other countries with limited capital resources and a low level of worker skills, and they have met with tremendous success."

"As SA becomes less of a pariah within the international community we expect this export market to grow," Rademan says.

leader in refractory technology.

If manufacturers over 1 000 standard products as well as at least as many custom-designed, using the world's most modern hi-tech brick kiln.

The company is also a world leader in a specialist branch of refractory technology used in the aluminium industry.

"We manufacture a range of products using andalusite — which is almost exclusively found in SA," he says.

which in turn produced 10 sample ceramic tray cones.

On testing, these proved to be of a higher standard and better suited to their purpose than the imported components — making possible an annual saving of 85%.

"Other users have also started using Moh-9 tray cones. Production has risen from 100 to 1 000 cones a month — and they are being sold at less than one third of the price of their imported counterparts," he says.

Industry is not the only user of ceramics.

The past year or two has seen Moh-9 launch two very different products — ceramic body armour which has proved ballistically superior to armour steels, and bone and joint implants.

The body armour is capable of stopping an AK-47 armour piercing incendiary round at point blank range.

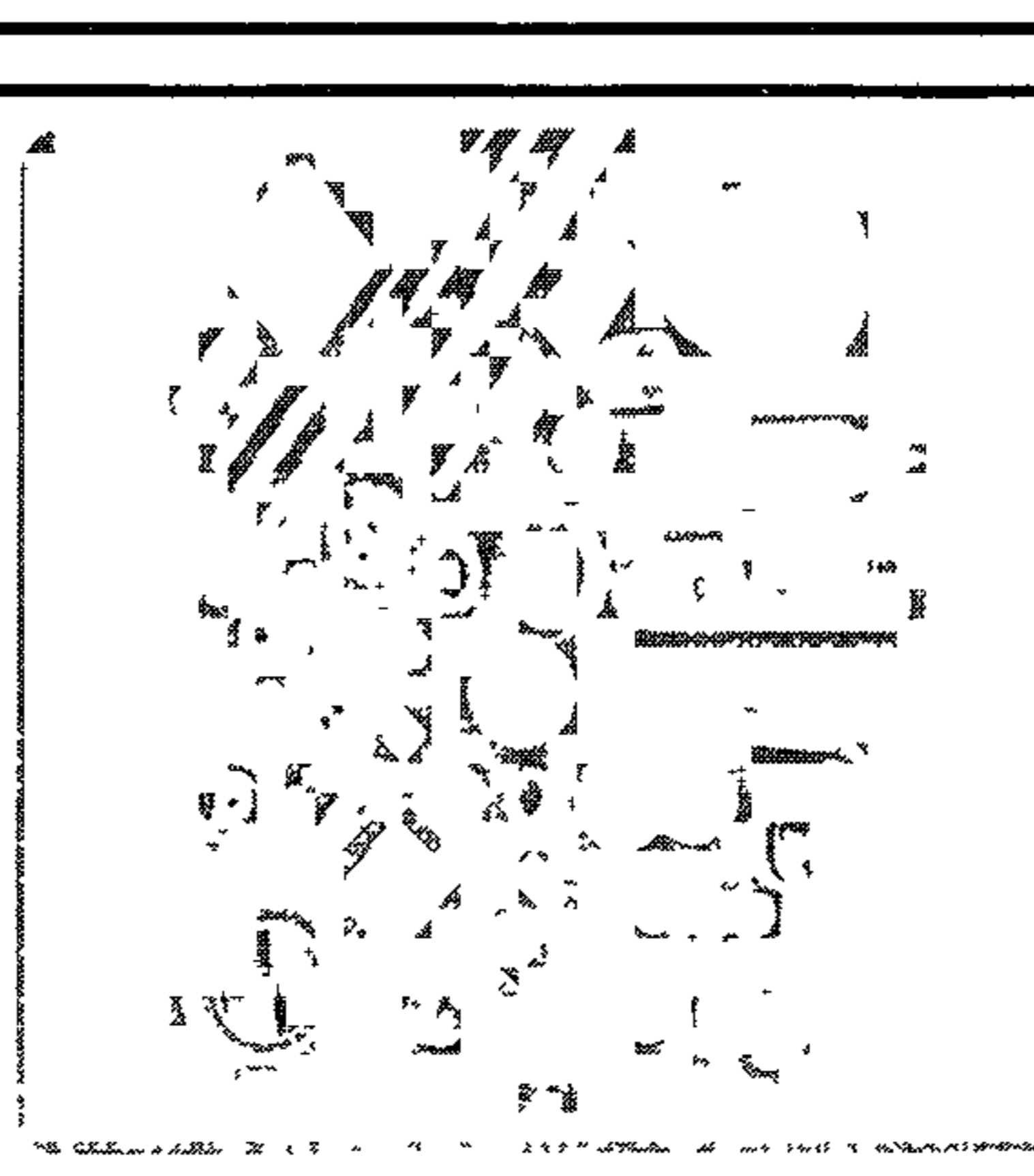
The manufacture of ceramic bone and joint implants began some six years ago.

"Temporary implants can be made of metal, but for permanent implants you need better biological compatibility."

"Ceramics are biocompatible and are also resistant to corrosion, making them well suited for use as implants," says Viljoen.

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Kriel slams building 'price-fixing'

17/5/91
193

Political Staff

NATIONAL Housing Minister Mr Hernus Kriel has launched an unprecedented cabinet-level attack on price-fixing in the building materials industry

Speaking at the National Association of Home Builders' conference in Cape Town yesterday, Mr Kriel said monopolistic conditions which had existed for a long time in the supply of certain building materials needed to be addressed as a matter of urgency

He said it appeared that monopolies in the local industry were basing their prices on the prices of imported goods and he urged builders to act against artificially inflated prices

"Why are certain imported materials cheaper than the local products even after shipping and customs costs, but, when import permits are granted, the local material is suddenly 5% to 7% cheaper than the imported product?" he asked

These price-fixing tendencies made

it difficult for builders to negotiate discounts, even on big orders "If the big builders are having problems keeping costs down, then we are making a joke of self-help building projects because the small builders' product is even more expensive," Mr Kriel said

"As home-builders, you have a responsibility," he told delegates "Are you going to accept these conditions in your industry or are you going to do something about it?"

Speakers and delegates emphasised the challenge which faces the building industry in its efforts to address SA's critical housing shortage

Wider home ownership and affordability, coupled with the creation of new jobs, emerged as key issues in a process aimed at addressing the current backlog and giving as many people as possible a stake in the economy.

● Low-cost housing problem in SA 'can be solved' — Page 8



Hernus Kriel attacks price fixing

LESLEY LAMBERT

AN unprecedented attack at Cabinet level on price fixing in the building materials industry has been launched by Planning, Provincial Affairs and National Housing Minister Hernus Kriel

Speaking at the National Association of Home Builders' conference yesterday, Kriel said monopolistic conditions which had existed for a long time in the supply of certain building materials needed to be addressed as a matter of urgency

He said it appeared monopolies in the local industry were basing their prices on the prices of imported goods and he urged builders to act against artificially inflated prices

"Why are certain imported materials cheaper than the local products even after shipping and customs costs? But, when import permits are granted, the local material is suddenly 5% to 7% cheaper than

the imported product," Kriel said

These price fixing tendencies made it difficult for builders to negotiate discounts, even on big orders

He asked delegates if they were going to accept these conditions in their industry or do something about it

Conference speakers and delegates emphasised the challenge facing the building industry over the housing shortage

Wider home ownership and affordability, coupled with the creation of new jobs and the depoliticisation of housing, emerged as key issues in a dynamic housing process aimed at addressing the current backlog and giving as many people as possible a stake in the economy

(193)

Falling demand sours lime market

BIDAM 22/5/91

BRENT VON MELVILLE

THE R300m SA lime market is turning sour as demand falls for the industrial chemical in the traditional markets, specifically in steel and ferrochrome production and gold/uranium mining

Pretoria Portland Cement (PPC) says its lime sales were down 14% for the first six months to March, representing a dip to 25%, from 29%, of the group's total sales from the comparable period last year. Total sales, including cement, were up slightly to R377m for the half-year

PPC, SA's largest lime producer, produces about one-million tons annually, about 62% of SA's lime requirements. This is under 50% of capacity of about 2,2 million tons. Anglo Alpha's Union Lime produces about 32% of requirements and Blue Circle makes up the rest

PPC says there have been significant reductions in demand for lime particularly from the steel industry, which represents about 40% of sales

Lime division technical manager Brian Lowther says demand from Iscor fell because of a normal blast furnace overhaul over the past six months and Highveld Steel was "definitely not running at full production"

Lowther said demand from the ferrochromium industry was also way down compared with prior levels

The shutdown of certain chemical and uranium plants and the reduced demand from the gold mining industry was also having a marked effect on lime sales

Fedvolks reverses its previous year's slide

BIDAM 22/5/91

MARCIA KLEIN

A STRONG portfolio of investments contributed to industrial giant Federale Volksbeleggings (Fedvolks) turning in a 30% increase in earnings in the year to end-March

Fedvolks, which delisted in September last year to become a wholly owned Sankorp subsidiary, reported a 30% rise in attributable profit to R124m (R95m) after earnings had plunged by 35% in the year to end-March 1990

Fedvolks companies include Fedfood, SA Druggists, Interleisure, Priceforbes, Avis, Teljoy, Interpark, Fedics and motor components companies

MD Peet van der Walt said yesterday he was very happy with the results, although they had come off a low base and there were certain rationalisation benefits. He was especially pleased as conditions had been extremely tough after June last year

The group's balance sheet had been improved with gearing down from 63% in 1990 to 38% at the March year-end

Van der Walt said that the Priceforbes Group, Interleisure, Trichamp and Fedfood achieved favourable results in spite of a very difficult economic climate. All the other companies reported stable results, except SA Druggists and Avis Rent a Car,

which were lower than expected

He said SA Druggists, whose earnings fell by 12% to R35,6m, was "hard hit by shrinkage". While Avis Lease had done well, Avis Rent a Car "felt the effect of the high interest rate, a poor second-hand vehicle market, a decline in the car rental market and pervading thefts"

During the year the group rationalised by selling its interests in TEK appliances to Sankorp, AFI to management, Febisco to Royal and the Fedfood Namibian fishing operations. It sold the Massey-Ferguson franchise to Boeresake

New investments included Fedics taking a 40% stake in Protea Hotels to extend the food services part of the business, and Fedfood acquiring Sea Plant Products, Patoma and Mango Man

Fedvolks made several key management appointments, including Mike Egan as Interleisure MD and Johan van der Walt as SA Druggists executive chairman

The group having become much more focused and with a strongly balanced portfolio in four basic growth areas, Van der Walt said he was confident of real growth in attributable income in financial 1992

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Clay brick endures as most popular building material

193

overleaf 23/5/91

By JOSHUA
RABOROKO

OF all the building materials used today, the clay brick has perhaps been in use the longest

Structures erected centuries ago still stand as a monument to this proven building material

A comment in the *South African Builder*, the official journal of the Building Industries Federation of South Africa, says that clay bricks have been made since the turn of the century in South Africa

Today there are more than 105 clay brick producers with an annual manufacturing capacity estimated to be in excess of four million bricks

The article adds that the industry, which employs some 30 000 people, represents a potential turnover of some R745 million

Notwithstanding the traditional cyclical nature of the building industry, the clay brick manufacturers have survived the ravages of some of the worst recessions known by becoming more innovative and efficient

"The socio-economic problems which

have beset this country have prompted the clay brick industry to maintain a self-imposed high level of quality and standards - in some instances well above recognised minimum norms

"To this end manufacturers, jealous of preserving the quality image of the product, introduced the 'genuine clay brick' symbol to differentiate clay bricks from substitute products coming on the market," the article says

Change

Similarly, the association's members recently voted to change the association's name from the Brick Development Association to the Clay Brick Association, which better reflects the traditional products it represents and avoids any possible confusion

In addition, the association's key objective is to ensure that its members behave in a professional manner and that commitment to the

building industry is in keeping with the inherent lasting qualities of clay brick

Over the last few years, the trend in modern-day architecture has once again voted in favour of the age-old product, genuine clay brick

Similarly, the association has identified clay brick as the preferred building material among low-income groups

It is also perceived as a status symbol.

Based on these findings, the association developed the Brickmark Housing System specifically designed to satisfy the needs of aspiring low-income groups

Approved by the Agreement Board and Mantag certified, the system allows for a single, weatherproof skin of clay bricks

The article says developments such as these will form the cornerstone which will take the clay brick industry well into the year 2000

However, the conduit can only be through a dynamic and healthy building industry

Cement counters ride out market

193

810 am 23/5/91.
THE market ratings of the three cement counters, PPC, Anglo Alpha and Blue Circle, have proved more resilient than their ailing markets

Listed on the otherwise stagnant building and construction board, all three have put in exceptionally solid performances in recent months and their share prices are all at 12-month highs

PPC closed at R35 yesterday, Anglo Alpha at R31 and Blue Circle at R25 Barlow Rand-controlled PPC has the highest historical P E rating at 12,74 times, while Swiss-controlled Anglo Alpha shows a P E of 8,86 times and Blue Circle 8,76 times

This is despite the fact that the fortunes of the industry are irrevocably tied to the lagging building and construction sector which shows an average P E of 6,9 times

The civil engineering sector, formerly a major consumer, is firmly in the doldrums PPC MD Ted Hodgkiss says the main consumer is now housing, which ostensibly has a bright future on the back of government's new social spending campaign

That expectation has been eroded somewhat by recent country-wide violence and the seeming inability to get low-cost housing schemes off the ground

This has been reflected in a decline in cement sales over the past several months SA Cement Producers Association (Sacpa) figures show a 6% downturn as an industry-wide trend

And the industry's view of its immediate future is not all cheery Anglo Alpha deputy MD Ron Searle says that order books for the construction industry still look bad, and housing is still not really moving

"The question of violence in the townships is also a major concern within the construction industry If we could resolve that then there would be almost an imme-

BRENT VON MELVILLE

diated pickup in activity Another issue is the theft of materials"

Conversely PPC financial director Chris Wrogemann believes the industry could well be poised for a major boom cycle such as that seen in 1982-1983 when cement demand jumped by over 40%

April proved a minor boon for PPC and "this is hopefully a taste of what is to come as a result of plans by both the public and private sectors for heightened social expenditure"

An industry spokesman adds that the export market also shows promise but points out that exports go out at a very marginal profit and both Mocambique and Zimbabwe are improving their domestic production capacity

Searle is not totally pessimistic, and believes there will be an upturn, though not likely in the short term He believes the real offtake of cement for the Lesotho Highlands Water Project (LHWP) will initiate an industry uptick during mid-1992

Undermining

The cartel is planning to supply cement to the LHWP from the proximal Ulco plant of Anglo Alpha

The three-member cartel itself has come under fire from its main cement consumers for its price-fixing The last price increase was 8,5% in January and the next one is due in July

Cement producers argue that the regular hikes are necessary to pass on ever-increasing rail tariffs for cement

Critics of the cartel's price hikes say it is going a long way to undermining the construction industry, forcing inflationary price hikes and "effectively" putting some contractors out of business

COMPANIES

AFI buyout 'heralds opportunities'

MARCIA KLEIN

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THE management buyout of fibreglass and mineral fibre products manufacturer Acoustical Fibreglass Insulation (AFI) would ensure that the business remained intact and would create exciting opportunities for AFI to expand and diversify, MD Hennie Steyn said yesterday.

AFI management acquired the business and certain subsidiaries from Federale Volksbeleggings (Fedvolks) for an undisclosed sum, after it was found that AFI did not fall within the focus of Fedvolks's divisions.

Management had acquired the majority shareholding, with the balance of the shares being held by Firstcorp and Standard Merchant Bank. With their support, AFI would be able to finance anticipated

real market growth

There would be no change to the current executive or corporate structure.

An area for future growth would be the development and manufacture of fibreglass reinforced plastics, which were finding increasing use in the broader transportation industry.

In terms of AFI's Fibreglass Insulation unit, demand for insulation products was expected to expand significantly as awareness of the need to conserve the environment increased.

AFI also intended to become more deeply involved in the transfer of technology and available expertise from overseas licensors to the local market.

AFI
23/10/93

Petra finds a spotless stone

(193)

S/Times (Sun Times) 26/5/91

PETRA Granite made its debut on the JSE's Development Capital Market at 175c on a single deal of 1 000 shares

Petra was listed through the Bakoven cash shell. Bakoven minorities were offered 11c a share and acceptances were received for 14% of the company

The shares have since been consolidated one for 25, so in the short term minorities did well to accept the offer which yielded 275c.

Bakoven, a retail bakery chain, was listed in 1986, but never thrived in the public eye. Controlling shareholder Desmond Fisher Family Holdings (DFFH) bought out the assets it sold into Bakoven at listing

DFFH disposed of its shares — 75% of the group — at 11c apiece to Alpha Bank, whose holding increased to 89% after the offer to the minority.

Petra wholly owns Petra Granite, Mooketsi Black Granite and Ruby Granite and 60% of tombstone-maker Potchefstroom Grafstene & Monumentale

Werke. It also owns a granite furniture and ornament factory at Klerksdorp

Petra's turnover in an undefined period to September 30, 1990, was R2,3-million, which gave rise to an accumulated loss of R455 000. There were net current liabilities of almost R6-million, mostly a short-term loan from Alpha Bank

The bank converted the R7,5-million loan capital advanced to Petra on the listing

Stockbroker Manne Rahn, who was also a director of Alpha Bank, is Petra's chairman. The managing director is geologist Pieter Nel. The two have known each other for a long time

Dr Rahn says the group has been lucky to find two deposits of black granite near Durwelskloof that do not bear the white spot which otherwise flaws the product for tombstones. Most of it is exported and the rest is dressed at Potchefstroom

He says that although the granite mar-

ket has been soft, demand for Petra black is strong

The group also has deposits of coloured stones, which are subject to fashionable demand

"Orders are coming in faster than we can meet them and we need capital to expand. We are negotiating with potential investors, but it is too early to comment on the outcome"

"We want to keep a low profile until we are on a sound financial base"

Consulting geologist Felix Mendelsohn has endorsed Petra's stone, and says economic exploitation at Mooketsi depends on judgment and experience. Dr Mendelsohn can see no reason why Ruby Granite should not form a suitable dimension, but its marketability is unknown

Although the shares were bid at 180c this week, history tells us that such stocks start well, then fade irrespective of the merits of the companies themselves. Minorities who stayed aboard are presumably willing to take such risks

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Granite pulls out of headlong dive

SI Times (Bus Times)

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Business Times Reporter

THE GRANITE industry looks like recovering from last year's severe slump

Offtake of Rustenburg grey, which dominates the high-volume utility market, is increasing and stocks in South Africa and Italy are falling

Fierce competition among producers has eased and prices have recovered from \$350 to more than \$400 a cubic metre

Resurgence of demand in the Middle East since the end of the Persian Gulf war is one reason for the recovery

Losses

There has also been an increase in demand for Belfast black at the expense of Zimbabwe and other black material from places such as Transkei

After experimenting with Zimbabwe black because of its lower price, many foreign customers are returning to Belfast for its superior quality

Demand for SA granite has been hit by world recession and the Mid-East crisis since September 1990 because Saudi Arabia is a major market for Italian exports of finished stone

Overproduction of grey granite sparked a price war. New SA producer Aurora lost more than R4-million in its first year to the end of June 1990 and was taken over by Kudu

Of the three major producers, only the largest, Keeley, improved results in 1990. Marlin's pre-tax profits fell by more than a third in the year to last June to R18,3-million. Kudu lost R728 000 in the six months to last December

There was a catastrophic collapse in Marlin and Kudu share prices from highs of 800c and 475c respectively in 1989 to their current 140c and 95c

Sustained growth which the industry experienced in the 1980s ended in 1990 and investor sentiment turned sharply against the sector

In 1987 the granite sector made its debut on the JSE with the listing of Keeley, Marlin and Kudu — and the spotlight fell on a hitherto low-profile industry

These three companies, plus unlisted Impala, were the major producers in an industry which promised good returns for investors. In June

1989 Aurora joined the granite producers on the JSE

The term granite is used in a commercial rather than in a strictly geological sense. It refers to rocks of different mineral composition, but all of igneous origin (cooled from molten magmas in the earth's crust)

Granite has two major applications: building and monumental, mainly tombstones

Value

The building industry has provided the major impetus to worldwide growth in demand for granite. It is used for floors and interiors but mainly for exterior cladding because of its attractive appearance and resistance to physical and chemical degradation

Acid rain in the industrial world has boosted the use of granite at the expense of marble, which is subject to chemical attack

World production of granite is 10 million tons a year. SA and Bophuthatswana have an annual production of 600 000 to 700 000 tons. More than 80% of production is exported. SA is the world's largest exporter and major competitors include India, Spain, China, Brazil and the

Scandinavian countries. Italy is the centre of the world granite trade and imports raw stone, which is cut into slabs and polished and re-exported

Most of SA's granite is quarried in the Transvaal grey from the Rustenburg and Brits districts, black from Belfast and red from Potgietersrus. Grey granite comprises about two-thirds of production, but black commands a price nearly four times higher

Prices of granite vary considerably according to quality and block size. Current average prices of the three types are about \$1 500, \$750 and \$400 a cubic metre for black, red and grey respectively

SA producers are gradually moving to increased beneficiation of granite through sawing of raw blocks and polishing to produce slabs and tiles for domestic and export markets. This trend will strengthen the granite sector through higher added value and provide an additional attraction for the long-term investor

SABS warning over false claims

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MARC HASENFUSS

~~193~~ 193

THE South African Bureau of Standards (SABS) has warned the construction industry to be wary of suppliers and manufacturers who make unfounded claims that their products comply with SABS specifications

SABS cited laminated wooden beams, doors, wood, concrete building blocks and paving blocks as products particularly affected by misrepresentations

SABS chief director Jan Meyer said legal action could be taken against people guilty of misrepresentation

Boumat takes star 4/6/91 heavy knocks

By Ann Crotty

Building supplies group, Boumat took some heavy knocks in financial '91.

A severe recession in the building industry and the cost of closing several unprofitable businesses resulted in earnings plummeting to 7c (82c) a share in the 12 months to end-March.

Because of the group's dividend policy management is committed to paying out a dividend of 48c a share for the year under review. This includes a final dividend of 24c a share.

The group's policy is to pay dividends at a fixed rate equal to 10 percent of shareholders' funds at the beginning of the relevant financial year — irrespective of the level of earnings. Shareholders have the option of taking up bonus shares.

Dividend payments for financial '91 are expected to total about R5,8 million which is nearly three times its earnings of R1,8 million. As the board points out, "This seems imprudent, but we feel strongly that when we have given undertakings to shareholders we will do everything possible to honour them."

As the directors note, this distribution policy is no longer viable. From financial '92 Boumat will revert to paying cash dividends only. These dividends will not exceed 25 percent of equity earnings.

On the operating side, group turnover was up 9 percent but operating profit was down 46 percent to R31 million (R57,8 million). Margins were cut from 5,8 percent to 2,8 percent as a result of "fierce competition". In addition the group had to take a R9,3 million loss with the closure of several of its unprofitable businesses.

Interest payments	R25 million
(R19 million)	tax of
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Battered Boumat feels effects of recession

8/10/91 4/6/91

193

MARC HASENFUSS

LOSSES of R9m stemming from the closing of unprofitable businesses severely eroded margins and a higher interest bill knocked earnings for building supplies group Boumat in the year to end-March. Boumat retrenched more than 250 of its 4 600 strong workforce in a cost-cutting bid.

Chairman Irvine Brittan said it was clear as the year progressed that the building industry was sinking further into recession and that escalating violence and bond payment boycotts were having a marked effect on home building.

"We critically reviewed our operations and those businesses which were unprofitable were closed and the scale of others reduced to levels more appropriate to the current trading conditions."

Turnover remained virtually static at R1bn, but fierce competition in the depressed building supplies industry crushed margins and sent operating profit plummeting 46% to R31m (R58m) for the year to end-March.

Interest paid jumped to R25m (R19,5m)

causing equity earnings to drop a hefty 90% to R1,8m (R18,5m) or 7c (82c) a share.

In light of the poor results and changes in tax legislation, Boumat has decided to discontinue its bonus share scheme from the next financial year.

Brittan said the group had decided to revert to paying cash dividends at a rate of not more than 25% of equity earnings from April next year.

This year Boumat declared a final dividend of 24c a share, bringing the total payout to 48c.

According to group policy of paying out dividends at a fixed rate of 10% of shareholders' funds at the beginning of the financial year irrespective of the earnings level, the group is paying out R5,8m in cash dividends which is equivalent to three times the group's equity earnings.

Brittan was confident the group would make a strong recovery, and expected an operating profit of R53m and earnings of 67c a share for the next financial period.

In addition to the high dividend payout, there was a R5m extraordinary write-off of goodwill. This helped cut NAV from 481c a share to 417c (below the current share price of 430c). The change in policy will have a significant effect on the dividend yield, which is currently 11,2%.

Recession in the building industry, particularly in the low-cost housing market, had a severe impact on the competitive building supplies market. Boumat's operating margins dropped from 5,8% to 2,8%, as sales rose just 9% to R1,1bn while operating profit slumped 46% to R31m.

More than half the R26,8m fall in operating profit was attributable to closure of unprofitable businesses (R9,3m) plus a hefty retrenchment programme (R6m). Earnings were also hampered by an abnormally high tax rate of 61,5%, caused by expenditure that could not be offset against tax. This should drop to around 50% this year.

Again overshadowing Boumat's performance was its high interest bill. Interest payments climbed nearly a third and absorbed more than 80% of operating profit. Brittan says gearing at year-end was about 46%.

With interest rates likely to remain high and little sign of an upturn in the building industry, prospects for recovery do not look good. Brittan is confident that with the closure of most of the unprofitable operations and retrenchment costs written off, EPS of 67c should be attainable. But it is unclear whether the market will share Brittan's confidence — or how investors will react to change in dividend policy. *Simon Cashmore*

BOUMAT Fm 7/6/91

DIVIDEND BLOW (193)

There was a double dose of bad news this week for shareholders of building and plumbing supplies group Boumat.

Firstly, losses in the second half pulled down the group's EPS for the year by more than 90%, to a mere 7c. This was a greater slide than most observers expected, and is well down on management's forecast at the interim of 18c. At the beginning of the year, management had hoped to be able to repeat last year's EPS of 82c.

Secondly, Boumat has decided to scrap its bonus share scheme, which is no longer considered viable. From next year it will declare dividends equal to a quarter of earnings. The group has traditionally issued bonus shares (or cash dividends if these shares are passed up) equivalent to 10% of shareholders' funds at the beginning of the financial year, irrespective of earnings. Dividends this year, the last year of the scheme, will reach R5,8m — or three times earnings. Chairman Irvine Brittan says the size of these payments seems imprudent. And he adds that the current high interest rates and removal of tax on dividends have improved the attractiveness of cash dividends.

Building suppliers 'need competition for growth'

Biday 12/6/91.

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Reports by
PETER GALLI

THE Building Industries Federation of SA (Bifsa) needs to examine whether building supply manufacturers are taking a short-term view and just making profits, says Bifsa chief economist Charles Martin

Speaking at the annual Rode conference recently, he said the building supply trade needed competition to foster growth

The possible nationalisation of the building supply industry, mentioned by the ANC, was naive, but this was a complicated matter that was being examined, he said

Building costs were expected to rise by 10% in 1991 and, in line with the expected surge in the building cycle, by 12% in 1992 and 21% in 1994

"Building margins are thin at the moment and we will see cost increases below the rate of inflation for the next two years. While the industry is in for a fairly rough ride in 1992, the recessionary period will be consolidated with firm foundations laid for the prosperous period in 1993/94," Martin said

Asked whether townhouses were

the area of investment for the future, Martin said there were two distinct markets in this regard the niche upmarket group and the middle to lower income group

Pretoria had the highest incidence of townhouses, with affordability being the primary reason for this, he said. In many cases, a townhouse offered a better buy than a small house on a large stand

"There is also the matter of security, with townhouses generally offering more in this regard," Martin said

The Rode Report editor, Erwin Rode, also speaking at the conference, said the current recession was not as severe as previous ones. This was reflected in critical property variables. The industry was in a period of stagnation and would improve only after 1992

"While the economy should turn upwards in the first quarter of 1992, real rentals will only pick up in the first quarter of 1993, since there is a lag of four to five quarters between the property and business cycles," he

said

"The Johannesburg CBD is in dire straits as far as take-up of space is concerned. It is ageing and the rot is spreading from the east," Rode said

Vacancy levels in the Johannesburg CBD for A, B and C grade space combined would deteriorate over the next two years, with VAT having a significant effect on office rentals in this area, he added

In contrast, "Johannesburg decentralised" — Parktown, Rosebank, Sandton and Randburg — were showing good growth rates

The Pretoria CBD also experienced a "tremendous" decentralisation trend over the past decade, with only 25% of all new take-up of space in 1990 being in the CBD

There was also the rumour that government planned to reduce its take-up of space in that area by 100 000m², with some government departments looking for space outside the CBD, Rode said

On the industrial front, factories in the central Witwatersrand area with a space of 500m² had improved their performance since 1990

Cement 'cartel' dispute goes on

8 (Day 12/6/91)

(193)

BRENT VON MELVILLE

THE fact that the three cement producers have officially been sanctioned as a legitimate "cartel" will continue to be a major bone of contention between the industry and users of cement.

Criticisms range from accusations that the cartel has fuelled the rate of inflation in the construction industry to charges that the cartel situation has bred arrogance and insensitivity towards customers.

Outspoken

In response, the Cement Producers' Association (Sacpa) — controlled by Barlow Rand's PPC, Swiss-held Anglo Alpha and Blue Circle — says it needs special treatment on the grounds of its capital intensity.

Most major contractors believe this is nonsense. One of the most outspoken is Concor Technicrete MD Peter Michau, who questions why the cement industry should consider itself unique as far as capital intensity is concerned.

"It is just a question of managing one's capital adequately rather than seeking protection."

Michau also dismisses the claim that prices would increase if the cartel is scrapped. "There might be

an initial price increase but over the long term, competition would enable us to negotiate special prices for special contracts.

"It would also force the cement companies to negotiate special contracts with the user, based on locality."

Sacpa claims it is keeping price increases as low as possible. It says that despite a 16% increase in rail tariffs last January, the cartel absorbed the increase (it upped its prices by an average of 9,3%) until 1990, by 5,5%.

The increase this January was 8,5% and the industry has alluded to a July increase of below 5,5%.

One unarguable fact is that the cartel arrangement has shielded the cement industry against the bleak scenario in the building and construction sector.

PPC, the biggest producer with 45% of the market, and the first to publish its half year results this year, came through with a 7% rise in earnings despite more shares in issue, and the results of Anglo Alpha and Blue Circle, expected in about six weeks, are likely to follow suit.

Analysts consider the perform-

ances pedestrian at best in relation to price increases and exposure to the informal building sector.

However, one analyst says the 7% growth figure is not necessarily out of kilter. His figures show the three producers have averaged about 10% compound earnings growth over the past decade.

Despite the slow growth there has been consistent buoyancy in the share prices of the three producers of late.

PPC, on ex-div of 45c, is now at a high of R38 and a historical P/E rating of 13,8 times while Anglo Alpha is at R34,75 and a P/E of 9,9 times. Blue Circle is also on a new high of R26,25, putting it on a P/E of 9,2 times. This compares extremely favourably with the sector's average P/E rating of 7,3 times.

Analysts suggested the high ratings were prompted by the longer-term view that demand for black housing and informal sector building was bound to pick up, translating to direct demand for cement.

Sacpa figures show that while sales fell last year by 3,7% to 7,88-million tons (8,18-million tons), cement capacity has increased by about 1% to 12,3-million tons.

Exports do not seem to hold the answer for the cement industry, which unlike the steel industry, has fallen woefully short of erasing the difference between declining sales and increasing capacity by selling beyond the country's borders.

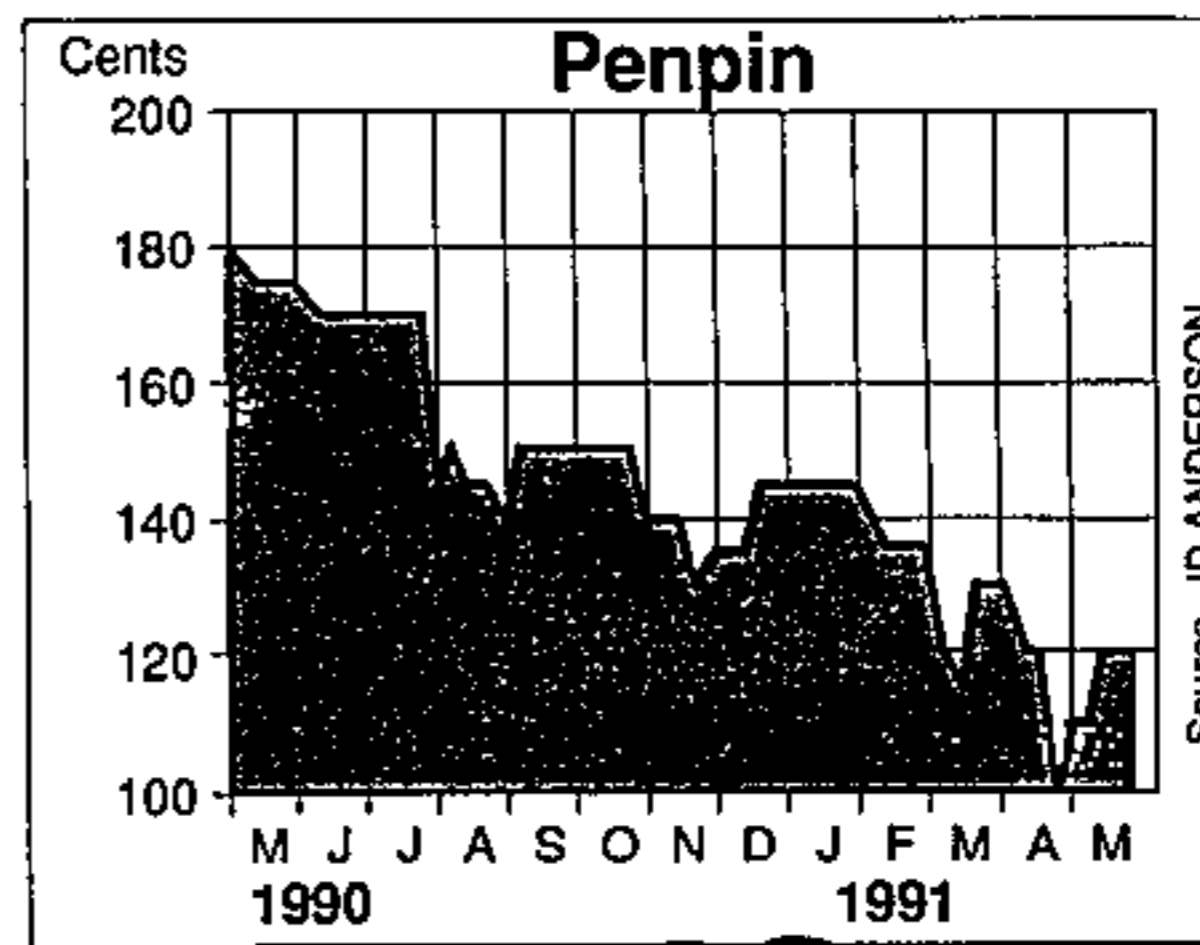
The cartel situation mitigates against any dramatic increase in exports, mainly because the reduced margins are not attractive enough for all three to reach consensus.

Capacity

Sacpa suggests that despite the obvious desirability of exporting "vastly greater amounts of cement", which is theoretically possible due to local excess capacity, "the industry is still frustrated by the fact that this is not commercially viable."

"The factories with excess capacity are situated in the western Transvaal, which is a great distance from our harbours."

The report says the cost of rail freight to any harbour raises the freight on board cost to the point where the product would be unsaleable, even before shipping costs are taken into consideration.



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In 1990, pre-interest profit rose by 20%, but after a 65% increase in net interest costs, pre-tax income was down for the first time since the group was listed, and the after-tax profit fell by 13%

Of particular concern is the jump of 53% in stock (R14,2m) and of 60% in debtors (R13,3m). These largely account for the cash-flow deficit. A 63% increase in creditors helped to fund these additions, together with further bank facilities of R2,2m. Bank borrowings consequently rose to R18,6m and the gearing now is clearly too high.

Malherbe says he is changing the orientation of the business to cash sales rather than credit. Stock, inflated by a strategic purchase last year, will be significantly reduced. Some of the valuable properties which the group owns are on the market, in an attempt to reduce short-term borrowings by R12m. Malherbe hopes this amount will be realised this year. Loss-making branches have been closed, and the unfortunately timed venture into contract plumbing has been discontinued.

Malherbe says debt will not increase during the 1991 financial year. He believes cash flow and profitability will improve, and he is hoping the group's new retailing approach will enable an increase in margins, even in the tight trading conditions that exist at present.

These objectives will have to be achieved if investor confidence is to be retained. In view of the uncertain prospects, the share is fully priced.

Gerald Hirshon

PENNYPINCHERS

SWING TO CASH 193

Activities: Retail and wholesale of building materials Fm 14/6/91

Control: Directors 37% (1989-55%)

Chairman: S van B Malherbe

Capital structure: 23,7m ords Market capitalisation R28m

Share market: Price 117c Yields 6,0% on dividend, 13,0% on earnings, p/e ratio, 7,7, cover, 2,2 12-month high, 170c, low, 80c

Trading volume last quarter, 75 503 shares

Year to Dec	'87	'88	'89	'90
ST debt (Rm)	0,3	8,3	18,4	20,2
LT debt (Rm)	1,7	5,3	5,7	4,9
Debt equity ratio	0,23	1,26	1,42	0,94
Shareholders interest	0,26	0,19	0,22	0,26
Int & leasing cover	8,7	5,8	2,9	3,1
Return on cap (%)	12,9	10,7	13,0	11,2
Turnover (Rm)	64	110	173	228
Pre-int profit (Rm)	2,7	5,5	9,1	10,9
Pre-int margin (%)	4,2	5,0	5,3	4,8
Earnings (c)	11	16	20,5	15,2
Dividends (c)	4,0	7,0	9,0	7,0
Net worth (c)	39	60	78	100

Servaas (Fasie) Malherbe, chairman of Penpinchers (Penpin), readily acknowledges that the group cannot expect to maintain its pace of expansion without running into difficulties.

Penpin pioneered the warehousing concept for the retailing and wholesaling of building materials. It was listed as a fairly small operation in 1986, and has since grown like Topsy. Because of this growth, the group has ended each of its last four financial years with a substantial cash-flow deficit. In 1989 it was R10,3m, last year it was R13,9m.

To fund the 1989 deficit, a rights issue last year raised R10,1m. This year Malherbe has no plan for another such issue, but is pinning his hopes on the restructuring currently under way in the organisation.

Dwaalboom: graveyard of cement boom hopes

14/6/91. (193)
B/Day
BRENT VON MELVILLE

THE mothballed cement plant of Dwaalboom is a testimony to the unrealistic economic expectations of the early 1980s. Located in the north-western Transvaal, between Thabazimbi and Gaborone, it has been as quiet as a graveyard since it was commissioned by PPC six years ago.

The day when it will eventually produce its first bag of cement is being pushed further and further down the road as the gulf between cement sales and capacity continues to widen.

And more than half a decade exposed to the harsh climatic conditions of the unforgiving highveld has also taken a toll on the state-of-the-art plant.

Its long-term custodian, works superintendent Len Farrell, says the plant is suffering badly from the corrosive effects of unusually high concentrations of sulphur dioxide in the air.

He says it is now at the point where PPC is taking the step of protecting the hardest hit sections with a special coating.

PPC says the sulphur dioxide content emanates from the tin and platinum refineries nearby.

At the moment the plant serves little purpose other than as a home to hundreds of barn owls, which keep down the levels of rats, mice and pigeons. The pigeons present another problem, doing what pigeons do best.

The ignominious condition of the computerised factory stems from the fact that PPC, as SA's largest cement producer, is simply producing too much

cement. Its available capacity (including Dwaalboom) supersedes its present sales by a full 40%.

The decision to build Dwaalboom was taken in the heady days of 1982 when cement sales were coming dangerously close to capacity. PPC management decided against extending the existing Slurry plant.

The reasoning was that the cement group did not want all its eggs in one basket, and the Slurry plant, at that time 64 years old, was already pumping out the bulk of PPC's cement production.

The location was chosen mainly because of the suitability of the limestone facilities, as well as ready access to rail and markets. The cost was punted at R350m, but construction was cut short at R250m in 1985.

PPC may have actually scored on the timing of the project. It reckons the replacement cost of the same factory today at about R750m.

PPC manager of production Reinhard Menzel says Dwaalboom is sitting on enough limestone to justify the expenditure, even considering any future expansion of capacity. Geologists

have estimated limestone deposits of about 240-million tons — enough to keep Dwaalboom (once it starts producing at its full expanded capacity) in raw material for about 240 years.

At present Dwaalboom is capable of producing 650 000 tons of cement, or about 13% of PPC's total capacity of 5,2-million tons. According to the specifications, however, a capital outlay of about R200m (at about R300 per annual ton production versus a greenfields cost of R700 per ton) could double that capacity.

But because the Slurry plant is only running at about 50% of capacity of its 1,5-million tons a year, PPC is not even considering bringing Dwaalboom on line until well into 1994.

Menzel says there have been several offers to buy the plant.

PPC, however, is not selling. Aside from the replacement cost, the group is holding out the hope that there is an economic uptick in the offing. Unfortunately, Dwaalboom is too far away to be used for exports — which are picking up.

Says Menzel: "When Dwaalboom was envisaged the emphasis was towards satisfying domestic demand and minimising imports. We took very little cognisance of export potential."

Superintendent Len Farrell at the plant. Picture CATHERINE ROSS

Leaner Plate Glass records 15% growth in earnings

JOHN SPIRA

Weekend Argus
Correspondent

A SLIMMED-DOWN, lean and focused PGSI has chalked up an encouraging 15 percent growth in earnings in the year to March 1991

Earnings of the glass and board giant increased from 354,8c to 408,9c a share on sales which eased back from R3,1 billion to R2,3 billion. Distribution for the year is unchanged at 222c

A feature of the figures is that gearing has fallen steeply — from 78 to 40 percent — while return on shareholders'

funds has improved from 16 to 20 percent

The group's restructuring, which resulted in numerous businesses being sold or discontinued, has refocused attention on PGSI's Southern Africa glass and board operations and on the international automotive glass replacement market

PGSI now has 630 automotive glass replacement outlets in the UK and Ireland, Germany, France, Belgium, Holland, Luxembourg, Portugal, Italy, Australia, South Africa and the USA

South Africa contributed the bulk — 54 percent — of group profits, with the UK the major foreign contributor

Chairman Ronnie Lubner believes PGSI is well placed to capture a meaningful share of the R10 billion automotive glass replacement market in the overseas countries in which it operates

"Our Southern Africa operations again performed exceptionally well in difficult conditions, with record performances from Glass SA, PG Bison and the Central African operation"

He stresses the advantages of the group's improved financial and strategic position — a factor which prompts a maintained earnings forecast in the current financial year against the background of a negative

outlook for the world's economy and the uncertain political climate in South Africa

Looking ahead to the 1992-93 financial year, he anticipates a steep improvement in earnings. Substantial tax benefits will accrue from the foreign operations, he says

"Once the subsidiaries in the latter countries begin generating meaningful profits (and they should do so in 1992-93), our global tax rate will fall substantially"

Mass housing projects in South Africa are bound to eventually get off the ground. And PGSI will be a major beneficiary from such a development

ARGUS 15/6/91

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Crumbling granite sales hit Keeley ¹⁹³

ROBERT GENTLE

KEELEY Group Holdings, the world's largest granite producer through its 50%-owned listed operating arm Kelgran, has turned in lower attributable profits for the first time in seven years.

This was due to a slowdown in international granite demand, competition between worldwide producers, lower than expected sales and a weak US dollar, which did not help export prices.

A slender 4% rise in turnover to R201m (R193m), lower operating income and a 13-fold hike in the interest bill all contributed to a 16% fall in Keeley's attributable earnings for the year ending February to R36,3m (R43,1m).

Earnings per share were down to 103,3c (122,8c) and the final dividend per share halved from 40c to 20c. However, thanks to a special dividend paid during the year to achieve the listing of Kelgran, Keeley shareholders receive a total dividend a share of 146,4c compared with the previous year's 75c. *Blouy 17/6/91.*

Kelgran saw earnings a share fall 5% to 58,5c (61,5c). A total dividend a share of 83,2c (37,5c) was declared, which includes a special dividend a share paid to achieve the listing.

Despite the slowdown in the growth of granite demand in the past year, the directors say they are confident current and long-term international demand for high quality granite will continue to increase.

"The group is well positioned to exploit this future potential," they say.

COMPANIES

Plate Glass prospers despite lower turnover

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3/Day 17/6/91

MARC HASENFUSS

RESTRUCTURED Plate Glass & Shatterprufe Industries (PGSI) managed a 15% rise in earnings in spite of a 27% fall in turnover in the year to end-March 1991.

During the year PGSI refocused attention on its southern African glass and board operations and on the international automotive glass replacement market.

The group's southern African operations again performed well with record performances from Glass SA, PG Bison and the Central African operation.

Chairman Ronnie Lubner said the group was now more streamlined and balanced. Loss-making and unviable operations had been disposed of, with the highly successful southern African investments providing a solid platform for continued development in the African subcontinent.

Continued investment in the off-shore automotive glass replacement network was expected to provide healthy returns soon, Lubner added.

The disposal of operations saw turnover drop to R2,3bn (R3,1bn). However, this was offset by improved operating margins to 12,9% (9,2%), an effective halving of interest paid to R28m and a marginal decline in the tax rate.

Earnings lifted to R67,4m (R58,4m) or 408,9c (354,8c) a share, enabling the group to maintain the dividend payout at 222c a share, covered 1,8 (1,6) times.

Gearing was significantly reduced to 40% (78%) as borrowings decreased dramatically by R202m to R241,5m, largely as a result of restructuring.

Full provision amounting to R117m for below-the-line costs incurred in the rationalisation and disposal of businesses was offset by the R96m net surplus stemming from the sale of the group's UK building glass interests to Saint-Gobain.

PGSI now has 630 automotive glass replacement outlets in the UK, Europe, Australia, SA and the US. Lubner said certain offshore operations would continue to need investment but the group was well poised to capture a meaningful share of the R10bn automotive glass replacement market in these countries.

PGSI's shares have recovered from R33,75 in September and closed at R57 on the JSE on Friday. The share peaked exactly a year ago at R58,75.

PGSI improves profits by 15%

97/17/19/1

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JOHANNESBURG. — The fortunes of Plate Glass & Shatterprufe Industries (PGSI) have changed for the better with the group recording a 15% increase in attributable profits for the year to March.

This follows a massive restructuring exercise carried out in the course of the year.

The group has reported that earnings per share for the period were 408,9c compared to the previous 354,8c.

Attributable income was R67,4m compared to R56,4m in the previous reporting period.

A final dividend of 157c a share was declared, bringing the total for the year to an unchanged 222c

Gearing was reduced to 40% and borrowings were down by about R200m to R247,5m (R443,8m).

These results were achieved in spite of a 27% drop in turnover to R2,3bn (R3,13bn) as a result of the restructuring.

This entailed

● Reducing the scope of interna-

tional activities by concentrating on the automotive glass replacement market;

● Focussing on the two key investments in SA, Glass SA and PG Bison and on its business interests in Central Africa, and

● The re-integration of the glass and wood divisions into a single group structure.

The operation involved the sale or closing down of a number of the group's operations.

PGSI said: "Full provision, amounting to R117m has been made in the accounts for below-the-line costs incurred in the rationalisation and disposal of these businesses, both completed and underway.

"These costs were, however, offset by the R96m net surplus which arose from the Saint Gobian transaction, announced earlier this year."

The group said that while a maintenance of earnings was targetted for the current financial year, the current world economic situation indicated a downside potential. — Sapa



Fm 21/6/91
punting for annual earnings of 430c It's also worth noting that, whereas at half-time the company was looking at realised and anticipated restructuring losses of R74m (provided below the line), it's now written off R117m, moreover, since the 1990 annual report, short-term borrowings have for some reason been taken out of current liabilities

This may highlight the R202m cut in total borrowings, and long-term borrowings are now a negligible R52m, but if short-term borrowings of R190m are added back to current liabilities, the current ratio would fall to a scanty 1.06

Downside potential

Largely because of the disposals, group turnover fell by 27% — which, coupled with the higher earnings, vividly underlines how much restructuring has improved margins

What of the current year? The preliminary report says "a positive contribution from the reconstituted international operations is targeted in the short term" — which implies they aren't profitable yet Group earnings are budgeted to be maintained, but "a downside potential must be recognised"

On the other hand, restructuring has enhanced the financial and strategic position Analysts point out that cash flow remains strong, which should allow a further cut in gearing (already down from 78% to 40% last year) and interest paid Moreover, the full

PROFITABLE SHRINKAGE

Year to March	1990	1991
Turnover (Rbn)	3.1	2.3
Pre-tax profit (Rm)	234	270
Attributable (Rm)	58.4	67.4
Earnings (c)	355	409
Dividends (c)	222	222

benefits of restructuring did not accrue last year, and the average value of the rand is likely to fall, enhancing the rand value of foreign earnings (assuming they're positive, that is) Without even taking inflation into account, therefore, if earnings do not show some — even if only marginal — advance, in a sense that would be a deterioration

The historic yield is under 4% Dividends were last increased in 1989, when earnings were 483c a share, and though profits may be over the worst, there seems little chance of a major hike in pay-out for a year or two At R57, the share has put on almost R20 since the interim report was published in December, and is almost three times reported NAV of just under R20 Given the economic uncertainties at home and abroad, it could be high enough, for now

Michael Coulson

PLATE GLASS Fm 21/6/91

OVER THE WORST? 193

Considering that first-half earnings were almost unchanged, there was useful progress in the second half, though some analysts were

NMPC seeks its own restructuring

173
11/7/91

NA key step towards co-determination, the National Manpower Commission has urged its own restructuring to provide for negotiations between business and unions on labour law.

The NMC's recommendations on restructuring have already gone to Manpower Minister Eli Louw but were publicised this week.

They follow last year's "Labona Minute", in which the Congress of South African Trade Unions (Cosatu) and the National Council of Trade Unions (Nactu) agreed to join the commission if it was restructured.

The black unions want to transform the NMC from a body of hand-picked advisors to the minister into a negotiating forum in which major interest groups strike deals on labour law and broader socio-economic policy.

Louw has extended the life of the current NMC until September 31 this year. The NMC recommends that a restructured commission should be appointed no later than October 1.

In its report, the NMC agrees that it should remain an advisor to the Manpower Minister, but the majority view is that it should operate as far as possible on a consensus basis.

"It is unavoidable that negotiation will take place, that compromises will be made and deals will be struck," it says.

"Because compromises will be part of the process, the advice of the NMC must always be considered very seriously by the Minister."

Facilitating negotiations is a proposal that the NMC should comprise employer and employee representatives in equal numbers, with individual experts sitting in limited numbers.

The majority recommendation is 10 members each for employers and employees, and five independents.

The majority view is that representation should be weighted to take account of membership strength and the importance and influence of the organisation, but there is no agreement on how this should be done.

Some members hold that the minister should make appointments roughly using these criteria, while Cosatu argues he should have no discretion. Employers believe employer representation should be settled among themselves.

The NMC recommends that commission members should operate on mandates and enjoy the confidence of their

Far-reaching changes have been recommended to the state's labour advisor, the National Manpower Commission
By DREW FORREST

constituencies. The minister should appoint whoever has been nominated and should remove members if requested to do so by the relevant organisation.

And to give the body a tripartite character, it also proposes that the Manpower Department should "actively participate" in NMC proceedings — informing the commission of its views at an early stage — but without voting rights.

This is clearly designed to avert recent problems where the department has overridden hard-bargained NMC compromises. "If the department actively participates in NMC proceedings, the NMC will be much clearer on why its recommendations have not been accepted," the report says.

The report also recommends that the state as an employer should be represented, via the Commission for Administration.

The black unions also want to give the NMC more teeth, and the report goes some way towards this.

Members are unanimous that the commission, which is not elected, cannot usurp parliament's prerogatives and that the minister must have the right to frame legislation.

However, the majority view is that no labour law should go to parliament unless the NMC has been allowed to consider and comment on it. It is also recommended that NMC proposals should be submitted to the parliamentary select committee — that is, tabled in parliament — if the Minister rejects them.

Most members agree that NMC recommendations enjoying substantial support — no less than 75 percent — should be considered the commission's official position and carry corresponding weight with the minister.

Cosatu's view is that the NMC should be a decision-making body, and it envisages a negotiating relationship between the commission and the minister.

In the past, it has suggested a "minute" to govern the relationship.

Bertie's wood hope goes up in smoke

ST Times 7.7.91

(Business Times)

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

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

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

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

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

Best

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

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

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

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

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

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

By DAVID CARTE

29% of group sales and 60% of operating profit. How lucrative the market has been in SA can be gauged from the operating margin of 28%. The glass division made R227-million on sales of R800-million.

Pressed board maker PG Bison was the second-biggest contributor, accounting for 22% of sales and 23% of operating profit. After SA, the UK

was the biggest source of earnings, contributing 114c a share in gross earnings (before losses) of 640c.

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

PGSI hopes to match these earnings, but Mr Lubner cautions that much depends on SA. At R50, the share is 11.7 times earnings and yields 4.4%, so retains its blue-chip rating.

Spectacular

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

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

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

After the changes, PGSI is more dependent on its glass activities in SA than ever. Last year Glass SA accounted for



Dimensions of profit

Evaluations based on sheer production breakdown at consumer level

With the exception of industry leader Kelgran, the granite companies so far this year have turned in disappointing results. Despite this, all the producers and most JSE analysts are confident the market has turned, and the next two years should be good ones.

Granite is sold in US dollars and the 15% drop in the value of the rand against the dollar since January is now helping profits. The sector is seen as a recovery situation on the JSE and is starting to attract increasing investor attention. But the complex nature of the granite — or rather dimension stone — business is such that investors should be aware of the pitfalls.

Granite is unusual in that it's a mining business with an end-product judged on artistic merit and consumer appeal. It does not need massive amounts of capital to get started and small operators can get into the game easily — given the required mineral rights. But mining and marketing risks are huge.

Some large granite companies — Keeley Holdings, Kudu, Marlin — were successfully listed during the JSE equity boom up to 1988. Since then a number of smaller companies — Aurora, Mingran, Quagga and Petra — have followed, while Keeley became the pyramid for its listed operating company, Kelgran. So far there has been only one casualty. Aurora was taken over by Kudu last year. It may not be the last.

The size of the business, and the long-term growth prospects, are such that two major mining houses have moved in. In 1989 Anglo American Corp bought a 35% stake in German firm Deutsche Steinindustrie (Destag) which wholly owns unlisted Impala Granite. In April this year Gencor teamed up with Fred Keeley through an agreement that gives the house the option to take control of Kelgran after five years.

According to the *World Stone Industry Report 1991*, prepared by Societa Editrice Apuana, SA and India last year were the world's joint largest exporters of raw granite, with 610 000 t each. The Apuana report put the physical volume of the world raw stone industry at 32 Mt in 1990, worth US\$13bn excluding transport and commissions. By comparison, the annual world trade in gold is worth about \$35bn, while the diamond trade (in rough stones) amounts to \$4bn.

Granite accounted for 10 Mt of overall stone production last year, marble 15,5 Mt, travertine 1,5 Mt, and other stones 5 Mt. There is a 50% wastage factor in the production of finished stone articles, Apuana estimates the 32 Mt equates to about 284m equivalent m² of finished stone at a thickness of 200 mm.

The market for finished stone will nearly double to 500m m² equivalent by 2000. That kind of growth projection is mouth-watering and the scope for value-added business through greater beneficiation in SA is obvious. At present the bulk of these profits are being earned by the Italian firms which dominate the world trade.

Local granite firms like Kelgran and Marlin have moved into local beneficiation to some extent, producing tiles and cladding for buildings. Keeley says his group is looking at various ways of further beneficiation, but points out a serious concern is to avoid going into competition with the industry's major purchasers of the raw material.

Perhaps one solution is to follow the route taken by Highveld Steel and Samancor on their proposed stainless steel plant, and convince major customers that it makes financial sense to set up a joint venture in SA.

Bottom-line is that dimension stone is eating into the market share of its much larger competitor, ceramic tiles, while demand for granite is growing at an even faster rate because of its advantages over other natural stone products. These include durability and its resistance to acid rain and other pollution which has damaged so much marble work in many of the world's major cities.

The export trade in raw granite last year

amounted to about 4,5 Mt, of which Italy consumed 1,5 Mt and Japan 1,3 Mt to account for 62% of the total. Biggest exporter of finished stone products, predominantly granite, is Italy with about 60% of the 3 Mt exported last year. SA industry sources estimate the annual value of the export trade in raw granite at between \$500m and \$750m, and the trade in finished products at between US\$2bn and \$3bn.

Japan, already a major market for raw granite, is expected to grow even more rapidly because of the Japanese government's decision to spend \$3,2 trillion on upgrading the nation's infrastructure over the next decade. That includes new airports, universities and massive facelifts for cities.

"The Japanese love granite but they are extremely fussy on quality," says one granite company executive. "They would not accept the standards you see on a number of recently erected, granite-clad buildings in Johannesburg. Shifts in colour between panels and blemishes on individual panels are totally unacceptable."

That's one of the key pitfalls of the business. Customers demand quality and uniformity — but granite is not normally a consistent, homogenous product. The main SA products — Rustenburg Grey, Belfast Black and African Red — are exceptions.

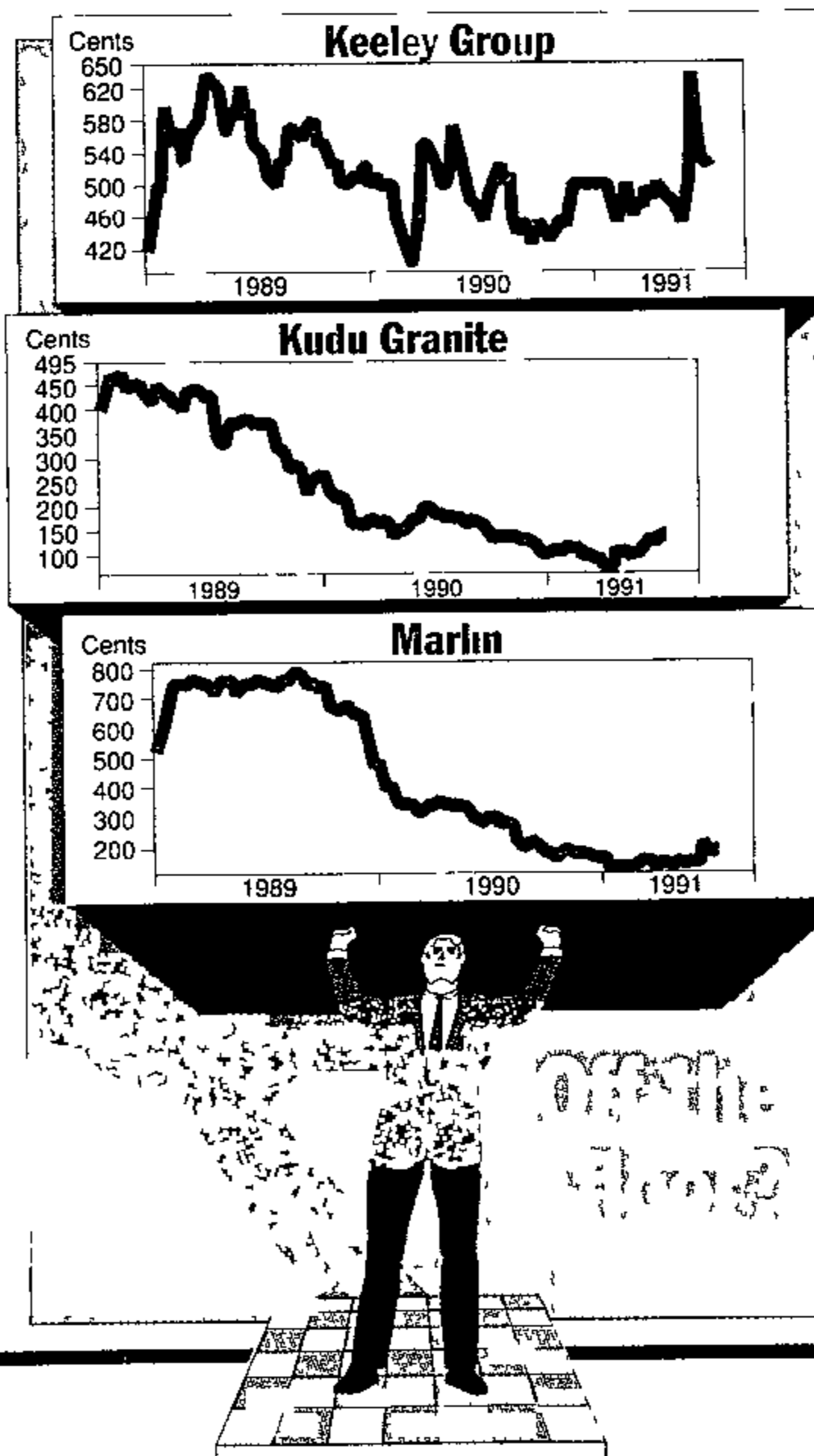
They are sought after for their consistency.

Belfast Black is accepted as the top-quality black granite and the most expensive, selling for up to \$2 500/m³. It is the benchmark by which other types of black granite, such as Transkei, Zimbabwe or Mooketsi Black, are judged.

Keeley comments "Newcomers to this industry are in for a difficult time because they have a lot of basic groundwork to do on mining and marketing. You have to train people to cut granite and you cannot simply hire someone off a gold mine and expect them to do the job properly."

"Also, they are opening up quarries in areas like Mooketsi which we have examined previously and rejected for various reasons like quality or the geology of the deposit. For example, 70% of a quarry's production must be in the form of large dimension blocks for which customers are prepared to pay premium prices."

Some newcomers accept those points but reckon they are not insurmountable. One company which believes it has established itself successfully over the past 18 months is unlisted Ketter Granite. It opened up a Belfast Black quarry to enter this sector of the business, which is dominated by Marlin and Kelgran.



stance, the question of employment. In the then-socialist countries, unemployment was unheard of, health care was one of the best you could get, the participation of people in the running of enterprises was, at a theoretical level, quite ideal — but they did not put it into practice in the way they should have.”

The point is, of course, that none of this could be sustained. When asked about his visit to Moscow in 1989, he admits “It was a shock in a number of ways. I went at a time they were beginning to experience enormous economic problems. You cannot go to any of these countries and not be surprised by the level of economic decline.”

He can recognise economic decline. That much is clear. But is he fully aware of its causes and what the alternative must be if SA is to generate, let alone redistribute, wealth? Businessmen who know him confess to doubts about Ramaphosa’s practical understanding of the dynamic of a market economy.

This is what one had to say. “In some respects there is a parallel with the development of trade unions — the need we had for an organised channel of communication, strong union leaders to bring the members along. For that you need people of Cyril’s calibre. He is a consummate negotiator, and it’s in the ANC’s interests, if negotiations with government are to succeed, to have such a person. He understands the fundamental lesson of negotiation — that it involves compromise.”

“But while we all think he’s a great guy, he doesn’t understand wealth-creation. For instance, when he was asked about the issue on TV (on *Agenda*) he brought up that hoary old chestnut, electrification.”

Last week — under consistent pressure from business — Ramaphosa issued a statement that categorically denied he had ever been a member of the SA Communist Party. But what of the policy of nationalisation, which the NUM supports?

Ramaphosa responds “The decision of the NUM is that in terms of achieving the objectives that we believe are necessary for growth, there should be certain enterprises that should be identified for public ownership. Government should be able to intervene by giving direction to the economy, by taking ownership of certain enterprises in the economy, by managing others, and so forth. And all that should be to achieve certain strategic objectives.”

“If it turns out that by taking a particular enterprise you are not going to achieve those objectives, you should not do it. There’s going to have to be a process of research and study of whether the taking into State ownership of a particular enterprise is actually going to win the objectives we want. Nothing will be taken into State ownership without thorough research and analysis, including what is currently under State ownership.”

Is this not a little disingenuous? Ramaphosa knows that popular feelings willy-nilly support nationalisation. Clearly the ANC will examine this “option,” but whether it is

exercised or not will depend on whether the ANC’s leadership can bring itself to admit that it has never, anywhere, succeeded. And then to explain to its followers why this is so.

(Clarity on ANC economic policy, based on guidelines presented at its recent conference, can be expected “within six months,” according to Ramaphosa.)

Ramaphosa is also not completely clear — perhaps not even in his own mind — on the principle of private ownership as crucial to a successful modern economy.

“I accept it without any form of reservation,” he says, then goes on to lodge a reservation. “I also accept the fact that you need to have public ownership of certain means of production. In that respect, we locate those two objectives in a mixed economy, which the ANC has set out as the foundation of its economic policy.”

But a mixed economy has no place in anything that Marx ever advocated. Simply put, he adumbrated, using a spuriously scientific technique, a process whereby inevitably the rich would become richer and fewer, and the poor even poorer and greater in numbers. The outcome would be a revolution from which a people’s dictatorship would emerge with the State owning the means of production and in which each worker would contribute according to his ability and receive according to his needs.

Marx was no moralist. He described a historical process that he claimed was inevitable. And everywhere it has subsequently been shown to be in ruins.

There is sufficient evidence to indicate now that successful democracies are invariably based on private ownership and the allocation of resources by the market. Government’s allocation of resources too often leads to a loss of personal freedom as failure impacts upon failure. Ramaphosa disagrees.

“No. I think successful democracies should really be judged by the way that people as a whole are given the opportunity to participate from grassroots level up to the highest decision-making structures of any country. The type of democracy we want to see engendered in this country goes way beyond that we have seen in practice in capitalist countries. It is the type of democracy in which civil society organisations are fully empowered to get to grips with issues of the day, and able to feed all they are debating into the highest structures of government.”

He is as ambivalent on the efficacy of the market. “I remain convinced that the free market is not solely able to solve the ills that beset a number of countries. It will not be



Ramaphosa interviewed by FM’s Amarnath Singh at the helm

able to do so in our country. You need to have a mixed economy that mixes what the market is able to do best — and also takes into account what State-run corporations are able to deliver to the people as a whole.”

That sounds agreeable but it defies close intellectual scrutiny. State corporations are able to deliver nothing to the people more efficiently than private corporations are able to.

Those who have reservations about his grasp of economics should remember that he is adept at using advisers, has shown he is more attuned to the pragmatic solution than to ideological deadlock, and has before him evidence that mounts by the day of the sterility of the collectivist dogma.

Feeding policy

As secretary-general, and therefore part of the top six of the ANC, Ramaphosa will be part of the national working committee directly involved in overall ANC policy formulation and direction. If, through his pragmatism, he has reservations about issues such as nationalisation, this should be reflected soon in official ANC policy, if that is not already the case.

Ramaphosa sees himself as much as a politician as a unionist. “Just by being an official of the ANC also means that you are a politician. And my abilities as a politician are going to be finally seen in action, rather than based on what I say.”

Last year in a special interview published on September 28, Mandela told the *FM* that he was not a socialist. However, as recently as 1985 (according to a report in the *Mail on Sunday*) the ANC president said to one of his visitors in prison, Lord Nicholas Bethell, “personally, I am a socialist.”

We are not sure whether that is Mandela’s ambivalence or a change of mind. We hope it is the latter.

And that Ramaphosa’s equivocation on Marxism can be taken in much the same light. If we are wrong, the Harold Macmillan phrase about “never having it so good” will apply to the majority of people in this country, regardless of race, right now. And they certainly won’t ever have it as good again. ■

Comments a Ketter spokesman "Belfast Black is so highly sought-after that, in last year's depressed market, the major suppliers were insisting customers wanting Belfast Black take quotas of other granite types at the same time. We offered Belfast Black with no strings attached. After sending off test shipments our quality has been found acceptable and we are now a large supplier of the commodity."



Keeley . market leader

Demand has since improved, though higher inventories and debt in granite company balance sheets remain a legacy of the stodgy market. The price war in Rustenburg Grey, which saw prices drop from around \$470/m³ to between \$350-\$370/m³, is over. Prices have returned to between \$400 and \$450, according to Marlin Corp MD Graham Treagus. Keeley says all the producers pushed up their prices in March and the new levels have stuck — with Rustenburg Grey increased by 20% and Belfast Black, along with African Red, up 10%.

The granite companies do not publish production figures, but Keeley — the largest — is planning to produce about 400 000 t of stone this year. The other three big produc-

ers, Marlin, Impala and Kudu, are in the 100 000 t to 200 000 t range. Treagus and Keeley say they were unwilling to cut production when the market turned down after Iraq's invasion of Kuwait because of the effect this would have on production costs. They felt the hiccup in the market would be short-lived and preferred to build up inventories which they are now running down. That should help profit margins.

Analysts are almost unanimous that Keeley's dominant position makes Kelgran the sector share to go for. Kelgran also runs its own stevedoring operation, which taps the profit to be made in the transport side of the business. Longer-term, the challenge for Gencor is to get the vast knowledge of the business inside Keeley's head firmly into those of its own executives' over the next five years.

Frankel Max Pollak Vinderne analyst Kevin Kartun prefers Marlin in the short term. He feels it has better earnings growth potential over the next six months. Apart from being in a recovery situation, it is more exposed to granite beneficiation, so it should benefit from government export incentives.

Kudu is also looking at recovery, but some analysts are wary of the effect on earnings of servicing its high debt which hit R20m at end-December. Financial director André Dry says it has since dropped to R18m, and will be whittled down as the market improves.

Newly listed Petra Granite is an unknown quantity at this stage. Minaco Granite (Mingran) achieved its prospectus forecast of a 3.5c a share dividend for the 10 months to December. However, investors should be aware of the track record of controlling shareholder and manager Cyril Heever's African Exploration (AECO), which has two failed gold mines to its credit. JSE analysts don't like that.

Shareholders of Quagga Granite, listed through a private offer at 75c in April, have seen its price go straight down ever since. Bucking the sector recovery trend, it now stands at its all-time low of 15c. Marlin last September acquired the rights to distribute Quagga's African Red granite.

Final words are from the granite company executive: "This is a terrifying business for a mining engineer. There are no rational numbers you can use to judge purity. The whole concept of a scientific ore reserve breaks down. The final decision on the success of a particular product rests with the consumer, and you need a feel for the market that comes only from long experience."

For those who have it, the potential rewards are large.

Brendan Ryan

Cement producers under investigation

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Blom 22/7/91

BRENT VON MELVILLE

THE Competition Board has launched an investigation into the three-member cement cartel.

Competition Board chairman Pierre Brooks confirmed on Friday that the board was to review the cartel's exemption, granted in 1988, from the Maintenance and Promotion of Competition Act.

Brooks said the board hoped the investigation would be completed by year-end.

He said while there was no certainty the status quo would change, the board had decided that the circumstances surrounding the exemption had changed.

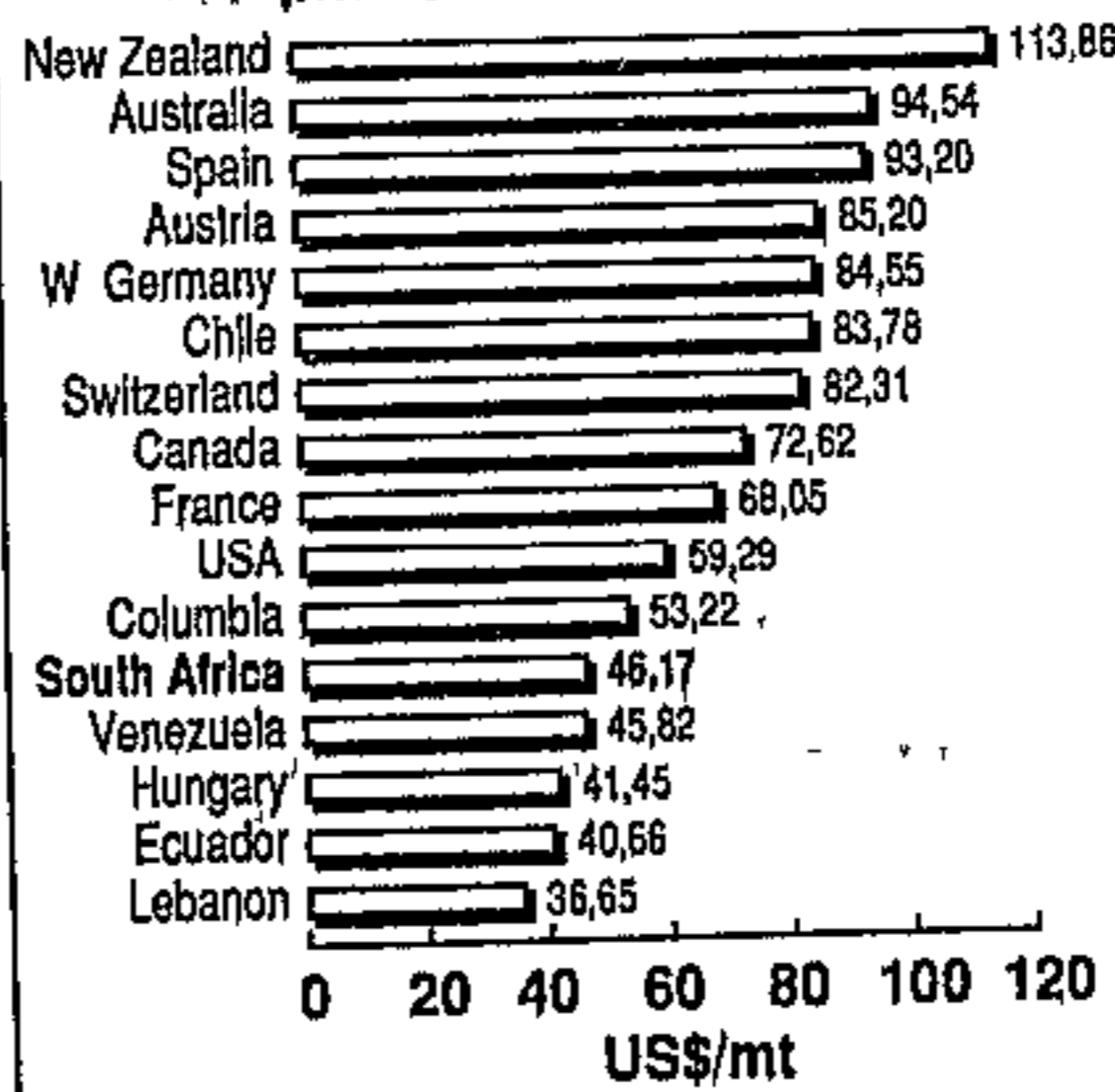
The cement cartel — consisting of PPC, Anglo-Alpha and Blue Circle, represented by the SA Cement Producers' Association (Sacpa) — has been a controversial issue in the building and construction industry.

Sacpa has come under fire for fuelling the rate of inflation in the construction industry and allegedly being arrogant and insensitive towards its customers.

Anglo-Alpha MD Johan Pretorius said as far as the producers understood the board had not officially stated its intention to embark on a full inquiry, "although the cartel would co-operate fully with any in-

International cement prices

List prices 1990 - bulk cement



Graphic FIONA KRISCH Source HOLDERBANK, SWITZERLAND

vestigation".

The producers claim they require market stability which reduces the risk on the high capital expenditure required and allows the industry to accept a lower rate of return on investment.

Sacpa argues that this results in lower

□ To Page 2

Cement

prices, which is in the public interest. But Concor Technicrete MD Peter Michau said the cartel should not consider itself unique as far as capital intensity was concerned. He said there was a risk involved in putting up a steel or aluminum factory or a fertiliser plant.

"It is just a question of managing one's capital adequately rather than seeking protection," he said.

A Sacpa positioning paper released on Friday claimed the cartel was in the best interests of the public.

The paper pointed out that market forces kept selling prices down and that prices had been in line with the PPI and the building materials cost index despite a significant increase in plant replacement costs.

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"The high capital intensity of the industry was shown in the fact that an economically sized kiln cost about R500m at today's prices."

The document said that while comments were frequently made about the effect the price of cement had on the cost of a home, its research indicated that it was "surprisingly low" at 4% to 8%.

It added that low-income housing had a higher cement content but was subject to vigorous competition from alternative building systems.

The cartel said that in the US, anti-trust legislation has resulted in a number of adverse consequences for its cement industry.

The US industry is characterised by little new investment and maintenance programmes have fallen behind.

Cement cartel under spotlight

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CT 22/7/91 ~~245~~

Own Correspondent

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Capital intensive

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The US industry is characterised by little new investment and maintenance programmes have fallen behind

Granite mining's messy act

193



The irony of the granite business is that the quarrying to produce this building material sought for its beauty causes such destruction of the land where it is mined

Quarrying in SA involves ripping apart koppies and ridges to get at the underlying granite and the scale of the mining operations in certain areas, particularly around Rustenburg, is worrying both conservation and mining authorities

All the major granite companies run quarries near Rustenburg and many are inside Bophuthatswana Steve Johnson, deputy-director of the Bop National Parks Board, says he is concerned about the mining Hylton Anders, Bop government mining engineer, concedes "it's a very large problem"

The parks board has commissioned a study of the economic and ecological impact of the granite business, which in Bop takes place mostly on land owned by the Bafokeng or Bakwena/Ba-Mogopa tribes Some of the operations extend near the border of Pilanesberg National Park and private companies and individuals still hold certain mineral rights, including granite, inside Pilanesberg

The devastation caused in the area is readily apparent from the air After flying over the region recently, Endangered Wildlife Trust director John Ledger said there appeared to be little or no effort being made to minimise the damage — an opinion echoed by mining industry officials who have visited the quarries

The major quarry companies such as Marlin and Keeley reject this, saying rehabilitation is an ongoing part of their various operations, but it's clear that management attention has focused closely on rehabilitation only very recently

According to Bop government mining inspector Bill Carruthers, who was appointed about six months ago, attention has been paid to rehabilitation only over the past five years, while granite mining has been taking place in the area for the last 45 years

"In my opinion, there are only three quarries in the area that are rehabilitating to the required standards — the Bekker quarry (part of the Keeley group) and the Taylor and Wonderkop quarries (part of Impala Granite) We are insisting that the companies rehabilitate concurrently with their mining operations It's obvious there was a very slapdash approach to this in the past, but that is changing We have asked them for a programme on what they intend doing

F M 2/8/91
about the areas that were worked out previously"

Keeley Group chairman Fred Keeley says his group recently held discussions with the Bop inspectorate and reached a consensus on upgrading the rehabilitation of old quarries to the same standards as that of Bekker

Rehabilitation requirements vary from quarry to quarry, but the bottom line in Bop and SA is that the waste dumps created from quarrying be covered with soil and planted with vegetation as the mining proceeds

Despite this, conservationists reckon that the quarry companies have been getting away with much less until very recently The



Digging granite the surface costs are huge

reason is probably that other sectors of the mining industry present Bop government mining engineers with more pressing problems than granite mining, which is a clean process that causes only visual pollution

No chemical processes are involved in processing granite, which means there is no air pollution like the sulphur and nitrogen emissions from the smelting processes used in the production of metals such as platinum and ferrochrome Furthermore, the granite waste dumps do not cause water pollution There are no harmful chemicals in the waste dumps that can leach out to infiltrate groundwater or rivers, as has happened in recent years near some gold and vanadium mines

What granite quarrying does do is affect large areas of ground because of the high waste-to-ore ratios Foreign customers insist on colour quality and consistency, which are rare in most granite deposits The average waste-to-ore ratio is between 40% and 60%, rising to more than 90% in special cases such as Belfast Black granite

Standard practice on many quarries has been to throw the waste boulders and granite on to the shoulders of the koppie and forget

about it Many of the dumps were created by mining operations using cranes and are difficult to get at to rehabilitate

Another practice adding to waste generation is that mining operations tend to work along a line of koppies, taking bites out of each rather than removing one koppie at a time in its entirety That's due to quality requirements and because it's cheaper

Then there's the question of closing a quarry, which means that final rehabilitation must take place Operators are loath to declare a quarry closed because rising prices and changing consumer trends can make non-viable deposits profitable again

Tightening rehabilitation standards could not have come at a better time because the granite industry has grown rapidly over the past decade and that trend should continue SA and India were the world's leading granite exporters last year, at 610 000 t each

Industry estimates put a value of between US\$500m to \$750m on total world raw granite exports last year of 4,5M t Keeley reckons that total SA exports are now worth about R270m Industry forecasts say the market for dimension stone in general — granite, marble, travertine and other types of stone — will nearly double by 2000, while demand for granite in particular should rise even faster

The granite business clearly offers much-needed economic development for SA through its expansion prospects and the scope for local beneficiation of the raw product However, this must take place hand-in-hand with the proper rehabilitation measures The granite companies must make this responsibility a part of the work ethic of their employees, just as they do with mine safety In no circumstances should quarrying in declared conservation areas such as the Pilanesberg be allowed or even be considered

The SA mining industry has already provided an example with the successful rehabilitation schemes of the major coal outfits such as Amcoal's New Vaal Colliery at Vereeniging, which won this year's Eppic (Environmental Planning Professions Interdisciplinary Committee) award

From the authorities' side, the enforcement of the laws must apply to every granite operator, no matter how small The experience of small, fly-by-night coal operators in the eastern Transvaal evading their rehabilitation responsibilities and getting away with it should not be repeated

Brendan Ryan

Enter big brother

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FM 2/8/91

Activities: Quarrying, beneficiating and exporting granite as well as stevedoring

Control: Fred Keeley and Gencor 56%

Chairman: M F Keeley, MD M N Riekert

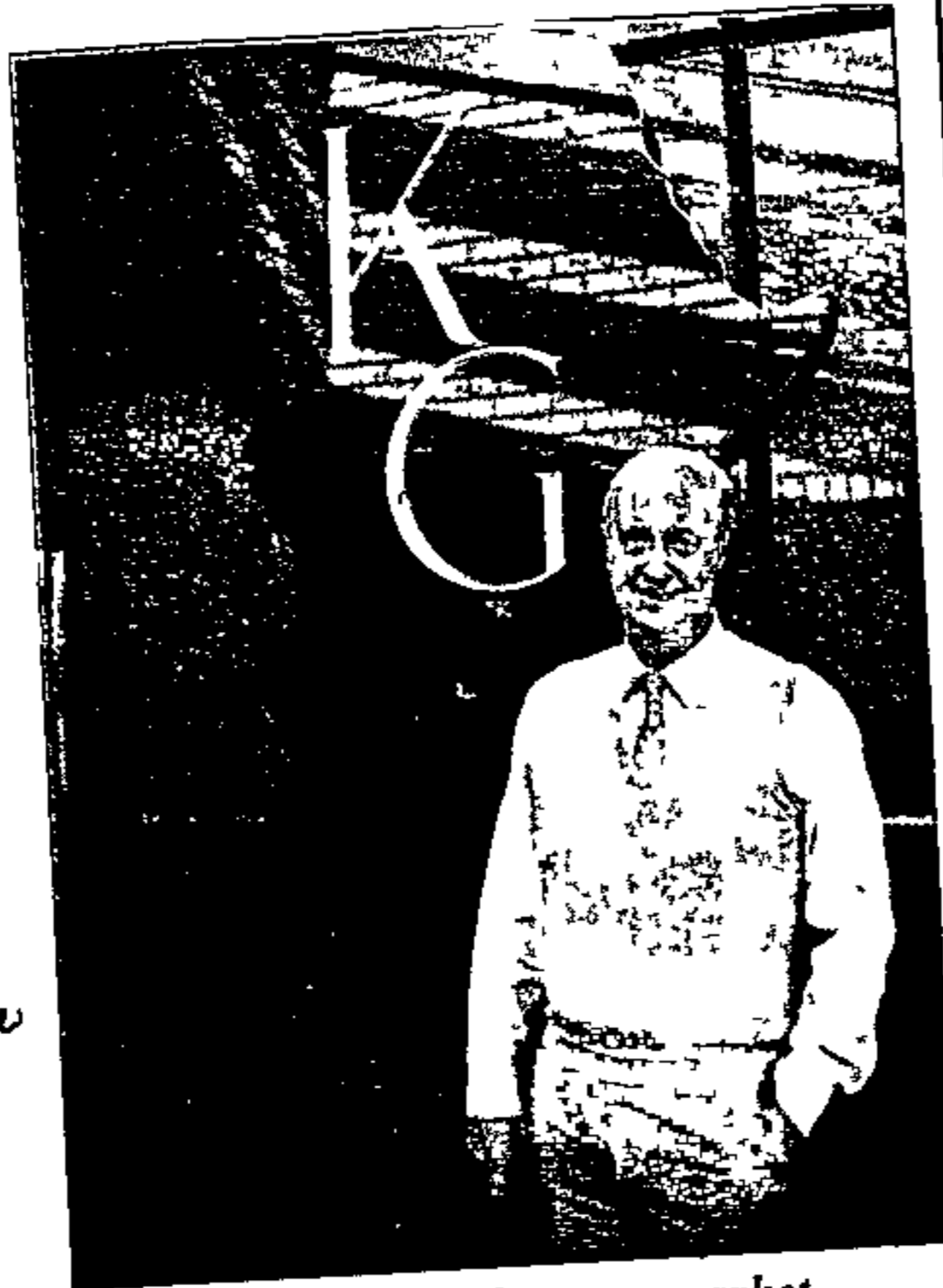
Capital structure: 35,1m ords Market capitalisation R204m

Share market: Price 580c Yields 10,3% on dividend, 17,8% on earnings, p e ratio, 5,6, cover, 1,7 12-month high, 1 050c, low, 450c

Trading volume last quarter, 2,2m shares

Year to Feb	'88	'89	'90	'91
ST debt (Rm)	4,4	10,6	16,2	17,3
LT debt (Rm)	3,9	10,5	11,7	5,0
Turnover (Rm)	66	144	192	201
Pre-tax profit (Rm)	14,7	38,5	52,4	45,6
Attributable (Rm)	13,3	32,3	43,1	36,3
Earnings (c)	43	92	123	103
Dividends (c)	11	55	75	60

continue



Keeley's Keeley market

is picking up

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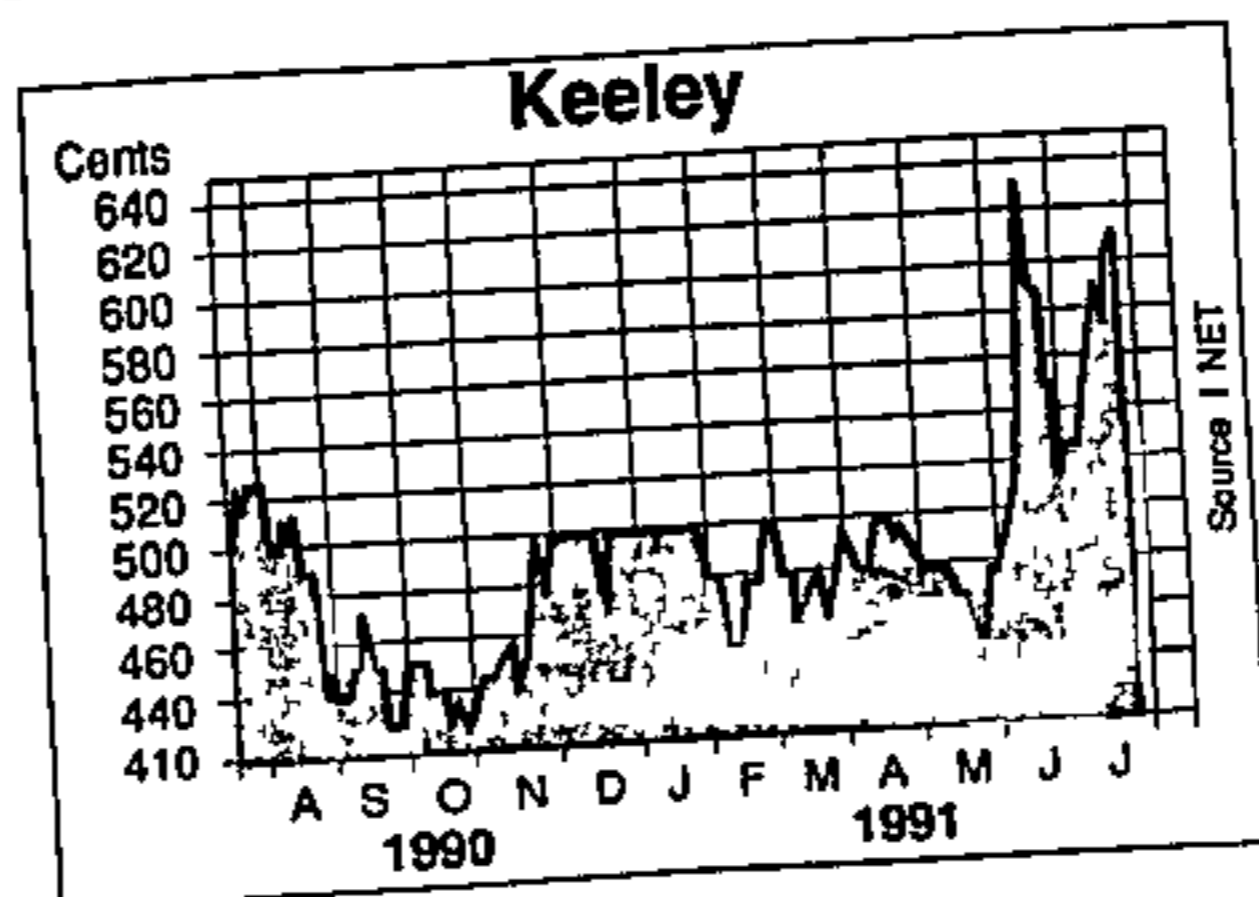
Keeley, SA's largest producer of granite, has a different structure following the pyramiding of Keeley Group Holdings (Keeley) into the holding company for listed operating company, Kelgran. It also faces a different future, following the involvement of Genmin

Keeley shares spiked upwards after the Gencor deal in April, before dropping to levels around the 528c which Genmin minerals division MD Fred Roux says the house paid for its effective controlling stake — a 10% premium on the then-ruling market price of 480c. The price has since moved strongly ahead.

Gencor's involvement adds a strong financial partner and solves the problem of Keeley's long-term future, as there was no obvious successor to founder Fred Keeley (56). The house is attracted by the size of the business and its scope for further growth, particularly through local beneficiation.

Keeley has agreed to continue running the group for the next five years. From then on, his options on what he does with the balance of his shares and his future involvement in management are open.

That's where some analysts have a slight worry on prospects. Granite is vastly different from traditional mining businesses like gold, platinum or ferrochrome. Fashions in the granite market change over time and the producers have to keep abreast of the trends.



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That is the kind of business with which mining house bureaucracies have not coped well in the past. Their "rule by committee" way of doing things contrasts with the free-wheeling approach of a mining entrepreneur like Fred Keeley. Gencor has five years in which to get the knowledge inside Keeley's head transferred to its own executives. The house has recognised this and appointed Genmin director Tom Dale as, effectively, a full-time understudy to Keeley.

That quibble apart, analysts reckon Keeley/Kelgran is the safest investment among the granite producers. The drop in attributable earnings during last year's difficult trading conditions was held to just 5%, compared with the markedly poorer results from other granite majors like Kudu and Marlin.

Granite is seen as a recovery sector over the next two years and the shares are rand hedge stocks because granite is sold in US dollars. Keeley says the market is picking up "almost weekly" and he expects 1992 and 1993 to be very good years after the 1991 recovery.

One point of interest in the accounts concerns Kelgran's tax rate of 9,3% for the 1991 financial year, when the tax bill amounted to R4,3m. Kelgran's tax was reduced by R9,8m because of export allowances, which are currently being reviewed by government. Should Kelgran lose these highly favourable allowances, its tax rate will soar. *Brendan Ryan*

Blue Circle beats slump in sales

Blom 8/8/91
BRENT VON MELVILLE

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CEMENT group Blue Circle, jointly held through Malbak and British-based Blue Circle Industries, has been able to ride out slumping sales in the building and construction market to post a slight improvement in earnings for the half-year to June

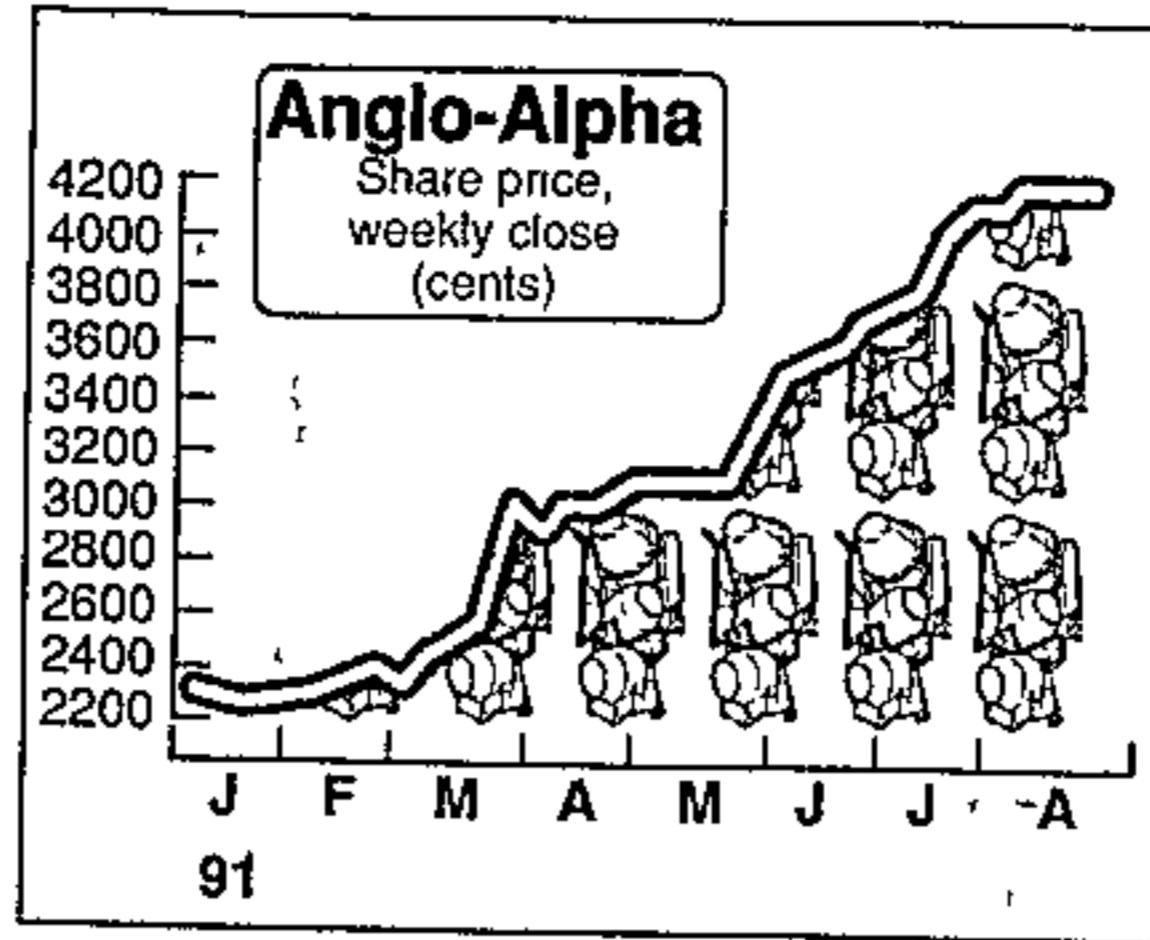
Earnings moved up to 141,4c (139c) a share off largely unchanged attributable profits of R39m. The interim dividend was elevated to 55c (45c) a share, decreasing cover to 2,6 (3,1) times.

Turnover slumped slightly to R382m (R383m) and eroded margins saw operating profit down at R54,7m (R57,2m). Group MD Graham Hardy attributed the drop to the group's inability to recover the full impact of cost pressures in its selling prices.

A lower level of net borrowings, down 49% at R38,3m (R74,4m) and the capitalisation of R1,2m of interest incurred during construction of the R35m Kaalfontein cement depot, due for commissioning later this year, helped curtail finance charges to R742,000 (R3,3m).

An extraordinary item was also recorded, which deputy group MD Angus Morrison said was related mainly to the group's share of an associated company's losses. Morrison added that a subsidiary company had written off costs resulting from a plant closure.

Net worth per share is calculated at R15,73, well below the group's share price of R30,50.



Graphic: LEE EMERTON Source: I NET

Uninspiring results from Anglo-Alpha

8/8/91 - BRENT VON MELVILLE (193)

UNABLE to shrug off depressed conditions in its traditional markets, cement, stone, lime and industrial minerals producer Anglo-Alpha turned in a mediocre performance for the six months to end-June

Attributable net income for the period — after a current cost adjustment of R24,5m (R23,3m) — was down 5% to R22,3m (R23,5m), translating to cost earnings of 74c (78c) a share

Despite the reduced income, the dividend was improved slightly to 46c (43c) a share, covered 1,6 (1,8) times by current earnings. While turnover climbed 6% to R352,2m (R331,8m), net operating income saw a 9% decline to R72,5m (R79,9m)

Income from investments kicked in R6,5m (R6,3m) but finance costs slashed off

□ To Page 2

Anglo-Alpha 8/8/91 (193) □ From Page 1

R7,5m (R5,9m) Interest-bearing, long-term liabilities moved up 27% from the same period last year but 82% from year end-December 1990

As a result debt-equity climbed to 23,5% from 20,8% last June and from 14,8% in December. The current ratio meanwhile rose to 2,1 from 1,8 times

Cash available from operations declined from R28,6m for the same period last year to R1m into the red, resulting from the lower profitability and the payment of R52m tax deferred the previous year

Divisionally, cement saw sales volumes decline by 11,2% to 1,2-million tons (industry — down 7,5%) Directors attributed this

to recovery of market lost in the first half of 1989 following major kiln repairs at Ulco and Dudfield

Meanwhile, the stone division, which came under pressure from strong competition in the PWV area, saw sales volumes down 5,8%. Net income after taxation declined by 32% to R900 000 (R1,3m)

The industrial division saw all operations excepting Industrial Minerals, show declines

This, combined with a 12,5% decline in the taxation charge due to higher capital allowances at Ouplaas, saw net income after tax increase by 25,3% to R6,7m (R5,4m), or 6,7% (5,4%) of group income

Clay bricks boost new squatter camp project

Sowetan 8/8/91

~~2/13~~

~~2/13~~

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LOW-COST housing has taken on a new dimension with the introduction of clay bricks

No skilled labour is required to use the bricks. You simply stack them and then plaster.

Currently this new project is getting off the ground at Doornkop squatter camp outside Dobsonville.

A visit by the *Sowetan* team to a show house in the area revealed that the clay brick house is fairly soundproof, is warmer than a superstructure house and

is very cheap.

Mr Martin Moobi, supervisor of Hydraform Housing - the manufacturers of the clay brick - said the brick yields cost savings of up to 80 percent.

The house takes a few days to complete and there are no delays or excessive transport costs in the supply of the clay blocks

A four-roomed clay brick house would cost around R12 000

Hydraform Housing can be contacted at (011) 913-1449 and ask for Martin Moobi.

Generous move by cement producers

By Jabulani Sikhakhane

Despite tough trading conditions in the building and construction markets, shareholders of Anglo Alpha and Blue Circle stand to benefit from the generosity of their companies

Blue Circle's earnings for the six months to June were up only 1,8 percent to 141,4c (139c), but the dividend distribution has been raised 22,2 percent to 55c a share

The directors say that in the past two years dividends have not compensated shareholders for the full effects of inflation and the increase in the interim dividend is partly to redress that.

Shareholders in Anglo Alpha have had their dividend payment increased by seven percent to 46c (43c) despite a 5,1 percent drop in earnings to 74c (78c) a share

Although this resulted in the dividend cover falling to 1,6 times (on a current cost basis), the directors deem the low cover appropriate in view of the expected low capital expenditure in the next five years

The directors of Blue Circle report that sales volumes were down in all three group divisions, resulting in turnover of R382 million (R383 million).

But net operating income fell five percent from R57,23 million to R54,66 million due to the fixed nature of costs in group operations and the inability to fully increase prices

This was offset by reduced finance charges from R3,26 million to R742 000 because of lower borrowings and the capitalisation of a R1,2 million interest incurred in the construction of the Kaalfontein depot. The tax charge was slightly higher due to provisions

Anglo Alpha's turnover rose 6,1 percent to R352,15 million (R331,79 million). Sales volumes

were down in the cement division by 11,2 percent (compared with the industry average of 7,5 percent) and the stone division's volume were down 5,8 percent.

While the industrial division was affected by lower levels of economic activity, its lime operations in Umzimkhulu showed an improvement

The lower sales volumes resulted in group net operating income falling 9,2 percent to R72,47 million (R79,85 million). Margins declined from 24,1 percent to 20,6 percent.

Anglo Alpha incurred higher capital expenditure in the period, resulting in 27,6 percent rise in finance costs to R7,5 million

The debt equity ratio rose to 23,1 percent from 14,8 percent at December 31 1990

Tax rate falls

The effective tax rate fell from 41,9 percent to 34,5 percent, which coupled with lower earnings saw the tax charge per income statement falling R9 million to R24,62 million

But in the cash flow statement, the tax charge was up 37 percent to R77,42 million (R56,52 million) and this was due to a payment of R52 million deferred tax from the previous year

The effect of this transaction was to reduce cash available from operations from a positive R28,6 million to a negative R998 000. After net capital and investment expenditure of R46,37 million, the group's net outflow rose 363,7 percent to R75,13 million

For the full year the directors expect cash available from operations to fall by 50 percent from last years' R149,1 million

Looking ahead, the directors warn that earnings for the full year should show the same rate of decline as in the first half

Boumat on recovery path (193)

Finance Staff *8/29/91*

Building supplies company Boumat is in a good position to restore its profits to 1990 levels.

Speaking at the annual meeting in Sandton yesterday chairman Irvine Brittan said that the moves management made earlier this year to eliminate non-performing businesses were "proving worthwhile

Mr Brittan said that while trading conditions

remained extremely difficult, the group's focus remained on improving profitability and reducing the level of assets used.

He told shareholders that for the four months to July, although Boumat was about 10 percent behind forecast operating profits and interest paid is higher than forecast, the group's interest bill should reduce as retained earnings increase in the months ahead

Brick mountain towers in spite of production cutback

SHARP cutbacks in production have failed to keep the "brick mountain" at 1990 levels

The surplus has grown to 409-million bricks as against 382-million in May last year with little signs of recovery forecast for the building industry.

"Brick stocks are as high as they have ever been in the past due to the drop in demand," an industry spokesman said.

However, he said stocks had been leveling out as nearly all manufacturers had reduced production

Public relations consultant for the Clay Brick Association Mick Vujovic said overall, brick manufacturers were operating at only about 70% of their capacity

Vujovic maintained, however, there was not a glut of bricks as manufacturers had "become smarter at reading the market", and the scientific manufacturing methods enabled them to cut back production at short notice

The Natal based Tongaat-Hulett group — holding company for Corobrik — had continued to suffer a decline in demand for bricks this year due to violence and high interest rates, public relations manager Ron Phillips said

Tongaat chairman Chris Saunders said that since 1984, 15 factories had been closed in its building division and the remaining 37 factories were operating at

about 62% of capacity

Tongaat's brick sales in 1991 were 32% down on the previous year

The recession in the steel industry had impacted on sales of refractory bricks at Vereeniging Refractories but director Peter Barrass said stocks were not increasing as production had been cut back

Output had also been reduced at Vereeniging's Coverland rooftiles operation, finance director Johan van Jaarsveld said

Cullinan Brick CE Garth Taylor said its plants were operating at full capacity but "tighter sales margins" were being experienced in order to keep stock levels static

No improvement was expected until beginning of 1991, Bifsa executive director Neil Fraser said

Latest Central Statistical Service statistics showed the number of dwelling-houses completed from January to May 1991 decreased by 2 878 units compared with the first five months of 1990

Decreases in houses completed were down 41% for blacks, 57% for Asians and 17% for coloureds but up 9% for whites

The total value of buildings completed during the first five months of 1991 increased by 17% to R2,6bn compared with the corresponding period of 1990

193
B1 Day 12/8/91
WILLIAM GILFILLAN

Low margins and reduced sales hit asbestos producers

193

Monday 16/8/91

ANDREW GILL

ASBESTOS producers Gefco and Msauli yesterday reported depressed earnings for the six months to end-June as margins were squashed at Msauli and declining blue fibre sales hampered turnover at Gefco

Msauli reported a 19% decline in after-tax profits to R3,1m as lower margins eroded a 12% increase in turnover. Operating income dipped 36% but a sharply lower tax bill of R350 000 (R1,56m) helped reduce the effect on the bottom line. It reported a halved interim dividend of 10c a share.

Gefco reported a 67% decline in after-tax earnings to R1,86m after lower blue fibre sales and production problems at the Kuruman mine hurt turnover. The dividend was cut to 2,5c from 4c.

The two have placed their Von Brandis gold project on care-and-maintenance as a result of the weak gold price.

Gefco's reduced sales were coupled with production and labour problems and delays in achieving full capacity at recommissioned plants.

The coal interest, Annandale Colliery, continued to operate at a loss and group operating income includes a R1,5m provision for this.

Directors said the main reasons for the loss were delays in constructing a new washing plant and the "extremely disappointing" performance of the temporary duff washing plant.

The group was looking at other coal ventures but no immediate impact on operating results is expected if they are proceeded with.

Executive chairman Pat Hart said Gefco's second-half results should show a reasonable improvement. Sales were unlikely to make up ground lost in the first half, however, and total volume for the year was expected to be lower than in 1990.

Production problems had mostly been resolved but unit costs would remain high and further rationalisation was possible at the Kuruman mines.

Msauli should perform slightly better in the second half, with the market for its fibre remaining strong and sales volumes dependent on production potential.

However, the high R6,4m capex programme will keep cash resources under strain and dividends "will accordingly be tempered by this aspect".

Star 16/8/91

Lower profits from asbestos

By Derek Tommey

193

The two listed asbestos producers, Gefco and Msauli, both had lower profits in the six months ended June

Gefco's profits dropped sharply from R5,755 million equal to 26c a share to R1,86 million equal to 5,2c a share. The interim dividend has been cut from 4,0c to 2,5c

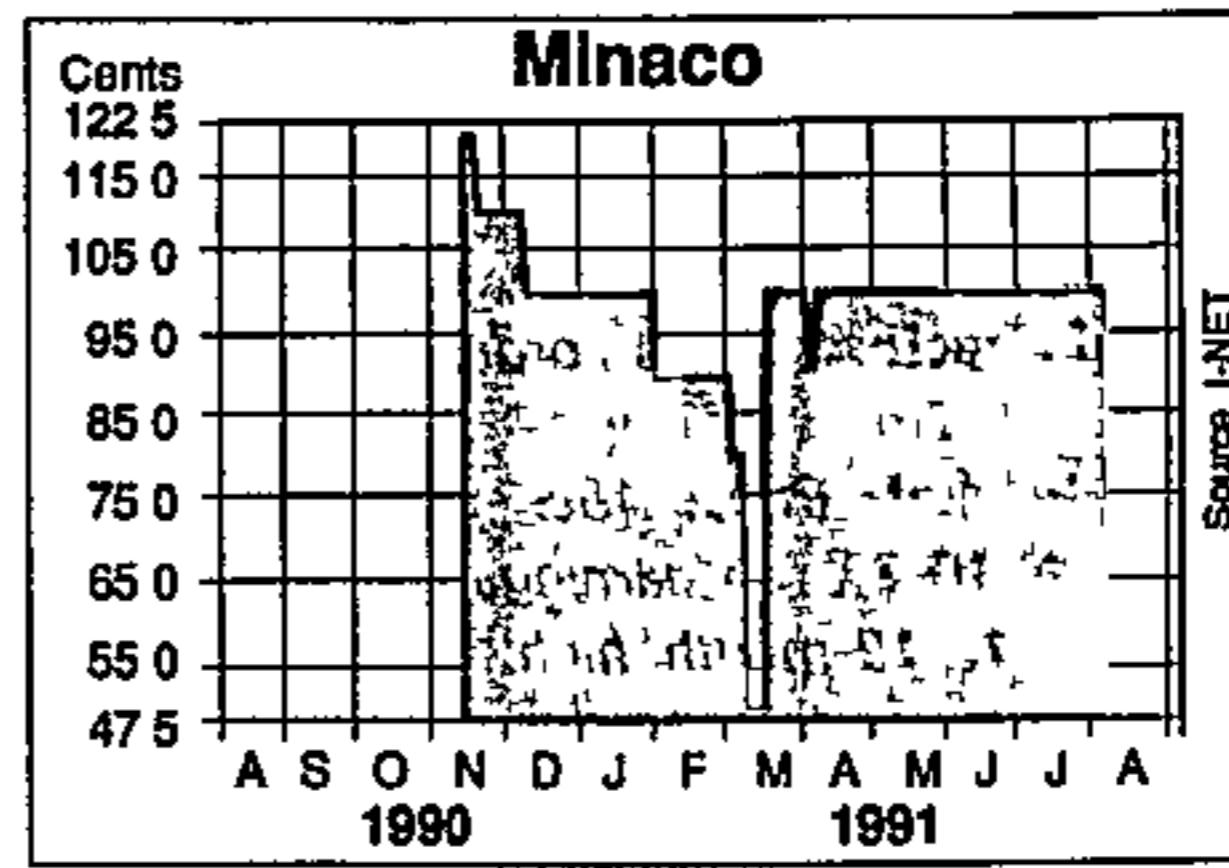
Msauli's profit dropped from R3,8 million equal to 59,4c a share to R3,1 million equal to 48,0c a share. The interim dividend has been cut from 20c to 10c

Gefco's profits were affected by a drop in sales of blue asbestos

and a R1,5 million provision to the loss at the Annandale Colliery arising from delays in constructing the new washing plant. This should be operational by the end of this month

Msauli increased its sales but a rise in operating costs reduced profits. The company is to build a plant to extract fibre from existing tailings dumps. This will cost R5,6 million and should be commissioned later this year

As a result of the weak gold price the Von Brandis gold producer, which is owned jointly by the two companies, has been placed on a care and maintenance basis



MINACO GRANITE ^{FM 16/8/91}
Flying start (193)

Activities: Vertically integrated company producing both raw and beneficiated dimension stone products

Control: Afmin holds 43%

Chairman: C Heever, MD W L Robinson

Capital structure: 29,5m ords Market capitalisation R29,5m

Share market: Price 100c Yields 4,2% on dividend, 20,8% on earnings, p e ratio, 4,8; cover, 5,0 12-month high, 120c, low, 40c Trading volume last quarter, 326 000 shares.

Year to Dec	'90
Operating profit (Rm)	5,2
Attributable profit (Rm)	5,1
Earnings (c)	17,2
Dividends (c)	3,5
Net worth (c)	101

Minaco, listed in April last year, has got off to a good start. It met the dividend forecast made in the prospectus of paying at least 3,5c a share and it earned 17,2c a share for the year to December. That's commendable considering the performances seen in recent years from several unknown newcomers to the JSE which have failed miserably to meet predictions.

Minaco is vertically integrated and involved in all aspects of the dimension stone business. Its activities include selling raw granite and marble blocks, as well as taking them through the beneficiation stages and contracting to put the polished end-products on buildings like the Johannesburg Sun hotel and the 1066 office block in central Johannesburg.

The question is, can Minaco maintain its record? Chairman Cyril Heever is confident that it can. Though he adds several caveats, he believes the group can better its initial performance. Provided management sticks to the dividend policy given in the prospec-

tus, that means there should be a hefty dividend at the year-end.

The prospectus says that from the 1991 financial year, subject to no unforeseen circumstances, Minaco will declare not less than 67% of its attributable earnings in dividends. Maintained earnings of 17,2c per share should enable a dividend of 11,7c, which is attractive provided Heever delivers the goods.

That's where the cavils start. Biggest question mark posed by analysts is the fact that Minaco is controlled by Heever's Afmin group, which has a poor track record on new ventures. It has two failed gold mines to its credit — Modder B, which has been put into liquidation, and Roodepoort Gold Holdings (Rogold), which was mothballed. Analysts also query the extent of Heever's knowledge of the dimension stone trade. This is a complex business learned only by years of experience.

This cautious reaction, resulting from the poor performances of most of the independent mining entrepreneurs, has made it difficult for them to bring new projects to the JSE. However, it appears that Heever is adapting.

He tells the *FM* his appointment as chairman is a temporary measure following the retirement, because of ill health, of Barney Seidle. Last December, Minaco bought into Prairie Granite, run by Fred Coetzee, a founder member of major granite group Marlin. Coetzee has extensive knowledge of the dimension stone business and Heever indicates that he will be appointed to the board and probably elected chairman at the annual meeting on August 21.

Annual reports from the granite companies tend to be thin on financial and operating details because of the competitive nature of the business. Even so, there is ample scope for Minaco to improve its reporting standards. It could start by stating turnover value and not simply indicating the percentage change. However, Minaco's spread of interests in the dimension stone business seems attractive and growth prospects for the sector generally appear good. *Brendan Ryan*

Cashbuild maintains its earnings growth record

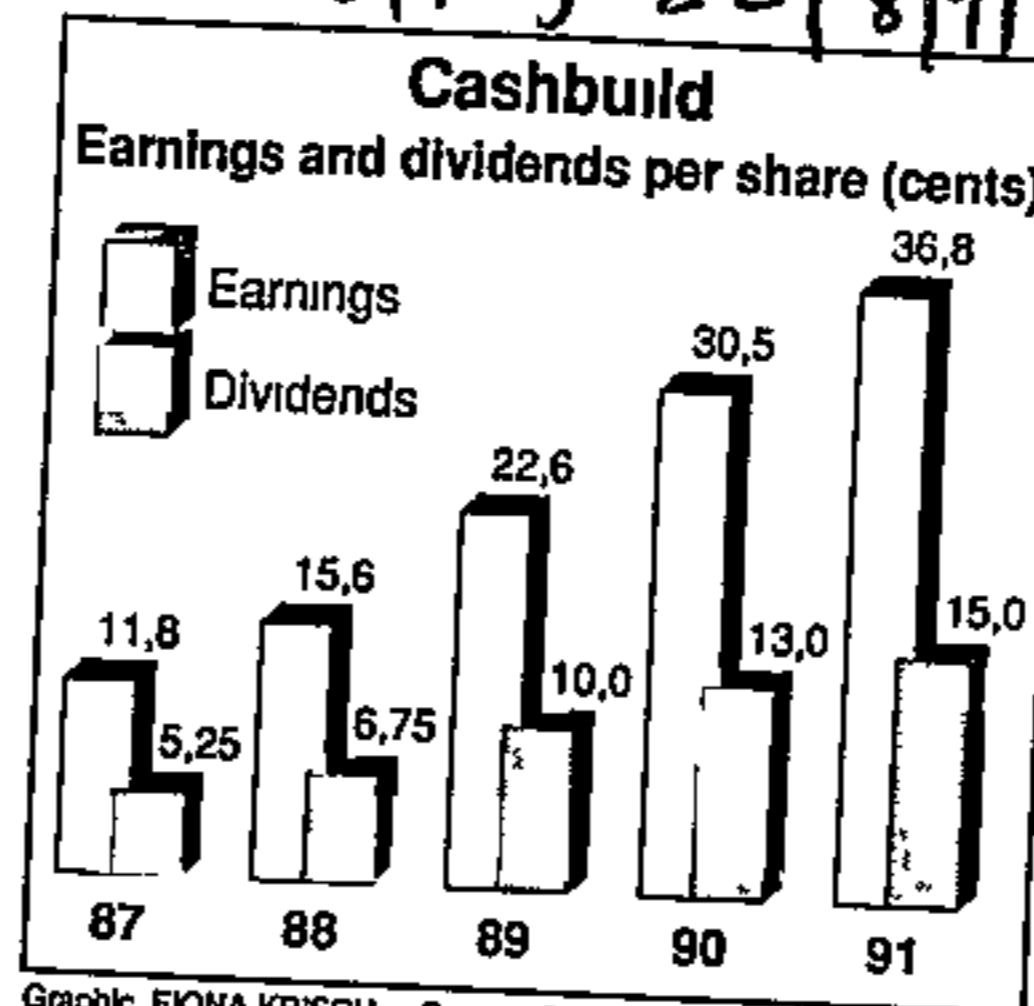
MARCIA KLEIN

CASHBUILD has maintained its record of uninterrupted earnings growth since listing in 1986 by reporting a 20,6% rise in earnings to 36,8c (30,5c) a share in the year to end-June.

The cash-and-carry, wholesale, building materials group, which has consistently been one of the star performers in the Tradegro group, increased its turnover by 20,5% to R387m (R321,1m), and its pre-tax income by 24,4% to R17,5m (R14,1m) for the year under review.

After a 30% tax rise to R7,9m (R6,2m), income after tax was 22,5% up at 9,6m (R7,8m). Outside shareholders' interest was up by 30,8% to R1,7m (R1,3m) due to the disposal in July 1990 of 50% of the group's interest in two Buy 'n Build branches in Bophuthatswana. Attributable profit rose by 20,6% to R7,9m (R6,6m).

A final dividend of 10c (9c) a share increased the full-year dividend by 15,4% to 15c (13c) a share, covered 2,5



times

Cashbuild has 59 Cashbuild wholesale outlets, six Buy 'n Build retail home centres and two U-Build retail building materials franchises.

CE Gerald Haumant said that pressure on margins — caused by the opening of seven new Cashbuild and one U-Build store — was countered by an excellent performance by retail arm Buy 'n Build, as well as by tight expense control and sound cash management.

Buy 'n Build, which was acquired four years ago, had "performed remarkably well and would now enter an organic growth phase", he said.

The group invested R7,9m in establishing the eight new stores, and cash resources at end-June were R10,7m (R16,7m). Profit margins "had slipped slightly in a very competitive market", Haumant said.

Cashbuild's market share of cement distributed through merchants in southern Africa had increased from 7,1% to 7,9%.

The purchase of shares by the Cashbuild Share Incentive Trust saw a R1,7m increase in unlisted investments. The shares were allocated to staff members with more than one year of service at January 1. Currently, about 70% of the staff hold 7,8% of the company's equity.

Haumant said prospects for the group were good. The company was responsive and ungeared, he said, and was "making steady inroads into a big market, and able to adjust quickly to most situations".

Cashbuild maintains growth

By Sven Lunsche (90) (193)

Building group Cashbuild maintained its recent strong earnings growth in the year to June, despite the slump in the construction industry

Cashbuild says attributable earnings for the year rose by 20,6 percent from R6,6 million to R7,9 million, which translates into earnings per share of 36,8c (30,5c)

A final dividend of 10c (9c) a share has been declared, bringing the total for the year to a 2,5 times-covered 15c, a 15,4 percent improvement on the previous year's 13c.

Turnover was up by 20,5 percent from R321 million to R387 million, but the profit margin declined slightly in a very difficult market, says chief executive Gerald Haumant

He adds though that the return on sales improved from 4,38 percent to 4,52 percent

Cashbuild, which operates to a

large extent in the black building market, runs 59 Cashbuild wholesale outlets, six Buy'n Build retail home centres and two U-Build retail building materials franchises

Mr Haumant says that 34 of the Cashbuild outlets showed real growth during the year. The group's market share of cement distributed improved from 7,1 to 7,9 percent

He says that Buy'n Build, which was acquired only four years ago, has now reached the return levels of other subsidiaries

During the year the group disposed of 50 percent in two stores to the Bophuthatswana National Development Corporation

Cashbuild's unlisted investments grew from R1,5 million to R3,2 million as a result of the purchase of shares allocated to staff members

Seventy percent of the staff now own about eight percent of

the group's equity, Mr Haumant says

Over the year the group invested R7,9 million in the establishment of eight new stores — seven new Cashbuild stores and one U-Build stores — and cash resources were subsequently reduced to R10,7 million from R16,7 million

In the current financial year the group plans to open nine more outlets to increase the cash-and-carry distribution of building materials

Mr Haumant says the opening of the new stores reflects the group's confidence that another good financial performance is on the cards in the current financial year

He expects a further improvement in earnings during the year as the company continues to make inroads into new markets and because it is largely un-gearred

Granite industry is built on sturdy foundations

(193)
 B/day 23/8/91
MATTHEW CURTIN

IN THE southern Egyptian town of Aswan, tourists can visit granite quarries which were first worked five thousand years ago and have been unmined for centuries. Huge blocks of stone litter the site, and in one case a half-finished pylon which would have far exceeded the height of Cleopatra's Needle lies abandoned, still embedded in the rockface.

The pharaohs, yearning for immortality, knew granite would serve them well in weathering Saharan conditions in style, which the survival today of their temples, pyramids and statues, proves

Granite's qualities hold true even more so today as then, which is why SA's leading granite producers — along with India and Brazil, the leading exporters of hard rock in the world — are confident that the sector is on the threshold of years of sustained growth.

Keeley Holdings administrative director Rob Brown says he expects world granite consumption to grow 8% a year in the longer term. Marlin Corp executive chairman Peter Gain says "The sector's growth in real terms is sound over the coming years, given that the industry is dealing with the world's major economies"

Beneficiate

In its 1991 review of the stone industry, Italian company Societa Editrice Apuana put SA granite exports in 1990 at 610 000 tons. Exports from SA excluding homeland production was nearly 400 000 tons, a 100% jump from levels of 190 000 tons in the early 1980s, with Keeley, Marlin, Kudu Granite and unlisted Impala taking the lion's share.

SA companies beneficiate only small amounts of their production. Most blocks are shipped to Europe, the US and Far East.

The key to understanding the good prospects the industry faces is in the increasing popularity of granite, now a generic term for hard as opposed to soft stone, in the construction industry.

Brown says Keeley's forecast of growing consumption includes a 2% annual swing away from soft stone like marble to granite.

He says the main reason is that granite is more durable than marble, and resists acid rain and pollution far better.

Marble was widely used in Europe in post-war reconstruction because it was an easy material to

shape for offices and public buildings and had the added attraction of a range of colours.

Brown says the quarrying of a widening range of different coloured granite means customers can choose a variety of hard rock which matches technical and aesthetic expectations.

SA producers specialise in Belfast Black, used primarily in Mediterranean countries and in Japan for tombstones, Rustenburg Grey and a range of coloured stone. Brown says granite benefits from the emphasis on the use of natural materials for buildings.

Granite's fortunes have also improved because new technology has eased working costs. Granite has made up a smaller share of construction costs as property prices have soared internationally.

"Diamond tooling, which was not available 30 years ago, has made the working of granite easier and cheaper," Brown says.

The ancient Egyptians used water, wood and chisels to fashion their granite. At Marble Pentellic, a granite processing company 95% owned by Marlin and based in Germiston, diamond-tipped saws and five "jumbo gang-saws" imported from Italy cut granite blocks into strips a few centimetres thick.

The SA granite industry went through a trough in 1990, despite the prevailing strong market conditions. As demand for SA granite grew in the mid-1980s Keeley, Marlin and Kudu were listed and new companies entered the market.

A price war over the main granite export Rustenburg Grey and the Gulf crisis which interfered with Italian and Middle Eastern demand for raw material and finished product brought the euphoria to an end last year.

Producers and analysts say the peculiarities of the granite sector scuppered the fortunes of the smaller operators. Aurora, one of four new companies, was taken over by Kudu and Marlin acquired the distribution rights for newcomer Quagga's African Red stone in September last year. The two parties are in talks over closer cooperation. Crucial to the success of a granite producer is the marketing of the stone.

Gain says customers are becoming increasingly discerning in the quality and colour of stone. As de-

mand accelerates, only established producers are able to meet the quality and quantity of stone required. Decorative stone has to look good, and be delivered unchipped and free of cracks. Waste rates in the industry are high, up to 97% for Belfast Black and 50% for Rustenburg Grey.

Keeley and Marlin have been in the granite business for more than 30 years each and have extensive investment in distributors in Europe and the US, as well as local quarrying expertise.

Despite producers' bullish outlook, analysts' forecasts for the sector are more cautious. Edey Rogers analyst Keith Bright says the demands of consistency of supply, proven ore reserves and the huge start-up cost of new operations have taken their toll.

International demand for granite is solid, but the producers' claims regarding market diversity — Brown says Keeley's product ended up in 28 countries — and the constant demand for tombstones are not enough to shelter the sector from recession.

Construction

Bright says "The atrocious results last year after nine months of glamour showed that granite, like any other mining sector, is vulnerable to economic cycles."

Brown adds that volumes have not improved after the Gulf war.

Irish & Co analyst David Russell says the popularity of granite is worthless if there is not the construction going on to warrant demand. There is a worldwide oversupply of office space, and reconstruction in Iraq and Kuwait is slow. Distributors built up stocks during the Gulf war, and the SA industry faces two to three years of "sluggish demand."

Granite producers also face growing pressure from environmentalists. The sector has not caught the lobby's attention in the past because quarrying produces visual and noise pollution only.

Nevertheless, the industry has not been subject to the same conditions as the gold mines which are responsible for the total rehabilitation of mining land. Russell says the quarrying from granite outcrops and the amount of discarded blocks has disfigured the landscape near Rustenburg and Belfast.

Gain says the industry has complied with the mining commissioner's regulations, but accepts the requirements will tighten.

PGSI

Not quite shatter-proof

FM 23/8/91

193

There are extensive foreign operations, but profitability must improve

Just three years ago, Plate Glass & Shatter-prufe Industries (PGSI) was seen as a prime currency hedge. Though it retains a dominant position in key markets in SA, it set about building up businesses in the UK, Europe, Central Africa, North America and Australia — to the extent that by 1988 it derived half its attributable income of R32,8m from outside SA.

Much has altered since then. There has been an extensive disposal of operations, the management structure was changed, and in the year to March 1991 SA was again the dominant profit generator.

With the disposal of its building glass manufacturing and distribution operations and the timber trading and wood distribution businesses, PGSI is concentrating its international activities on the automotive replacement glass market. While barriers to entry are higher, the group has built up skills and made considerable investments in various national markets.

Executive chairman Ronnie Lubner says all elements of the restructuring process are either complete or are nearing completion. That will enable management to concentrate fully on improving the returns from the core operations at home, and from the developing businesses, especially in Europe, where high hopes are held for the future.

Biggest component of the local operations is Glass SA, which last year produced 60% of group operating profit, after growth of 10%. Its sales of R800m included exports worth R123m, though as the year progressed these became increasingly difficult to maintain in the face of competition as some of the major markets moved into recession.

Lubner notes that the scheduled removal of certain export incentives during this year will place a further strain on Glass SA's position in export markets. However, removal of sanctions will increase export opportunities, including to other parts of the group.

In Glass SA's domestic market, imports

Against this background, and with domestic glass consumption expected to decline — despite significant government and private-sector funds being earmarked for new low-cost housing — Glass SA is predicting lower profits for the year.

The other major local company, PG Bison, one of the few remaining wood interests, lifted operating profit by 6% to R86m, or 23% of the group total. Here, too, management is forecasting continued decline in demand in local and export markets. However, the plan is to counter this with productivity improvements and tight asset management. PG Bison is budgeting for maintained earnings for this year.

But, on the whole, PGSI's local interests already have dominant or strong market positions. The challenge facing the group now is to ensure that these at least maintain their profitability, and to produce a profit turnaround in the international operations. The success with the latter will determine whether the share regains its premium rating as a rand hedge.

It is not difficult to accept the argument that there is great potential in the foreign interests — it is rather a question of the extent to which this will be realised, and when that may happen. International trading operations are held in Belron International, whose operating profit (on continuing activities) was more than halved last year, to US\$9,7m. This was on sales which increased by a third, to \$409m.

Even though the interest charge dropped by \$7,7m, Belron still made an attributable loss of \$0,5m. This was largely due to an inordinately high tax rate which arose from the inability to offset, for tax purposes, losses in certain countries against the profit generated in others.

Tax is a problem now for PGSI, whose effective rate last year was just over 50%, but there should be benefits later. Some of the new businesses, particularly in Europe, have built up significant tax losses. Lubner says that if profits grow as hoped, the tax losses will be benefiting the bottom line by 1993, and should continue to do so for the next three to four years.

If Belron can make its trading performances in the European and US markets emulate what has been achieved in the UK, where the business has been built up over years, there could be some interesting results. As a national market, the UK is PGSI's second biggest profit contributor, having made an operating profit of £11,6m last year.

On the other hand, Belron's other national markets are still incurring development costs, rather than making profits. There are

Splitting the profit

	Sales		Operating profit		**EPS (c)
	1990	1991	1990	1991	1991
Glass SA (Rm)	734	800	207	227	343
PG Bison (Rm)	551	607	81	86	107
Interwil SA					(4)
Central Africa (Z\$m)	179	260	24	41	90
Belron International (US\$m)*	307	409	19,4	9,7	(23)
UK (£m)	[83]	[134]	12,5	11,6	122
Europe (£m)			0,1	(4,1)	(80)
Australia (A\$m)	107	105	3,1	2,8	(35)
US (US\$m)	44	57	(9,1)	(8,1)	(99)
Corporate & other (c)	-	-	-	-	69
PGSI corporate, funding & other	-	-	-	-	(104)
TOTAL EPS** (c)					409

*Continuing activities **Continuing and discontinued activities

The balance sheet has also been strengthened. This should ease the burden of financing charges this year, though operating profit — which in 1991 was 2,5% up, at R298,6m — will probably remain stodgy until local and world economies recover.

An easing of SA's political isolation has encouraged management to lift the shutters on its foreign activities. The geographical breakdown of sales and operating profit (see table) shows the UK is PGSI's biggest profit producer outside SA, though Central Africa also makes a good contribution. Losses were made in Europe and the US, Australia made a small profit on its continuing activities but also posted a significant overall loss.

contributed to the pressures on profitability. In June 1990 government reduced import duties on flat and processed glass from 20% to 10% and, with the rand holding firm against the dollar for most of the year, imports of glass began to flow in — mainly from eastern Europe and the Republic of China, where there is a large excess float glass capacity.

Further imports at these levels could keep profit margins under pressure. Management notes that "Glass SA has adequate capacity both to satisfy the needs of the local economy and to generate high value-added export revenues. It will therefore vigorously defend its position against all imports."

large upfront costs — mostly accounted as expenses — involved in establishing the new operations, these relate to such aspects as the sites, salaries and training, and marketing and promotion

"We have a balanced international portfolio," says Lubner "It ranges from mature businesses to some babies. The US is well on its way now, but it is very early days for Germany and France. But there is nobody remotely like us in either of those two countries."

The UK is regarded as having been the proving ground for Belron's strategy as a replacer of automotive glass. In the UK there is a car pool of 23m vehicles, providing some 2.2m glass replacement jobs a year and a market worth an annual \$379m. Belron has 175 outlets in the UK.

Lubner notes that it has strong relationships with insurance companies, and motorists can use a toll-free number to call more than 700 specially equipped vehicles for help. As a specialist autoglass replacer, the company carries a large range of stock. This can enable a price and service advantage against non-specialists. With its large infrastructure in the UK, says Lubner, the company can open new outlets there rapidly and at low cost. However, in the UK Belron is now paying full tax and has a large market share, so growth prospects are becoming limited.

While this is not a new way of doing things in the US and the UK, it is new in continental Europe, where the glass stocks are largely held by the motor manufacturers. The plan now is to progressively introduce the approach to the European market, where Lubner contends the company has a head start over other specialists.

In Belgium — an automotive glass replacement market worth an annual \$62m with 4.1m vehicles — Belron has 20 outlets. Holland has 5.9m vehicles and a market worth \$73m. France has 27m vehicles and a \$437m market, here there are 40 outlets. Germany — the really big one — has 42m vehicles and a market worth \$850m. Belron has 80 outlets in Germany.

The German division consists of the network (then 96 branches) acquired from St Gobain in June 1990, and which was making significant losses at the date of acquisition. The focus and structure of the business has been radically changed, 16 low-performing branches have been closed or merged, systems introduced and a national marketing programme launched. Operating losses amounted to R3.8m on sales of R67m for the nine months since the acquisition. Losses could continue for another year or two in Germany, but are budgeted to "decrease progressively."

Management also believes that as Europe moves further along the path of economic and political integration, with international barriers continuing to come down, the expansion of Belron activities on the continent should become easier. Stocks, for example, could be moved about more quickly and



Chairman Lubner
high hopes in Europe

cheaply, across all the borders.

In Australia — with 9.5m vehicles and a market worth \$109m — Belron has been active since the early Seventies. It has a strong market position, with 90 company-owned branches, a total of 169 outlets, and 270 mobile vehicles. The Australian subsidiary, Windscreens O'Brien, is claimed to be the country's largest automotive glass installer.

But here, too, the profit performance has been weak. Last year saw an operating profit of Aus\$2.8m for continuing activities and a Aus\$4.2m loss for those disposed of or discontinued.

Following a decision to strengthen the hold on the automotive glass market and "exit from strategically unprofitable activities," with effect from April 2 this year O'Brien Glass bought the replacement automotive glass and consumer building glass activities of Pilkington Australia. At the same time, the commercial building glass manufacturing, distribution and glazing activities were sold. A modest return to profit is forecast for this year.

The pattern has been similar in the US, which has 185m vehicles and a potential market of \$2bn. A combination of factors — including a tougher economy, stiffer competition, tighter margins and an internal reorganisation — resulted in an operating loss of \$8.1m. Further, though smaller losses are expected for this year, by 1993-1994 Lubner says, the group should be producing "good profits" in the US.

Expansion is also planned for the Central African operations. These are among the more profitable divisions of the group, having produced operating profit of Z\$41m or 10% of the total last year. In Zimbabwe, final approval is awaited from government for the installation of a new fibreboard plant costing about Z\$40m. Further capex is planned, with the accent on exports, which last year rose 43%. However, for this year a modest earnings improvement is budgeted.

Overall, PGSI has taken a firmer hold on the strategic focus of its activities and is steadily building foundations in what could be lucrative markets. Gearing has been reduced to about 40%, compared with nearly 80% at the 1990 year-end.

Much of the cash generated so far overseas has been deployed to fund the growth of those businesses, with only small amounts brought back in dividends. Lubner believes that within a few years there will be a strong flow of tax-free profit from abroad, with dividends flowing in from there by 1993-1994 — though the timing will obviously depend on economic conditions, which will vary widely between these markets.

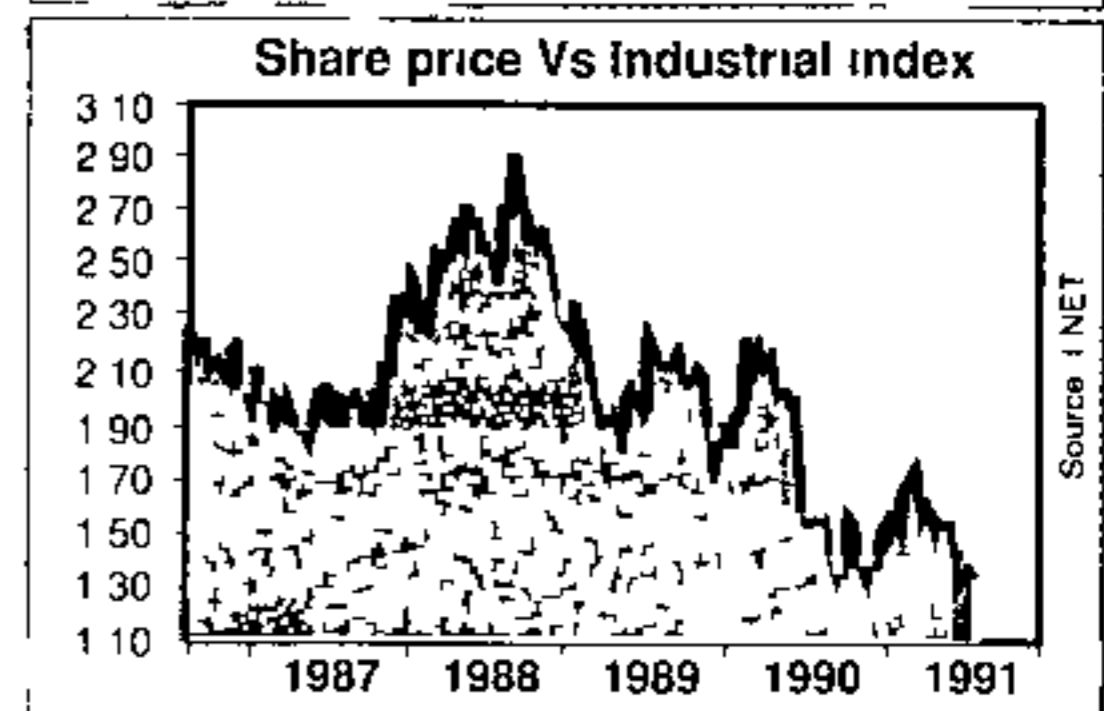
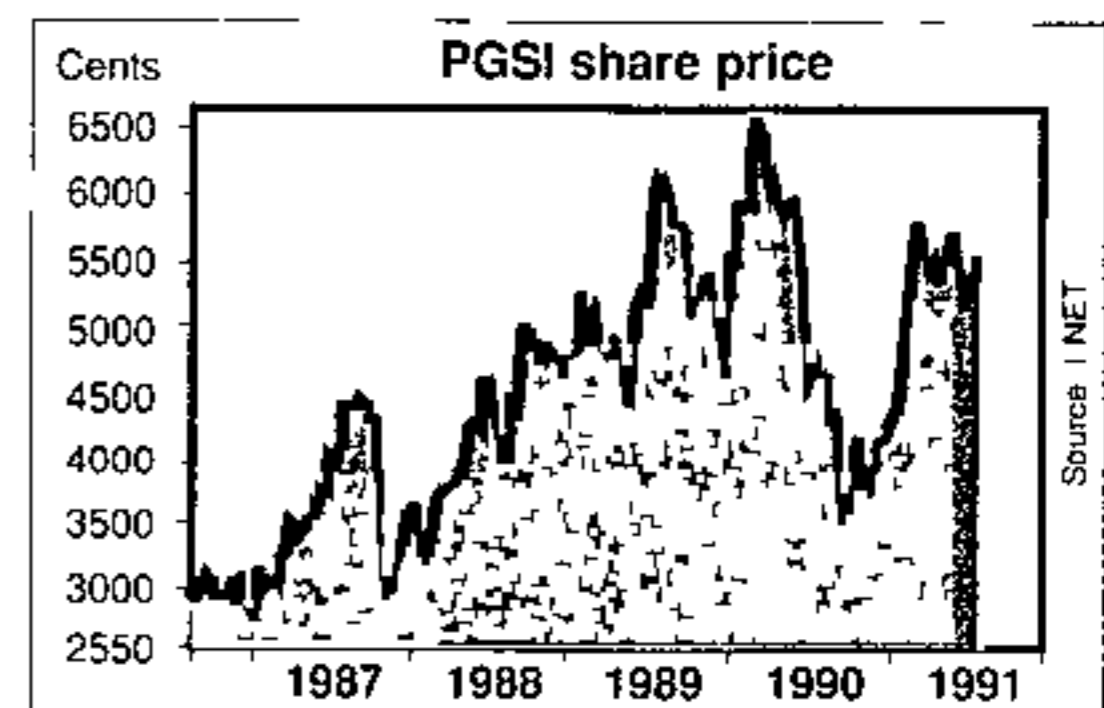
For now, SA, accounting for more than 60% of total income, remains pivotal. And a strong presence in other countries is all very well. It remains to be seen how effectively profitability will be lifted and maintained in those seemingly lucrative (but competitive) foreign markets. If that doesn't happen, PGSI may ultimately be seen as yet another SA company that sought to be a global player, but failed.

Lubner believes much has been learnt from the group's experience (and mistakes) in the international arena over more than two decades. Local managers are now employed in the foreign companies, for example. It is also hoped that SA's movement back to the world stage will make the international — including exporting — activities more efficient and cost-effective.

He is "reasonably confident" of seeing maintained earnings from PGSI this year. The dividend looks almost certain to be pegged at 220c for the fourth year. At R55, the share yields 4% on dividend and stands on a 13.5 p/e. On this year's prospects, it does not look attractive. However, a strong profit recovery could be seen by the 1993 year. Anticipation of that may set the stage for a favourable rerating of the share, which has been under-performing the Industrial Index for some time.

Andrew McNulty

Lagging the market



Contract row hits soda ash project

(193) ~~193~~
S/Times
(Bum/T)
25/8/91
~~193~~

By **DON ROBERTSON**

CONTRACTUAL disputes involving Soda Ash Botswana's Sua Pan project and major contractors could delay the build-up to full production of the R920-million plant.

The latest disagreement involves Siemens, which has contracts worth about R7-million.

Siemens general manager Roelof van Ark says it was hoped to resolve the matter at a meeting last Friday, but this was not possible.

Stake

Mr Van Ark says that in international contracts of this nature, disputes "are a normal course of events".

"Our technical know-how strictly followed these guidelines and we are sure that once normal business issues have been settled, the alleged

non-payment will no longer be an issue"

AECI has a 26% stake in the project and Anglo American holds 25,5%. The balance is held by the Botswana Government.

Mr Van Ark says the scope of the project changed during construction and the contract value is now larger than originally specified.

When in full production Sua Pan it will produce 300 000 tons of soda ash and 650 000 of salt a year. In the past, soda ash has been imported.

AECI says construction involves hundreds of contractors and it is inevitable that contractual disputes arise, usually through misunderstandings and departure from the terms of contracts.

Soda Ash Botswana is not immune from such disputes, says a company spokesman.



Everite continues to suffer

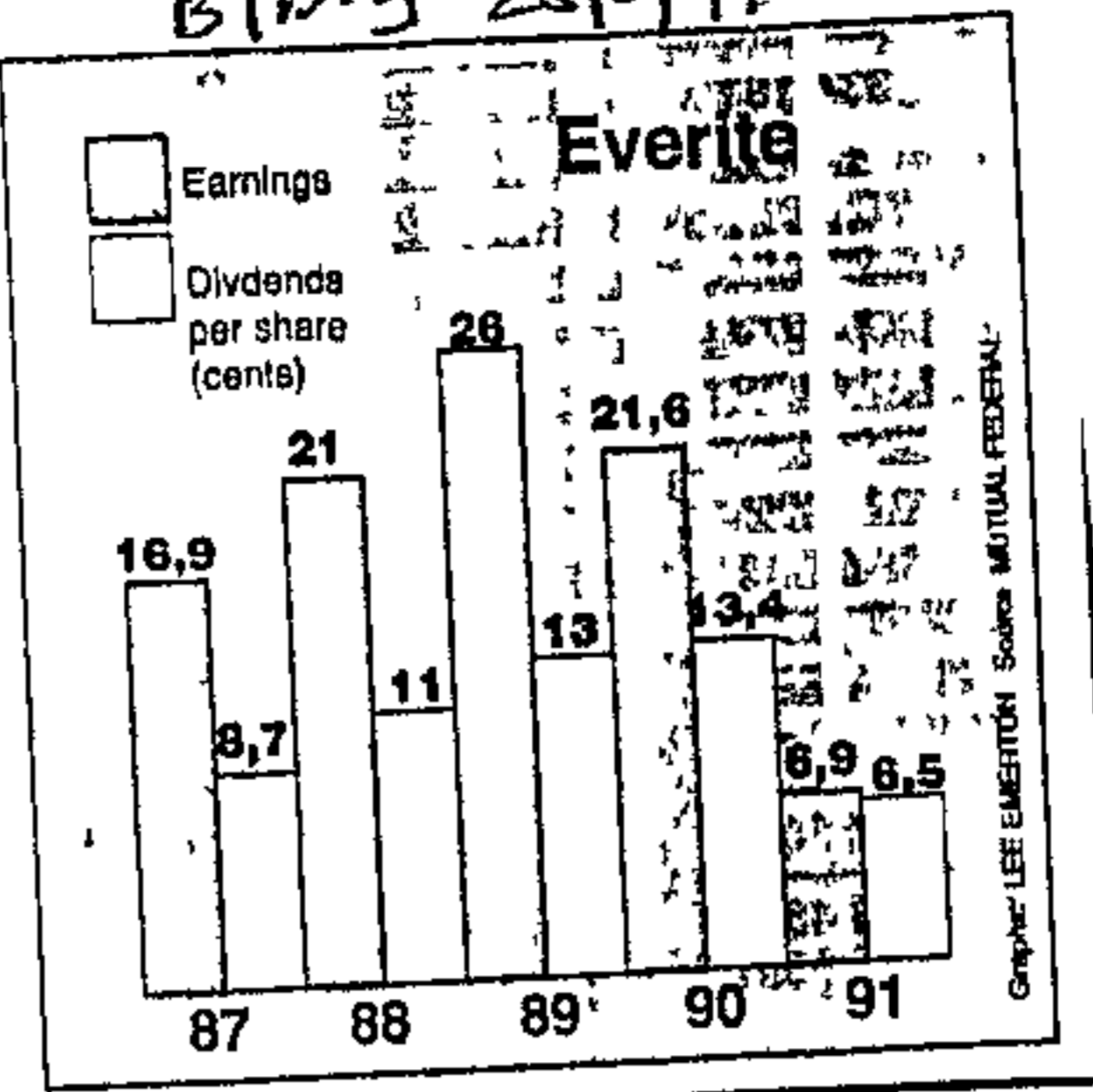
Brent von Melville

THE second half of the year proved even more disappointing than the first six months for building materials group Everite, which saw earnings for the year to June slashed 68% to 6,9c (21,6c) a share.

The Swiss-controlled company suffered badly from the sagging local building-construction industry and undertook extensive rationalisation during the year.

Group MD George Thomas said the restructuring resulted in head office and three regional headquarters of the Everite Division being split into "building materials" and "pipe" sections, and closure of a

To Page 2



Everite

number of branches countrywide

As a result, turnover was down at R334m (R351m), while operating income fell 32% to R36,5m (R53,8m). Costs of retrenchments and restructuring were reflected in the extraordinary item (net of transfers from non-distributable reserves) of R904 000, leaving net income a dramatic 72% down at R5,2m (R18,4m).

Restructurings resulted in the loss of 408 jobs during the second half. A number of these were at senior and middle management level. Thomas said this should save about R13,5m annually. The second-half retrenchments reduced the total complement of the group to 3 979 from 4 924.

Thomas said the Everite Division had suffered most from the economic recession, township unrest, the slowdown in government and local authority infrastructural spending and the continued delay in the mobilisation of funds

From Page 1

earmarked for housing.

"However, Santar (pitch fibre pipes), Paxit (glass reinforced plastic products), Agriplas (drip irrigation) and Vaal Potteries (sanitaryware and plant containers) performed well under difficult circumstances, albeit at reduced profit levels."

Thomas said the group was continuing to phase out asbestos as a raw material.

A final dividend of 2,5c was declared, bringing the total allocation for the year to 6,5c (13c) a share. At a current share price of 270c, Everite shows a 2,4% dividend yield and a price to earnings ratio of 40,3 times, compared with sector averages of 5,2% and 7,9 times respectively.

On the balance sheet interest bearing debt was at R19,2m (R25,8m), which Thomas said was exceeded by the value of endowment policies which could be liquidated at short notice.

Quagga rights offer delayed

B/Daw
28/8/91
MATTHEW CURTIN (193)

GRANITE company
Quagga holdings had postponed its rights offer scheduled to close on August 30, a spokesman said yesterday

An important decision on its Angolan granite interests would be taken in the next two weeks which might influence the basis and price of the rights offer

Quagga clinched a deal worth R8m in July to mine black granite with Angolan government-owned company Roremna UCE

The Pretoria-based company already mines African Red granite which since September last year has been marketed by one of SA's largest granite company's, Marlin Corporation

The two companies are understood to be involved in talks about closer cooperation in the future

tively with its cost structure, or with devaluation, if it does not show a more creative approach or argue its case convincingly ■

EVERITE Fm 30/8/91
Volumes buckle (193)

Like many capital-intensive businesses, Everite has taken a tumble from reduced sales. The 18% drop in sales volumes, which resulted mainly from the core fibre cement division, led to a 68% reduction in attributable earnings for the year to end-June.

But Everite MD George Thomas is not entirely disheartened. He says every 1% increase in sales will mean another R1m to the bottom line. It is hoped that the elusive low-cost housing boom will eventually lift sales

FINANCIAL MAIL • AUGUST • 30 • 1991 • 99



Everite's Thomas chopping the costs

and profit. But for now Thomas has chopped R13,5m off costs, by cutting almost a fifth of the payroll, both in management and on the shop floor. He has separated the business into building material and pipe divisions.

Everite has to contend with two special problems, one is that asbestos has become socially unacceptable, so the group has been forced to invest in alternative technology. Flat sheet production machines at Brackenfell and Kliprivier were converted to cellulite, but proven technology is not yet available for conversion of corrugated products.

Everite has some operations that have a better long-term future than asbestos, such as Vaal Potteries in ceramics, and Paxit in glass reinforced plastic.

Another problem — at least in these difficult times — is the practice adopted from Everite's Swiss parent, of providing for additional depreciation on revaluation. This lopped a further R13m off operating income. Everite's fixed assets are worth R63m at cost, but R265m in the Everite balance sheet on revaluation.

There is effectively no gearing. Interest-bearing debt at June 30 totalled R19,2m, down from R25,8m, but this level of debt is "comfortably exceeded" by the value of endowment policies which could be liquidated at short notice.

If EPS were calculated on the standard historical method the figure would have been 21,5c, down a more modest 29%. Though the dividend is barely covered according to Everite's method of calculating earnings, cover is really 3,3 times.

At 270c, Everite trades on a p/e of 12,6, on the conventional measure of earnings and

NOT SO RIGHT

Year to June 30	1990	1991
Turnover (Rm)	352	334
Operating income (Rm)	32,6	11,4
Attributable (Rm)	19,2	6,1
Earnings (c)	21,6	6,9
Dividends (c)	13	6,5

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1 30/8/91 (193)

offers a dividend yield of 2,4%. After these figures it looks overpriced, and may weaken accordingly. At lower prices, it could be a good recovery stock.

Stephen Cranston

Everite gets it right with hefty staff cuts

S/Times (Bus) 8/9/91

193

EVERITE Group chief executive George Thomas estimates a saving of R13,5-million in operating expenses in the current year, mainly from the removal of superfluous management

Considering that the pre-tax profit in the year to June 1991 was almost exactly that figure, Everite's recovery prospects look outstanding

I found it hard to swallow a saving of R13,5-million on the elimination of 408 posts. On reflection, the cost to employ one head averages R33 000 a year when pension-fund contributions, medical aid and company cars are counted as well as rent and office expenses

The removal of that layer of administration arose from a group restructure Mr Thomas, who took the lead more than two years ago, says it was difficult to change the identity of a group that had existed for 50 years

The original structure had each regional office handling sales of all the group's products. Costs were allocated — a dirty word in Mr Thomas's book — and pipes always carried an unfair burden

With no clear focus, even good staff members lost motivation Mr Thomas admits that over the years Everite lost market share

"When it came to cost cutting, we reached a point where there were simply no more paper-fasteners to straighten. We had to do something radical"

A long, hard look at the group's structure supported by a Swiss con-

sultant whose one-week company visit reinforced the conclusions arrived at by Mr Thomas and his team, paved the way for change

Contribution to profit is defined by Everite as the difference between the selling price and variable costs

The only really variable cost is that of raw material. So fixed costs had to be cut from the high level at which they stood and absolute volumes raised if the percentage contribution was to be increased

Largest division, Everite itself, has been split into building materials and pipes. Its head office has been closed and the management centres moved to the Klip River factory. Carefully selected staff can now focus their sales drives

The distribution operations were also scrutinised, resulting in the closure of 15 Everite branches

Mr Thomas says "They sold at retail prices to the same customer base as our merchants. We now have six destocking points from which merchants can draw supplies"

Mr Thomas says that under the old bureaucratic structure, certain parts of the group were only taking in each others' washing

Now, the group has come out leaner, more dynamic and highly motivated

Mr Thomas is confident that market share will clawed back, although few signs of an economic recovery are evident so far

Realistic budgets are being set, and Mr Thomas says that every 1% increase in volume should add about R1-million to the bottom line

He says last year's sales volumes were the lowest in 20 years

The group head office is now manned by only 26. The group's staff complement fell by 945 to nearly 4 000 in the year to June 1991

"After only two months under the new structure, people who have been here for years say it's like working for a new company. I am confident that we will regain the lost market share"

Mr Thomas says it was a traumatic task to retrench more than 400. The cost to the group topped R3-million after tax

On the plus side for Everite shareholders is that even with another bad year of recession, the group should come up smelling of roses if only because the costs will have been pruned

A house-building boom will increase demand for many of its products. Its six divisions make building products, such as fibre-cement roofing, cladding and ceiling, concrete tiles, fibre-cement pipes, glass-reinforced plastic sheeting, pitch-fibre pipes, drip irrigation systems and bathroom and sanitaryware

In its flat-sheet business, Everite has replaced environmentally unacceptable asbestos with new fibres in all but its Durban factory, which is to follow this year

The technical problem involved in substituting fibres in profiled sheet and pipes is more complex and will take longer to solve

The Everite share price is 270c, little changed on a year ago — it has been down to 220c

The price is 39 times earnings of 6,9c a share, a rating which takes into account the additional depreciation Everite charges against current earnings, or inflation accounting



GEORGE THOMAS Like a new company after the axeings. Picture: SUE KRAMER

The historic earnings figure comparable with companies that do not inflation-account would have been 21,5c a share, and the PE ratio 13

Technically, 1991's profit could have been twice what it was

As the economy comes out of recession, prospects will improve. The group is debt free — it holds almost R36-million worth of endowment policies — more than twice the size of total borrowings

With patience, and if any of the tightly held shares can be picked up, investors will be rewarded if they get in at the current level

Mr Thomas says he has one or two ideas on how to improve tradeability of the shares

● Strictly speaking, holding company Evhold is a better buy — its price should be three times that of Everite yet it is only R6

SA granite industry set for solid growth

ARG 9/9/91 (193)

Business Staff

SOUTH Africa's granite industry is poised for a new period of sustained growth, with world granite consumption forecast to grow by as much as 8 percent a year

Domestic granite producers export most of their production and by last year exports were estimated to have reached nearly 400 000 tons — double the levels attained in the early 1980s.

South African granite's excellent long term prospects stem from

- The switch away from soft stone like marble to granite, which is more durable and more resistant to pollution influences

- It is now available in a broader range of colours

- It has benefitted from technological developments that have made it cheaper to mine

Following a period of rapid expansion, South African granite producers experienced difficult conditions in export markets last year, partly owing to the entry of new local producers who sought to acquire their own share of the global market

A price war emerged in the case of Rustenburg Grey, one of the main granite export

products, while, simultaneously, the Gulf crisis depressed demand in the Middle East. Reduced stock levels among consumers in importing countries exacerbated the situation

Although there has been some improvement in Middle Eastern demand in recent months (and demand from the Far East remains buoyant), overall international demand is expected to remain sluggish in the short term because of the depressed state of the construction industry in many industrial countries

The leading South African producers are nevertheless gearing up for renewed growth in the medium term, helped by an increasing emphasis on product beneficiation

Keeley is the blue chip of the JSE's listed granite stocks. It has large reserves, a low cost structure, well-established relations with overseas clients and an impressive track record

Yet Keeley, too, didn't escape from the deterioration in foreign markets over the past year or so. In the year to February 1991, earnings shed 5 percent to 103c a share and the dividend was shaved from 75c to 60c — Keeley's first profit setback since 1983

Near term prospects suggest a further reduction in earnings. For Keeley will suffer from

the disappearance of export marketing allowances — allowances scheduled to be terminated in March next year. Keeley anticipates that their removal will raise its tax rate to 25 percent from the 14 percent average of the past three years

At the same time, such a drag on earnings should be cushioned by rising export orders and the depreciation of the rand against the dollar

In the medium term, Keeley will benefit materially from the anticipated strong upturn on global demand for granite

And its granite reserves have been substantially boosted by last April's deal with Genmin

Further enhancing Keeley's outlook is its beneficiation policy

For the present, such activities are small, with tiles and bathroom implements being sold on the local market. But these products will soon be finding their way into export markets, where there is appreciable potential for expansion

The current financial year looks like yielding earnings of around 70c a share, out of which dividends of 45c should be forthcoming for a forward return of 7,8 percent — attractive for a company with above average medium term potential and rand hedge qualities

Slimes dam sale a boost for NKP

8/19/91 LIZ ROUSE

193

NEW Kleinfontein Properties' (NKP) sale of its last slimes dam boosted its profits in the year to June

Attributable income made only a modest advance to R3,51m from 1990's R3,32m, equal to earnings of 174,5c a share (165,1c), but the slimes dump sale brought in R1,2m, lifting total net attributable profit 41,5% to R4,71m. The final dividend, raised to 46c (34c), brought total distribution for the year to 62c (50c).

NKP's sales were down slightly to R8,8m (R8,9m) as a result of decline in demand in the group's industrial townships, but the decentralised office market showed strength.

Directors report that no improvement in trading conditions in property markets is expected in the current financial year.

Star 11/9/91
VAT will not
increase clay
brick prices

Finance Staff

193

The introduction of VAT will not increase clay brick prices and in turn will not influence prices of building and construction work, according to the executive director of the Clay Brick Association, Leon De Bruin.

He was responding to recent claims made by the National Association of Home Builders that the cost of a new home could increase by between 5 and 8 percent as a result of VAT.

"Preliminary calculations on hand indicate that in most cases VAT will not affect the price of clay bricks

"In fact one of the Association's members claims a small decrease in their brick prices upon the introduction of VAT

"Calculations indicate that savings do occur because most brick makers mine their own clay"

Substitute brick products such as cement brick and blocks could increase as a result of VAT said Mr De Bruin



PIERRE BROOKS Waiting for replies from the three before acting

Quarries target of collusion inquiry

STimes

(Bus) 15/9/91

193

By TERRY BETTY

THE COMPETITION Board is to investigate alleged collusion and acquisitions among suppliers of building materials.

Competition Board chairman Pierre Brooks says it is alleged that since June 10 this year three quarries increased sand prices by 71% from R130,50 to R225,60 for six cubic metres. Stone prices rose by 70% from R217,50 to R371,50 for 6m³.

It is also claimed that all three now insist on cash for their stone and sand. Previously they gave 30 days' credit.

The Building Industries Federation of South Africa (Bifsa) says the three quarries in the Jeffreys Bay area are Kabeljou Quarries, Gamtoos Quarries and DD Vervoer. They produce crushed stone and sand used mainly in concrete and as a base for roads.

Peanuts

Kabeljou Quarries co-owner Johannes van Loggerenberg says. "The three quarries agreed we were working for peanuts. We decided to put up our prices. What is wrong with that?"

He says this is not collusion because prices differ by about 10c.

Mr Van Loggerenberg says there is little wrong with the three quarries changing their invoicing to cash. They have a debtors' book of R165 000 and accounts are often not paid.

Dr Brooks says his board has been in touch

with the three quarries and will decide whether to refer the case to the police after receiving their responses.

The second issue lodged with the board for investigation is one of acquisition. Dr Brooks defines acquisition as the purchase of a controlling interest in a company in the same market, so restricting competition.

Stifled

The Durban branch of concrete producer Ready Mix, a Blue Circle subsidiary, recently bought out its main competitor, Citi Mix. Bifsa says this resulted in a large price increase. It is claimed that ready-mixed concrete prices rose by 30% within four weeks of the acquisition.

A Blue Circle spokesman says the company has honoured all Citi Mix's orders at the contract prices. Other prices cannot possibly have risen by 30%. But he cannot say what the increases were.

Dr Brooks says. "This is not a clear-cut issue."

For example, the board is trying to establish the precise definition of ready-mixed concrete, the intention of the buyout, the resultant price increases and whether competition has been stifled.

193

Charter on acquisition trail

Finance Staff Star 18/9/91

Charter Consolidated is seeking acquisitions which could double its existing businesses, says chief executive Jeffrey Herbert

He told analysts in Johannesburg last night that Charter had the necessary funding capacity

At end-March it had R645 million in cash and unutilised borrowing facilities of R1,5 billion.

Mr Herbert said the major avenues for growth were further penetration into existing markets, extending existing businesses through acquisitions and major acquisitions to complement existing activities

Because of the changed focus of group business, Charter has applied to the JSE to move its listing from mining finance to industrial holdings.

Difficult year lies ahead for Gypsum Industries

19/9/91. ^{B10aw} MARC HASENFUSS ¹⁹³

GYP SUM Industries faced another difficult year with the building supplies market unlikely to show growth, chairman Derek Fairbairn said in his annual review

In the year to end-June 1991, the group reported a 5% drop in earnings to R14,5m (R15,3m) after being knocked by adverse business conditions

Fairbairn said rationalisation was undertaken during the year but these savings were offset by temporarily changing the source of the group's gypsum to a more costly one.

He said the R70m gypsum plant in Brakpan had been completed within budget and should prove a sound long-term investment.

The plant was capable of supplying SA's gypsum board and plaster needs well into the next decade

Fairbairn said the export of manufactured products continued well, but foreign markets were likely to decline in the near future

The group, now a subsidiary of BPB Industries plc, has changed its reporting period from end-June to end-March 1992 and has also appointed a new MD.

He said the change of the reporting period would streamline reports.

MD Gordon Fraser retired in May and was replaced by former Donn Products MD Grant Snowden.

Shareholders seem to expect an improved performance from the group and the share is currently at a 900c high, having recovered strongly from a 650c low in October last year.

Placor cautionary (193)

Star 20/9/91

Placor and PGSOI have issued a cautionary announcement that negotiations are under way that could affect the price of their shares

UAL Merchant Bank says shareholders should exercise caution in their dealings

In a joint statement, chairmen of Placor and PGSI, Bernie Lubner and Ronnie Lubner said yesterday it was too early to add anything to the cautionary announcement and that shareholders would be informed of developments — Sapa

Fm 20/9/91

(193)

Pentelic

He remains confident on the future of the granite business, saying demand from the Far East is firm but the North American and European markets remain sluggish "It's been a difficult year and making forecasts on the year ahead has not been made any easier by the fact that August is the traditional holiday month for our European customers

SLIPPING AWAY

Year to June 30	1990	1991
Turnover (Rm)	92	121
Operating income (Rm)	21,9	18,4
Attributable (Rm)	14,1	10,6
Earnings (c)	38,3	22,7
Dividends (c)	14,0	5,0

who do not start ordering again until the middle of September," he says

"We would hope to have a better indication on market prospects after the Verona fair, which is to be held next week. We took a cautious view and passed the dividend because we would like to have a period of good trading under our belts"

What does look worrying, though, is the state of Marlin's balance sheet. Despite R32m being raised through a rights issue about 18 months ago, total liabilities were 36% up at R65,4m on June 30, from R48,1m a year previously. Main contributors to this position were the higher short-term loans and bank overdraft

About R10m of the R17,4m rise in liabilities is accounted for by an increase in stocks, which reached R28,2m at June 30 from R18,7m a year previously. Marlin, like other major granite companies, took a calculated risk and did not cut back on production when demand fell as a result of the Gulf War because this would have pushed up production costs.

Gain says stocks will be reduced as market conditions improve, but the interest charges are costing the group dearly. Finance costs soared 45% to R5,4m in the year to end-June (previous financial year, R3,7m), reflecting the higher stock levels and falling cash reserves. Cash on hand dropped to R8,9m at June 30, from the year-ago R27,2m

Marlin spent R24m (R22,3m) on capital expenditure in the year to end-June. It also forked out R13,2m to redeem preference shares falling due. Gain says some R3m was spent on opening two new quarries and installing equipment in North America. The rest of the capex was spent on plant and equipment for the group's SA quarries, along with the purchase of additional mineral rights

Marlin shares dropped from a high of 240c in June to 175c ahead of the release of the results. Earlier this week they were untraded at 100c bid and 150c sell. Investors in granite shares should probably stick to industry leader Kelgran, which has held up the best in the difficult circumstances of the past year

Brendan Ryan

MARLIN CORP

Fm 20/9/91

On the hook

(193)

Marlin Corp's passed final dividend has upset the market, particularly as management had taken a positive view on prospects at the half-way stage. Chairman Peter Gain now says the international market for granite blocks has recovered far more slowly than expected since April, while results from the group's beneficiation division were badly knocked by three months of industrial action at Marble

**Kudu scrapes
back into profit**

B/day 23/9/91
MATTHEW CURTIN 193

KUDU Granite fulfilled its directors' interim forecast that the company would return to profitability in the second half of the year, thanks to price increases and growing volumes. But only just. Earnings a share crumbled from 50,1c to 3,2c year-on-year, and the dividend was passed.

The granite quarrying company's after-tax profits at the June year-end were R651 000, against R7,8m in 1990 and losses of R728 000 at the interim stage.

Kudu shares closed unchanged on Friday at 80c, close to record lows of 65c touched three months ago and in contrast to a high for the year of 140c.

The directors said improved trading conditions in the granite industry towards the end of the year were reflected in the results for the second six months. The sector has been hit by weak demand in 1990/1991 brought about by disruption to the granite trade by the Gulf war and the world-wide recession.

Audiobuild slashes jobs at ailing Buildcor

610am 25/9/91
ELECTRONICS-listed Audiobuild Holdings, which reduced its losses in the year to end-February to R6,8m (previously a loss of R39m), has rationalised the Buildcor division's production facilities and retrenched almost 60% of its workforce

Buildcor lost R19m as the prolonged downturn in the building industry knocked down volumes and margins

The rationalisation programme will consolidate seven door and frame factories into one factory at Wadeville

Although turnover soared to R184m (R69m), hefty increases in the interest bill to R9,3m (R1,8m) prevented this reaching bottom line in the period under review

No dividend was declared

Audiobuild financial director Martin Capper attributed the increase in interest-bearing debt (R35m) to increased working capital requirements following the acquisition of door manufacturer Bruply from PG Glass, the cost of re-locating Bruply from Boksburg to Wadeville and trading losses

Directors believe Buildcor is now in a position to operate profitably and attention is being given to the high level of debt

MARC HASENFUSS

Manufacturer and distributor of low-cost radios and hi-fi equipment Audiocor posted a net profit of R11,9m (R7,9m)

Audiocor was adversely affected by retrenchments in the mining sector, consumer boycotts and the economic downturn in the period under review.

Directors expect the division to make a reduced contribution to the group in 1992

Holding company Abacus Industrial Holdings reported a loss of R6,4m (R15,7m)

Caution

The inclusion of an extraordinary item, relating to profit on disposal of a subsidiary, over provision and restitution of funds and assets, reduced losses to R26 000

Audiobuild and Abacus reminded shareholders to exercise caution as both groups were still involved in negotiations

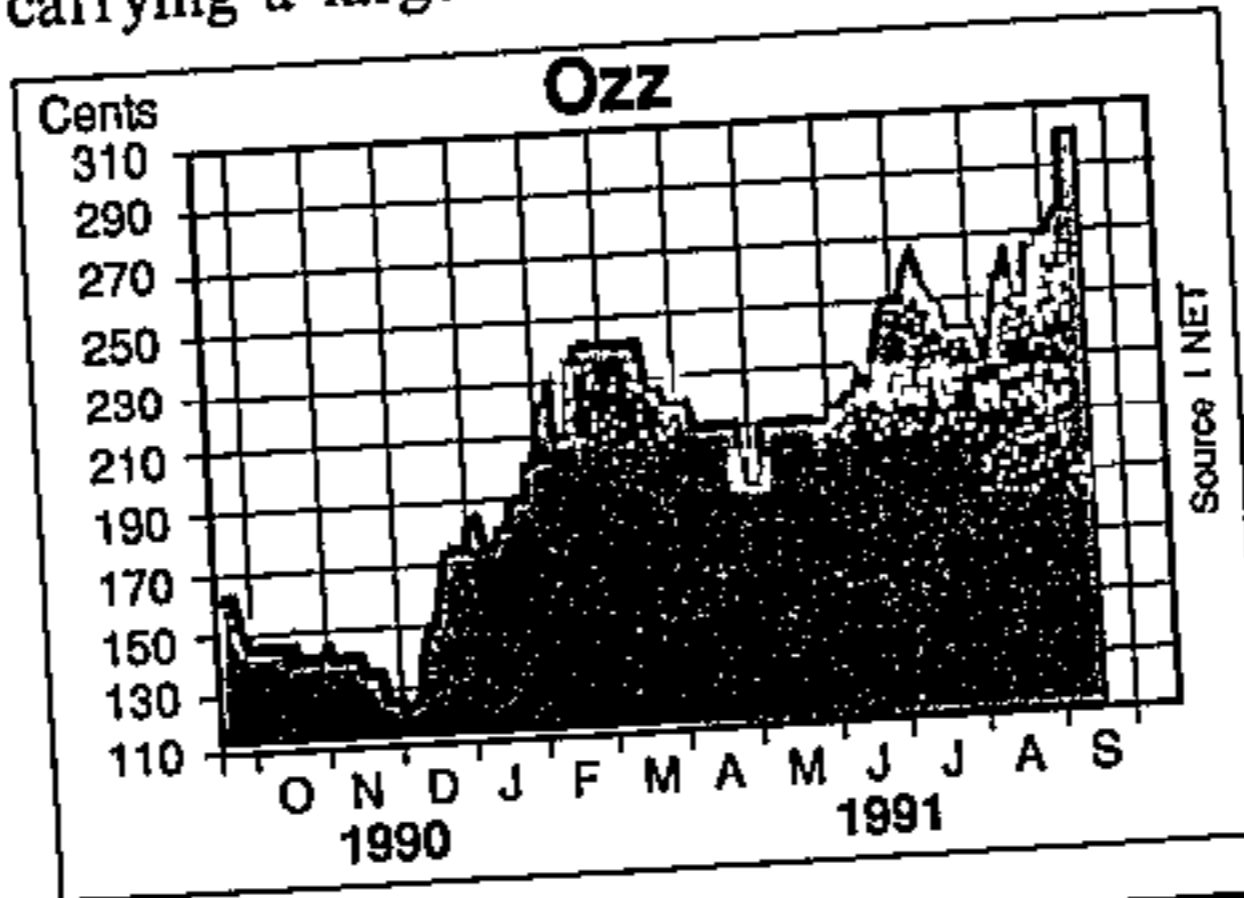
Audiobuild is currently at 70c just above last month's low of 66c while Abacus stands at 20c after a 15c low earlier in the month

OZZ FM 24/9/91

Reducing debt

193

Little more than a year after acquiring Lucem Industrial Corp, in a deal that left Ozz carrying a large debt burden, both profita-



FINANCIAL MAIL • SEPTEMBER • 27 • 1991 • 111
Continue →

bility and cash flow have improved rapidly and a hefty portion of the debt has been repaid

With the acquisition, Ozz increased the proportion of high-margin operations contributing to trading profit. Last year's 32,6% advance in turnover saw operating income up by 70,4%, which left pre-tax income 42% higher after the interest bill almost quadrupled to R4,8m

The effective tax rate was 46,8%, but most of the R6,2m charge was for deferred tax. In total, cash available from operating activities, after interest and tax, increased by R5,3m, nearly 50% up on the 1990 year's figure. Interest-bearing debt was reduced by R14m and, assuming that borrowings will not expand again during the current year, there is scope for a marked drop in the interest bill by the 1992 year-end

No detailed breakdown of the profit contributions from the various activities is given. However, the core operations — engineering and fixed property interests — provided R17m ((R7,9m) of operating income and R92,7m (R72m) of turnover, while the non-core operations — bricks and other activities — provided R1,3m (R2,8m) of operating income and R21,3m (R14,0m) of turnover. Chairman Gary Zulberg comments that engineering operations produced an outstanding performance in absolute terms and also in improved market share, while the



Ozz's Zulberg *improving the margins*

construction and property investment activities achieved their anticipated levels of profitability.

Among the non-core activities, Capegas, the gas production and supply division, returned increased profits that exceeded budget. Ozz's remaining operational brickyard at Nigel has been restructured with additional personnel and has redefined objectives.

Activities: Investment holding company with core activities in foundries and specialised engineering works, and in construction, development and investment in fixed property. Non-core operations comprise manufacture of bricks, and production and supply of gas.
Control: Directors 42,2%

Chairman: G Zulberg

Capital structure: 13,3m ords. Market capitalisation R39,9m

Share market: Price 300c. Yields 5,7% on dividend, 15,4% on earnings, p/e ratio, 6,5, cover, 2,7. 12-month high, 300c, low, 122c

Trading volume last quarter, 672 000 shares

Year to March 31	'88	'89	'90*	'91
ST debt (Rm)	0,7	3,5	3,8	0,39
LT debt (Rm)	0,06	25,3	25,3	16,9
Debt equity ratio	0,41	0,69	0,71	0,39
Shareholders interest	0,87	0,60	0,40	0,49
Int & leasing cover	9,2	1,9	29,5	4,0
Return on cap (%)	3,4	3,7	10,3	19,8
Turnover (Rm)	9	9	86	114
Pre-int profit (Rm)	0,7	0,5	9,8	18,0
Pre-int margin (%)	0,8	6,1	11,4	15,8
Earnings (c)	9,4	8,2	38,1	46,1
Dividends (c)	2,0	2,5	3,4	17,0
Net worth (c)	51,6	23,3	281	310

* Shares consolidated 4-for-1

These changes, according to Zulberg, should result in a general improvement this year. Brickveld Brickworks division was sold for R1,8m, yielding an extraordinary profit of R646 000.

Zulberg adds that all the group's busi-

Continue

nesses are operating profitably. It is intended further to improve operational efficiencies and to develop new products in the ambit of existing expertise, for local and export markets. Acquisitions may also be pursued. Growth in earnings and dividends is forecast, though there is no indication of the pace that might be expected.

At R3, the price has climbed by about 70% from its 12-month low of 122c, but remains at a discount to tangible NAV. Investments include a 50% stake in Bruma Lake Development Trust, still being carried in the balance sheet at R6,4m, which is almost certainly well below the realisable value. While the share no longer looks cheap, the yields are not unduly demanding. It should still prove a worthwhile hold.

Andrew McNulty

SA cement ^{3/10} to Zimbabwe

MICHAEL HARTNACK ¹⁹³

HARARE — Zimbabwe's State Trading Corporation has decided to import SA cement because Zambia's Chilanga cement factory has failed to fulfil orders, the Financial Gazette says. Zimbabwean cement factories say their machinery is too old and their capital base too eroded by state-controlled prices for them to keep up with demand. Zimbabwe State Trading Corporation spokesman Emmanuel Gamanya reportedly said a contract was signed last October for Chilanga cement to supply Zimbabwe government construction projects with 40 000 tons a year at \$48 a ton. Zambia was able to fill only between 10% and 25% of the order. ^{10-4-3/9/91} Gamanya said it was found that the Zambian cement was unsuitable for road and bridge construction. The State Trading Corporation had decided to import from Mafikeng, where 1 500 tons a day could be supplied at R117,6 a ton.

MANUFACTURING — NON-METALLIC MINERAL prod.

1991

OCT. — DEC .

COMMODITIES

Pros and cons of cement cartel

B/Paw 4/10/91

Brent von Melville

193

IF THE ancient Egyptians had it, their pyramids would have been bigger; if the Chinese had it their Great Wall would have been even more visible from space, and if the Greeks had it the Venus de Milo would probably still have arms

The product is cement and, in our modern, urban-based society, it is the product that binds our "concrete jungles" together. It is as essential to concrete, the prime building component in most of our buildings, as flour is to bread

Cement is a relatively low-value, high-volume product, its price radically affected by transport costs. And because its main ingredient is limestone producers have to be where the limestone deposits are. In SA the big limestone deposits are in the Western Transvaal — generally a fair distance from the main markets.

Because of that and the high capital outlay associated with cement plant construction, SA's three producers, Pretoria Portland Cement (PPC), Anglo-Alpha, and Blue Circle, have been granted leave to operate in a collusive environment

Cartel

This arrangement, sanctioned by the Competition Board in August 1988 (but currently under review), has largely allowed these companies to offset the effects of weak demand in the markets they serve.

Cartel members, of course, are not totally shielded, and uniformly complain of reduced sales. They are currently operating at about 60% of total yearly capacity of about 12,3-million tons. Sales have not been near 80% of capacity since about 1982, when cement demand jumped 40% in two years on buoyant capital spending.

But sales have slumped since, and members say there are no plans to increase production facilities at least until the beginning of next century. PPC, which commissioned the R250m Dwaalboom cement plant in 1986, has since mothballed it.

The Dwaalboom plant is capable of producing 650 000 tons of cement a year, about 13% of

PPC's 5,2-million-ton total capacity. PPC represents about 45% of SA's market, followed by Anglo-Alpha with 35%, and Blue Circle with 20%. Market share is maintained at those levels by agreement.

The current year does not look rosy, as the civil engineering and construction industries continue to slump. Latest figures from the SA Cement Producer's Association (Sacpa) indicate cement sales at 4,9-million tons to August, compared to 5,2-million tons during the first eight months of last year. On a moving annual total this indicates that sales will be about 4% down from last year's 7,8-million tons.

However, a market analyst says the three producers have averaged about 10% compound earnings growth during the past decade, and investors are taking the longer-term view that demand for black housing and informal sector building is bound to pick up.

The three producers show an average historical price to earnings ratio of almost 12 times. This compares with ratings of construction companies such as Concor (3,9 times), Group 5 (3,4 times), and LTA (4,5 times).

The cartel situation has enabled the three groups to maximise supply efficiencies and to keep pricing at a level which compares well with prices abroad, although the latter point is argued by critics.

Critics also say the industry enjoys special legislation, and point to a recent case where the cartel managed to squash attempts by a Spanish company to import cement through Natal several years ago.

Sacpa says the local industry wants protection against cement being "dumped" in SA at prices below those ruling in the countries of origin, and that it has no objection to fair competition from foreign producers.

In relation to international prices, SA is still one of the lowest-cost producers. Swiss-based Holderbank figures show that at the end of 1990 bulk prices of SA cement were at \$48,17 a ton, compared with \$113,86 in New Zealand, \$72,62 in Canada, and \$36,65 in Lebanon.

As opposition to the cartel grew more pitched recently the Competition Board has reopened its investigations.

Arguments justifying the exemption include the fact that there are essentially no barriers to entry into the market, substitute building products provide competition, and the local market is open to competition from international producers.

Sacpa says the best way of minimising the inflationary effects of transport on the cost of cement is through the cartel. Deliveries are optimised through a computerised transportation model, avoiding expensive cross haulage.

The main argument is the capital intensive nature of the business. Anglo-Alpha MD Johan Pretorius points out that a new economically sized kiln will now cost at least R500m.

Critics such as Concor Technicrete's MD Peter Michau say that any business involves risk, and if one is not prepared to take that risk one should not enter the market.

Alternative

As for substitute building products, the most commonly used in SA is steel, mostly in so-called "fast track" construction of warehouses, bridges and some commercial buildings. Glass cladding, brick and mortar housing and timber-frame housing are other examples.

More specific to roads and piping, alternative building materials include blacktop bitumen, PVC and bitumen pitch pipes.

SA Federation of Civil Engineering Contractors (Safcec) CE Kees Lagaay says asphalt highways cost less to build than concrete ones, but their lifespans are shorter.

Portland Cement Institute executive director Graham Grieve says cement represents between 7% and 10% of total costs of engineered structures such as bridges, roads, and cooling towers. Those costs are reduced in the case of typical multistory commercial buildings to about 2%, and, according to Building Industry Federation of SA figures, amount to about 6% to 8% of the total materials cost of residential buildings.

D & H hampered by a slow building sector

By David
11/10/91

BRENT VON MELVILLE

THE results of Malbak-controlled building materials group Darling & Hodgson (D & H) — soon to become part of the Murray & Roberts stable — have been hampered by continuing poor conditions in the building industry.

In line with forecasts made by directors last year of a 10% decline for the year to August, earnings slipped 9% to 88c (96,6c) a share off a drop in attributable profits to R57,1m (R62,6m).

At the same time the strength of the balance sheet has prompted directors to declare a dividend of 35c (32c), following the 40c special dividend announced in May. Dividend cover was reduced to 2,5 (3,0) times.

The decline comes off a slight decline in turnover to R610m (R629m) as a result of weak trading conditions in the group's principal markets, although directors said the rate of decline in these markets was less severe in the second half of the year than the first.

Slimmer margins saw operating profit down 7% to R101m (R108,7m), and the tax rate was up slightly at 37,3% (35,3%) as assessed losses were fully utilised during 1990. As a result the

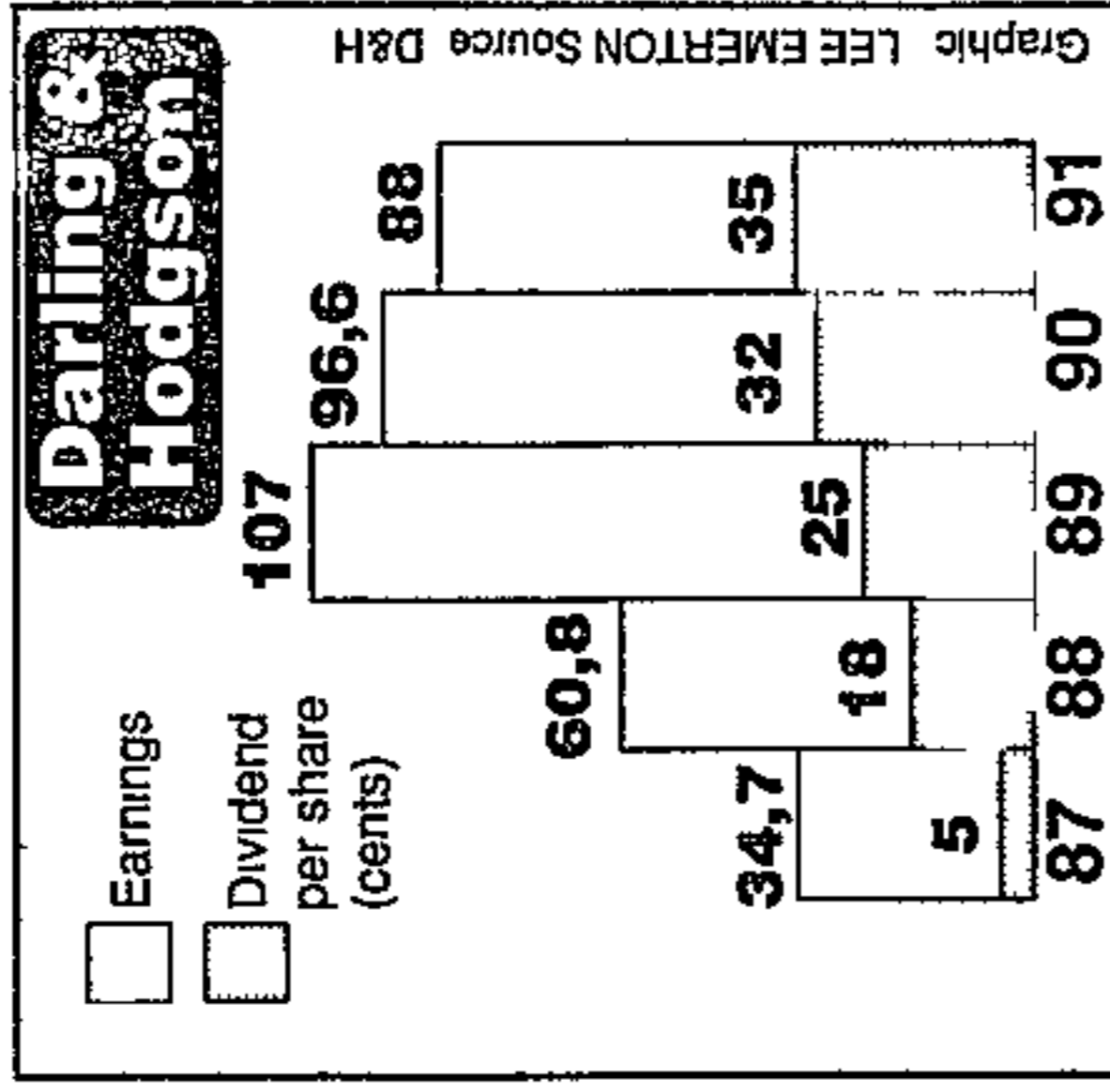
tax charge was virtually unchanged at R37,8m.

Divisionally, Rocla, which makes concrete and fibre reinforced pipes and precast culverts, showed a sharp drop in volumes and cement group Blue Circle, in which D & H holds 42%, showed some trimming of profits as cement and building material volumes declined.

Conversely the Lock Division came through with excellent results, albeit off a low base. Directors said the results reflected the rationalisations of activities which occurred during the previous year, combined with the introduction of new product lines. Volumes of exports again showed good growth.

The group's strong balance sheet, which is ungeared, leaves the group favourably placed for future acquisitions.

Improved cash flow also saw the group close out the year with cash on hand of



R49,5m, despite the payment of a special dividend of R25,9m in May.

At a share price of 660c, a premium of 36% on nav, D & H shows a p/e ratio of 7,5 times and a dividend yield of 5,3%.

COMPANIES**GYPSUM**

FM 11/10/91

(193)

Unduly gloomy**Activities:** Manufactures gypsum-based building products

Control BPB Industries Plc (50%), Blue Circle (32,4%)

Chairman: D A Fairbairn, MD S G Snowden**Capital structure:** 8,2m ords Market capitalisation R73,8m**Share market:** Price 900c Yields 6,7% on dividend, 21,7% on earnings, p e ratio, 4,6, cover, 3,3 12-month high, 900c, low, 650c Trading volume last quarter, 6 700 shares

Year to June 30	'88	'89	'90	'91
ST debt (Rm)	8,3	3,2	7,0	8,0
LT debt (Rm)	2,2	1,1	0,9	41,1
Debt equity ratio	0,24	0,08	0,12	0,52
Shareholders interest	0,60	0,66	0,64	0,45
Int & leasing cover	44,0	49,9	n/a	131,0
Return on cap (%)	30,2	35,8	30,7	18,0
Turnover (Rm)	116	147	166	180
Pre-int profit (Rm)	21,8	28,8	30,6	30,0
Pre-int margin (%)	18,8	19,6	18,4	16,6
Earnings (c)	123	163	187	195
Dividends (c)	42	51	60	60
Net worth (c)	481	593	720	838

On the face of it, a one-third increase in Gypsum's share price since last October would seem to suggest that shareholders have had a pretty good year. However, first impressions can be misleading, and when one digs a bit deeper it becomes apparent that the group's rating, particularly against the Building sector where it is listed, has worsened considerably.

Over the same period, the Building sector has staged a strong recovery, with the JSE actuares sector index up 67% — double Gypsum's gain.

The situation is a bit odd because, based on earnings performance, Gypsum has outperformed the companies making up the index by a substantial margin.

The only conclusion is that Gypsum is not being rated on historical performance but on expectations — or, more accurately, investor perceptions thereof. One of the main concerns must be the impact on the group of just having commissioned substantial additional capacity when the building industry activity remains depressed.

As far as the 1991 financial statements are concerned, the impact of the new Brakpan plant is to be found mainly in the balance sheet, which shows total assets having increased from R99,5m to R166,1m. And, possibly more importantly from the point of view of investors, with roughly half this increase funded with debt (net borrowings increased by some R32m), the gearing of this normally under-borrowed group has jumped from 0,12 to 0,52.

The income statement was largely unaffected. While interest charges increased from under R1m to R5,8m, this was largely offset by higher interest receipts, and net interest payments rose by only R800 000. Similarly, with the plant having been commissioned towards the end of the accounting period, it has not yet made itself felt in terms

of depreciation charges — the net amount provided for depreciation last year showed an even smaller rise of only about R100 000.

In both cases, substantially higher charges will be incurred in the current accounting period, which has been shortened to nine months by a change in the financial year-end from June to March.

As regards interest charges, servicing the R46m loan raised to finance the Brakpan plant would cost around R8,5m for a full year, and as a repeat of last year's abnormally high interest receipts is unlikely, this could dent the income statement, as could the additional depreciation charge on the R70m capital cost of that project. Ideally, one would have hoped that the additional capacity would have come on stream at a time of rising demand. Since this has not happened, there is a question as to the scope, if any, of improving trading profit in other ways.

There are two possibilities. One is that last year's results were adversely affected by raw material supply problems at the Pretoria plant caused by low yields and flooding at the mine that normally supplies this facility. If there is no repeat of these occurrences, this would help to stabilise margins. It's also possible, though, that closure of the mine would mean that other, more expensive sources of gypsum will have to be found.

Also, the new Brakpan plant is said to be state-of-the-art and, consequently, more cost-efficient than the group's older manufacturing facilities. Once any initial teething problems are resolved, there could be scope to juggle production at the various plants.

These are, however, quite long shots, and the company is probably wise in avoiding any specific forecast regarding 1992 results. But, short of a catastrophic decline in earnings, there is little reason to doubt that dividends can be maintained. While earnings may be squeezed in the absence of an upturn in demand, the general financial position is comfortable.

This is a far cry from the market's apparent assumption, based on dividend yield relatives, that the payment is in jeopardy and raises doubts as to whether the continued down-rating of the share is justified.

Brian Thompson

Firms in tussle over glass imports

ALLEGATIONS of dumping, and calls for further protection of the glass industry are at the centre of a row between Pilkington Glass SA and Triangle Glass

Triangle, a subsidiary of Triangle Chemical Industries and a leading manufacturer of window putty, imports about 30 000m² of 3mm drawn glass every month from Taiwan *Blow 11/10/91*

Pilkington, however, believes Taiwan is dumping drawn glass on the local market

The glass manufacturer has lodged an application with the Board of Trade (BoT) for an anti-dumping duty on Taiwan in terms of the 1984 Customs and Excise Act, marketing director Brian Humphries said

PAUL ASH

on Wednesday

"We believe the People's Republic of China is exporting to obtain Western currency regardless of Western cost and price parameters," he said

Triangle had been importing glass for the past two years from Poland, Russia, Romania, Taiwan and Brazil, MD Cyril Gebhardt said

Pilkington, which had the sole agency to import drawn glass from Turkey, simply did not want any competition, Gebhardt said

ITALTILE, the leading tile maker, hit a high of 400c on news that it is to split its retail and manufacturing divisions in a deal with Abacus and Audiobuild, formerly Interboard and Buildcor respectively

Abacus is the pyramid holding company of Audiobuild. In the proposed deal, Audiobuild will buy the manufacturing operations of Italtile and Tilecor from Abacus, and will sell to Abacus its trading divisions and shareholding in Audiocor.

Audiobuild has assigned to Abacus all its liabilities, other than an amount owed to Nasseti Eto SPA. Abacus will pay net asset value for the trading divisions, to be discharged by the acceptance of the Audiobuild liabilities.

Audiocor will be sold to Abacus at net asset value on loan account. Audiobuild will implement a capital reduction equal to the amount of that loan account.

Allotment

In terms of this, ordinary members of Audiobuild other than Abacus will be required to apply their entitlement flowing from the reduction in capital to shares of net asset value in Abacus.

Italtile is to sell the assets and liabilities of Betta Sanitaryware and National Ceramic Industries, as well as its holding in Samcatiles, National Ceramics and CRM Brick & Associated, all at net asset value.

The consideration will be an allotment of Audiobuild shares at net asset value to Italtile, which in turn will renounce them to its shareholders.

Italtile will buy 60% of Audiobuild from Abacus and will distribute them to its own members as a dividend. Abacus will receive Italtile shares of 600c in payment.

Audiobuild's minority will be offered Italtile shares for Audiobuild, and Italtile will again renounce the shares it receives to its members.

Audiobuild will buy Tilecor from Abacus for R2,1-million cash.

After the deals, Italtile's asset will be Italtile Ceramics, which houses the property and retailing divisions, the

Split boosts a high for Italtile

Italtile Centre, CTM and franchising

Abacus will hold Audiocor and the trading divisions LTN, Bruply, Doors & Deure, Cape Doors & Boards, Robecor and Zadco.

Audiobuild will have three legs, the Italtile manufacturing divisions, Tilecor and property, plus clay quarries. If all the Audiobuild members accept the offer, Audiobuild will be wholly owned by Italtile shareholders.

Part of the rationale is that Italtile members will have investments in two listed companies — "thus improving the marketability and spread of their shares," according to the announcement.

Audiobuild will also hold shares in two listed companies because they will get shares in Abacus.

Abacus members will benefit from the savings to be had on cost and finance charges and the elimination of the pyramid structure.

Approval

The effective date is August 31, subject to the approval of shareholders, the Securities Regulation Panel and the JSE. Abacus will also need to satisfy the court of its ability to discharge liability in the event that any creditor objects to the reduction in capital of Audiobuild.

Italtile is capitalised at R68-million on the JSE, Abacus at R20-million, including R9-million in debentures, and Audiobuild at R51-million.

FOR SALE MAIZE MILL

2 000 tons pm Assets ± R3 million including property Finance available to purchase asset Only working capital required of ± R700 000

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Everite restructuring expected to cut costs

B(Day) 14/10/91

193

MARC HASENFUSS

BUILDING materials supplier Everite expects a "meaningful improvement" in earnings for the current financial year following the implementation of a restructuring programme that could bring a R13,5m cost saving

The group performed poorly in the year to end June 1991 and earnings plummeted to R6m (R19m) as adverse business conditions in the building sector crushed Everite's operating margins

Despite the disappointing results, shareholders seem confident about the future. The share has shrugged off the year-end performance to remain at 270c, just below last month's high of 275c

However, the share is still trading at a considerable discount to Everite's current net asset value of 419c a share

MD George Thomas said in his annual review that Everite's regional structure, consisting of a divisional head office and three geographic regions, had been consolidated into a building products division and a pipe division

Employee numbers were cut from 4 924 to 3 979

He said the reduction in employees was due to the drive for improved productivity at shop floor level, the reduction in "layers of management" and the need for shorter lines of communication

Thomas said that more than half the jobs lost were at shop floor level and would be reinstated when demand increased

In his divisional review, Thomas said Everite's building products and pipe divisions should show a marked improvement in trading results as the benefits from the restructuring filtered through

Fibre pipe subsidiary Santar faced difficult trading conditions in the year ahead and sales volume and profitability were not expected to show significant short-term growth

Thomas said the diversification of plastic sheeting group Paxit was delayed by technical problems but the introduction of new products would result in higher sales volumes

Shipping

Irrigation products group Agriplas should see higher sales in the new financial year, and an increase in net income was expected

Thomas said Vaal Potteries had its successful export drive halted in the second half by shipping delays during the Gulf crisis

"Although the volumes in commodity product exports are again increasing, long-term profitable niche markets are taking time to establish"

Everite remains well geared at 10,7% (15%) and relatively liquid with the current ratio remaining at an acceptable 1,6 1

Economic building systems devised

193

17/10/91
THE provision of affordable housing in South Africa has led to the development of economical building systems

In turn it has become necessary to identify finishes which will complement these structures without substantially increasing costs

Harvey Roofing Products' sales executive Mr Patrick Mkolesa says roofing in particular requires careful consideration

The weight of the roofing material, ease of transportation and installation, durability and aesthetics are all factors which influence specification

A cost-effective product which is meeting requirements is Tullspan "S" rib profiled roof sheeting. Manufactured by the company, Tullspan is factory-coated in a range of colours developed to enhance individual units or lend character to mass housing schemes

The attractive, maintenance-free finish is achieved with an acrylic formulation which can withstand high ultra-violet levels and adverse climatic conditions

PPC to merge with French company

B/DW 17/10/91
PRETORIA Portland Cement (PPC) is to merge with French cement manufacturer Saret International to establish a R20m concrete flooring facility in Ohlantsfontein, Midrand

PPC marketing and development director Terry Knight says the company, to be named Prestressed Precast Beton (PPB-SA), will start production early next year. Saret International provides technological, manufacturing and marketing expertise to more than 50 licencees in Europe,

BRENT VON MELVILLE

the Middle East, North Africa and the Indian Ocean islands

(193)
Knight said the venture would provide potential to expand both in SA and in the neighbouring countries

PPB-SA would provide a complete range of technical services relating to the design and erection of its products, Knight said

Sales lift Italtile earnings

Bldam 18/10/91 (193)

MARC HASENFUSS

BUILDING supplies group Italtile yesterday reported a solid increase in interim earnings after boosting sales 24% in severely depressed trading conditions

Directors attributed the recovery in earnings to better sales levels and improved management over operating costs

Gains in sales volumes were made at the expense of margins as price competition in the building supplies market intensified. Operating profit showed a small 6% increase to R12,3m (R11,6m) for the six months to end-February

Operating profits were further eroded by a hefty R2,4m interest bill

However, a doubling of interest from investments to R1,5m and R1m in dividends received helped push earnings up 26% to R8,6m (R6,8m). Earnings a share rose 25% to 50,1c (40c) with the number of shares in issue increasing marginally

The group was further aided by a reduction in taxation to R3,8m (R4,8m) after the tax rate was reduced by capital allowances received on the construction of Italtile's Samcatile plant

An interim dividend of 8c (6c) was declared, covered a conservative 6,3 times

The Italtile board has decided to make a more even allocation between the interim and final dividends, hence the scale of the increase in dividend payout

They said the continued improvement in the management of working capital was reflected in the improved liquidity of the group (current ratio 1,5:1) and the reduction of interest-bearing debt to R14m from R16m at year-end

In the previous financial year Italtile completed a R40m expansion programme which raised the level of net borrowings

The group has recently concluded a deal with Abacus Holdings whereby Italtile will be restructured

Italtile directors believe the new arrangement will enable the management of each operation to focus on core business, improve operational effectiveness and increase market share

The share was untraded on the JSE yesterday at its 400c high. The share has traded in a narrow band between a 350c low and 400c high this year

'Industry could handle huge housing plan'

(193) PETER GALLI

THE Old Mutual/Nedcor housing scenario to kick-start the economy could see in additional 100 000 people employed if it were implemented, SA Building Industries (Bifsa) executive director Neil Fraser told delegates at its annual conference at the Wild Coast Sun yesterday

One of the proposals in the Nedcor/Old Mutual economic plan was that 200 000 low-cost homes be built a year for three years, that 400 000 plots be serviced and a million houses be provided with electricity annually over the same period

Fraser said the industry could handle the task.

A Bifsa analysis showed that about 55 000 people would be employed as supervisors, skilled operators, semi-skilled and unskilled workers to provide services and civil engineering facilities

In addition, about 90 000 people, including 4 000 supervisors, would be employed on building work

At least 800 small companies could be established as a result of the programme, he said

Fraser then detailed what would be involved in such an initiative. Bifsa based its analysis on a house of 42.5m² with two bedrooms, a living room/kitchen and bathroom.

"While such a house is too sophisticated for very low income earners, it is within the affordable levels of many others and thus represents an average demand."

The analysis included a complete programme for the operation, based on the completion of 80 houses countrywide each working hour, Fraser said

Bifsa has programmed the building of single houses at 18 days a house, not including site clearing and electrical reticulation

"The manufacture of the materials required would provide thousands more jobs and promote small business

The 286-million concrete blocks required could be almost entirely produced by labour-intensive small entrepreneurs," Fraser said

Rand more resilient against 'new' basket

SIMON WILLSON

THE rand is noticeably more resilient on average against a basket of trading partners' currencies since the Reserve Bank's changes to the trade-weighted rand's currency basket.

The trade-weighted, or effective, rand shows the rand's value against a cross-section of currencies weighted by trade flows rather than as a bilateral rate against one or other of the major currencies

The rand's trade-weighted value is expressed as an index, where January 1979 equals 100

The basket of currencies against which the effective rand is measured contains the currencies of SA's six biggest trading partners. The top four currencies in the basket have changed little over the years: US dollar, British pound, Deutschmark and Japanese yen

The bottom of the currency basket ranking is more volatile

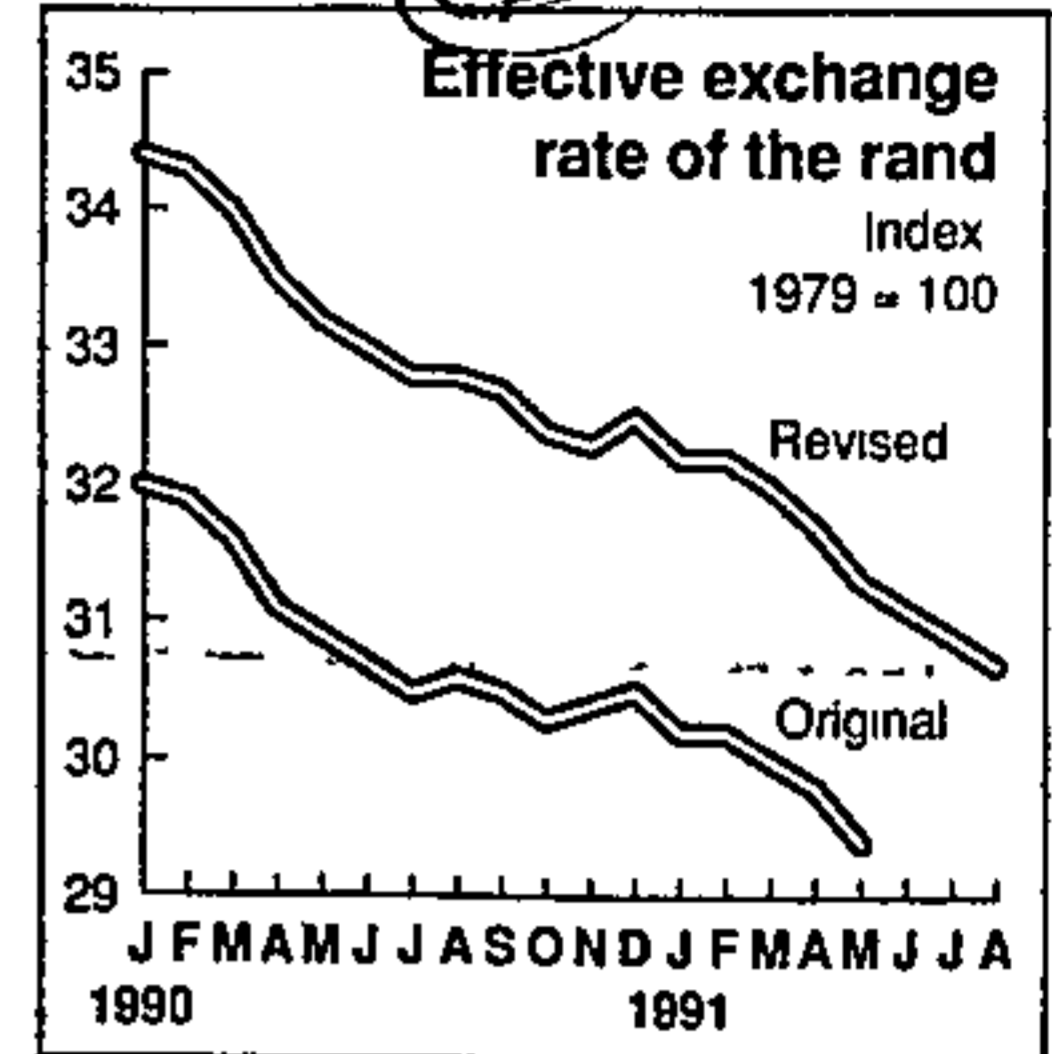
Static

The change enacted by the Reserve Bank during the third quarter was to toss the Swiss and French francs out of the basket and replace them with the Italian lira and the Dutch guilder.

The switch implies a shift in trading patterns over the 12 months since the Reserve Bank last examined the composition of the currency basket. Trade relationships with Italy and the Netherlands would seem to have burgeoned, while those with Switzerland and France have remained static or fallen off

Official figures detailing SA's trade with individual foreign countries have been classified since the mid-1980s to avoid sanctions pressure. SA Foreign Trade Organisation (Safto) economist Bruce Donald said commercial relations with Italy and the Netherlands had indeed expanded recently

"Italy stands out as a major growth point for SA exports, and the Italian market has moved up considerably recently among SA's other export



Graphic: FIONA KRISCH Source: SA RESERVE BANK

markets," Donald said. Precious metals constituted the main SA export to Italy, followed by coal, base metals, metallic and non-metallic ores and hides and skins — highlighting Italy's buoyant jewellery and leather consumer goods industries

Donald added that the importance of the Netherlands was centred on its role as a gateway to Europe through the giant entrepôt of Rotterdam

"SA exports to Rotterdam cover a wide spectrum and include huge amounts of bulk minerals and containerised cargo. This traffic can be expected to increase substantially in the years ahead in view of the removal of political trade barriers within the EC"

The growth of SA freight traffic through Rotterdam may also have been helped by the more compliant attitude of the Dutch dockworkers. Trade union sensitivity over handling products of SA origin had been overcome earlier in Rotterdam than at some other European ports

Donald said the importance of France as a supplier had declined since 1988, while there had been a parallel decline in the significance of Switzerland as a market over broadly the same period

The dramatic improvement in SA's commercial relationship with Italy seems to have been visible during last week's visit to Italy by Trade and Industry Minister Org Marais

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Keswick surprised by JSE warning on Dergra listing

Star 24/10/91
Finance Staff

The JSE has called upon Keswick, the new controlling shareholder of cash shell Crest, to submit complete documentation on the reverse listing of Dergra into Crest.

It warned yesterday that failure to do so could lead to the JSE exercising its rights under listings requirements to prevent Dergra getting a listing.

In a counter statement, the directors of Dergra expressed surprise at the JSE's statement.

"The deputy listing manager of the JSE has

called on a number of occasions for clarification of aspects to the documentation and it is believed that these have been submitted as promptly and efficaciously as possible whenever requested," it said.

The JSE said it regarded the documentation as "inadequate and incomplete".

Keswick said the last submission was made by Dergra on Tuesday "and the directors and their professional advisers were of the view that all requirements had been met".

The JSE claimed no offer had been made to

Crest minorities comparable to the offer for control (108c a share).

The directors of Dergra said that they had no intention of neglecting their responsibilities either to the JSE or to Crest minorities.

Keswick's statement said it had been indicated that Dergra would make an offer to minorities at a share price 13c higher than the last ruling price of Crest upon the lifting of the suspension.

"To this extent, prime bank guarantees have been lodged with the JSE since July 26, 1991," it said.

SAB set (193) to acquire Plate Glass

Star 24/10/91
Plate Glass and Shatterproof Industries (PGSI) is involved in negotiations with SA Breweries, which market sources speculate will result in a R1 billion takeover of PGSI by SAB.

SAB, PGSI and its holding company Placor cautioned shareholders today that shareholders of Placor controlling in excess of 50 percent of its shares are involved in negotiations with SAB. Details were expected soon.

Placor's shareholders include Liberty Life with 32 percent, Old Mutual with 26 percent and 23 percent held by company directors.

PROPERTY

Roofs come out on top to provide affordable homes

By JOSHUA RABOROKO

THE provision of affordable housing in South Africa has led to the development of different economical building systems

It has also become necessary to identify finishes to complement these structures without increasing costs too much.

Harvey Roofing Products' sales executive, Mr Patrick Mkolesa, said roofing in particular required careful consideration.

The weight of the roofing material, ease of transportation and installation, durability and aesthetics were all factors which influenced specification.

A cost-effective product which meets requirements is Tuffspan "S" rib profiled roof sheeting.

Tuffspan is factory-coated in a range of colours developed to enhance individual units or lend character to mass housing schemes

The attractive, maintenance-free finish

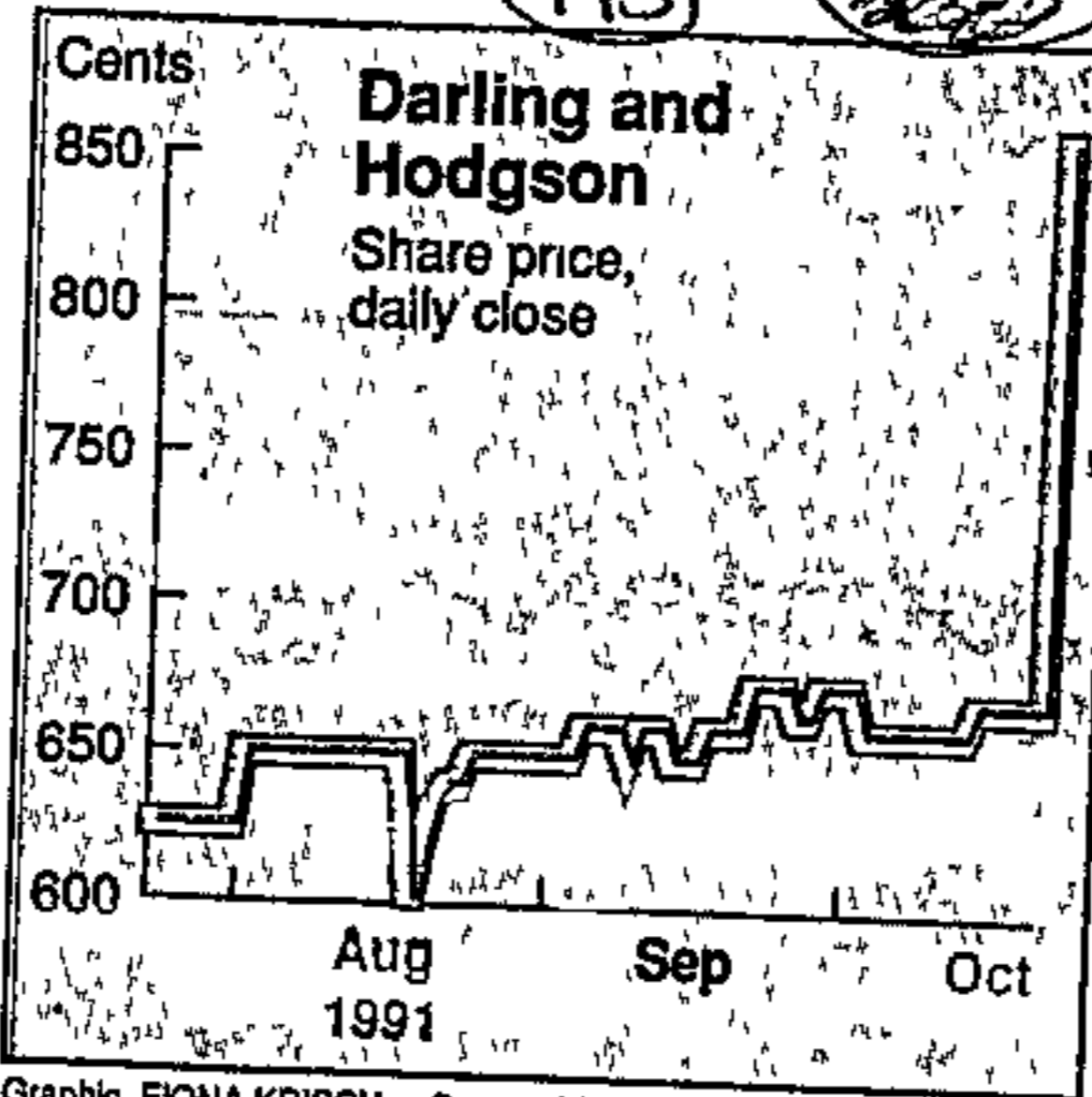
Sowetan
is achieved with an acrylic formulation which can withstand high ultra-violet levels and adverse climatic conditions

Natural stone granules on the weather-side add visual appeal. Coating on the underside provides a good-looking surface in areas where ceilings are not an immediate necessity 24/10/91

The company recently demonstrated the benefits of aesthetically pleasing roofing when it was used on a Brickmart unit built by Let Property Development for the Star Affordable Show in Vosloorus. 193

Green coloured roof sheets enhanced the single skin clay brick home which emerged a winner in the Show's Best Home category.

JSE applauds the Sankorp shuffle



Graphic FIONA KRISCH Source I NET

MERVYN HARRIS and BRENT VON MELVILLE

DIAGONAL Street yesterday gave a favourable response to the R1bn reshuffle by Sankorp of its industrial interests

Darling & Hodgson (D & H) was the major beneficiary as the shares soared to a high of 870c before slipping back to close 28,3% or 190c up at 860c. This surpassed the previous peak of 675c reached at the end of September and is more than double the low of 400c almost a year ago.

Under the reorganisation, Malbak is to sell its 61% stake in D & H to Murray & Roberts (M & R) for R297,2m. D & H was valued at 750c a share for purposes of the deal, or 16,67 M & R shares for every 100

To Page 2

Sankorp ^{BID ay} 24/10/91

D & H shares

M & R traded yesterday at its recent peak of R55 with dealers reporting difficulty in obtaining stock. The price is higher than the R45 value placed on the shares for purposes of the deal, and helps explain the rise of D & H shares.

As D & H has a 43% stake in cement group Blue Circle, the deal will give M & R joint control of Blue Circle.

The transactions will also propel Malbak into top position in the pharmaceutical industry and make it a major player in the food sector, with the acquisitions of SA Druggists and Fedfood respectively from

From Page 1

Fedvolks Malbak, valued at R12 for purposes of the deal, shot up 35c yesterday to equal its recent high of R12,25.

After a year devoted to sharpening its image with investors and reducing gearing, Malbak has seen its share price more than double since its 600c level last end-August, and its market capitalisation jump to almost R2,6bn.

The benefits of the latest moves spilled over to holding company Malhold, which climbed 125c to a new high of R31,75.

Of other shares involved in the transactions, SA Druggists firmed 10c to 250c while Fedfood, at a peak of R18 last week, was offered at the ruling price of R17,50.

SAB 'set to acquire PGSI'

BT Day 24/10/91
SA BREWERIES (SAB) seems poised to take control of Plate Glass & Shatterprufe Industries (PGSI), according to market and industry sources 24/10/91

A joint cautionary announcement issued today by SAB, PGSI and its holding company Placor warns shareholders in Placor and PGSI that negotiations are taking place between SAB and Placor's shareholders controlling more than 50% of the company's issued share capital. Placor holds 49,7% of PGSI.

According to McGregor's Who Owns Whom, Liberty Life holds 31,7% of Placor and SA Mutual 25,8%, while directors hold 22,8%. This would indicate that SAB may acquire both Liberty and the directors' interests. Liberty is also a large shareholder in SAB through Bevcon. The recent death of Placor group co-

MARCIA KLEIN
and SEAN VAN ZYL

founder Harry Brodie sparked speculation that the Brodie family would dispose of its interest in PGSI. A deal could also see the Lubner family reduce its stake. In March Bertie Lubner said he intended to reduce his executive responsibilities to pursue his personal business interests.

Placor chairman Lubner and PGSI chairman Ronnie Lubner said yesterday they were unable to add any comment to the cautionary notice.

An analyst said yesterday there was speculation that SAB was planning a deal pegged at R1bn, which was about the market capitalisation of Placor.

PGSI and SAB said further details could be expected in the next few weeks.

EVERITE FM 25/10/91
Slashing costs (193)

Activities: Manufactures fibre reinforced cement and other products, mainly for the building sector

Control: Nueva Holdings (Switzerland) through Everite Holdings

Chairman: G Buettiker, MD G M Thomas

Capital structure: 88,9m ords Market capitalisation R240m

Share market: Price 270c Yields 2,4% on dividend, 2,6% on earnings, p/e ratio, 39,1, cover, 1,1 12-month high, 275c; low, 220c

Trading volume last quarter, 28 000 shares

Year to June 30	'88	'89	'90	'91
ST debt (Rm)	10,7	4,7	23,6	15,6
LT debt (Rm)	11,8	11,7	2,2	2,6
Debt equity ratio	0,06	0,03	0,05	0,05
Shareholders interest	0,75	0,75	0,74	0,78
Return on cap (%)	7,5	10,3	7,6	2,4
Turnover (Rm)	326	373	352	334
Pre-int profit (Rm)	29,0	40,5	32,7	11,4
Pre-int margin (%)	8,2	10,7	9,1	3,4
Earnings (c)	21,0	26,0	21,6	6,9
Dividends (c)	11	13	13	6,5
Net worth (c)	302	329	356	419

With sales volumes down by almost a third over the past two years, something obviously had to give in order to compensate for lost economies of scale. It turned out to be 945 jobs, or 19% of the year-ago work force, including 408 positions permanently scratched after a cost-cutting evaluation undertaken during the closing months of the 1991 financial year.

Main focus of this exercise was on Everite, which has been split into two divisions — building products and pipes. Most of its administrative structure was scrapped, to reduce fixed overheads. In all, the group estimates permanent cost savings of R13,5m (in current money terms) which, by itself, would have doubled both pre-tax profit and attributable earnings last year.

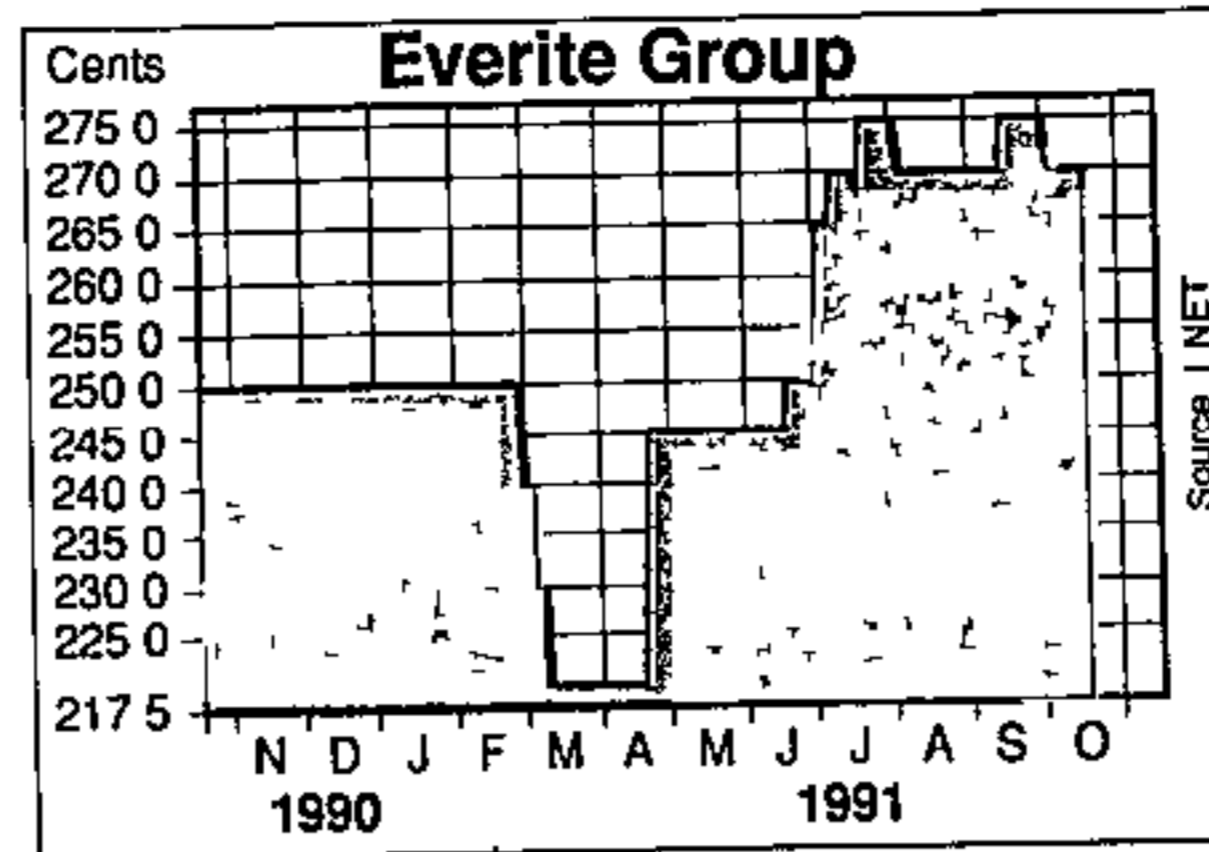
Short-term benefits could be even greater, as the above estimate is based solely on jobs

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COMPANIES

FM 25/10/91

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that have fallen away permanently. It does not take into account the remaining 537 temporarily eliminated because of the present low level of activity. These are mostly at shopfloor level (whereas a number of the positions permanently cancelled were senior and middle management), so savings here will be proportionately less. But on paper it seems that a global saving of around R20m pre-tax may have been effected through the restructuring and cost-cutting programme which, as MD George Thomas points out, will help this year's results even if the economic upturn is delayed.

Had the benefits of the restructuring accrued last year, the permanent cost savings estimated by the group would have increased EPS by 7,9c, while the FM's higher estimate (taking into account temporary vacancies on the payroll) would have added a further 4c. At best, therefore, this would have increased historic cost earnings to 33,4c (slightly more than the 1989 high) but return on equity would still have been pretty marginal at just over 17%.

This underscores the point that Everite is not really going to emerge from the woods until sales pick up, thereby allowing the group to reduce its surplus productive capacity. The two Everite divisions are said to have enough spare capacity to double output and, judging by the cumulative decline in group sales since 1989, the position in the other divisions is probably not much better.

Aggravating this situation has been the fact that Everite has in recent years lost market share in certain sectors. Management is optimistic, however, that the new structure will promote a sharper business focus, so ensuring that the group will at least get its fair share of available business.

From an investment viewpoint, perhaps Everite's greatest attraction at the moment is its vast recovery potential — provided this can be realised. The group has shown no real earnings growth in at least six years (1985 historic cost EPS were 29,5c), and meanwhile it has built up substantial surplus capacity which, if put to productive use, would send profits through the roof.

This potential is backed by a strong balance sheet which, at June 30, 1991, showed a gearing ratio of only 0,05 before taking into account almost R36m now invested in endowment policies. So whatever else restrains earnings, it is not going to be the financial capacity to fund a significantly higher level of activity.

As a means of realising the potential, the

restructuring is obviously a step in the right direction. In this context, and given the expected cost savings, anything less than a doubling of this year's current cost EPS would be disappointing. If this is coupled with an indication that the downtrend in sales has been reversed, the share would be in line for a re-rating.

Brian Thompson

Tile dumping ¹⁹³ probe launched

B/PCW
BRENT VON MELVILLE ^{25/10/91}

THE Board of Trade & Industry (BTI) has launched another investigation — this time into the possible imposition of anti-dumping duties on glazed ceramic tiles imported from or originating in Spain

The inquiry follows last month's announcement that the BTI would investigate tiles emanating from Brazil and Argentina. The BTI moves arise from representations by the SA Ceramic Tile Manufacturers Association (Sactma)

Sactma claims that glazed ceramic tiles originating in the three countries are being "dumped" on the SA market, resulting in material injury or threatened material injury to the SA industry

According to Sactma white glazed wall tiles sell in SA at an average of about R24/m², while free on board prices from Argentina — the biggest supplier of white tiles to the SA market — landed at just over R9/m²

Turkey is also a very cheap source for tiles, and imports of tiles come in under a preferential duty of 3%. Spain, Italy, Argentina and Brazil, meanwhile, pay duties of 35% on white tiles and 17,5% on decorated wall tiles, coloured tiles and floor tiles. Part of the Sactma application is to equalise the two duties at 27,5%.

The total SA market for tiles has been estimated at about 12- to 13-million square metres a year

Contract snare dents Minaco's profits

MINACO Granite and Marble weathered the depressed conditions in the granite industry at home and abroad in the six months to end-June, but interim results were dented by a provision against a major contract which knocked operating profits

Minaco's directors said yesterday that while the contract "is expected to be resolved in a satisfactory manner to all parties concerned it has had a negative impact on profitability and cash flow"

MATTHEW CURTIN

Attributable earnings at the interim stage were R2,7m, against R2,1m in the four months to end-June 1990. Earnings a share rose from 7,6c to 7,2c between the two periods

Minaco quarries stone, exports uncut blocks as well as providing cut stone for the local market

Turnover rose 29% in the period while operating profit climbed from R2m to R2,4m

Prairie Granite, in which the group has a 35% stake, tripled earnings and with good growth forecast, Minaco had decided to shelve temporarily its own quarry operations to avoid competition with Prairie's Belfast Black and Ebony Black products

They forecast a sharp improvement in results in the second half of the year due to export demand, growth at Prairie and the unlikelihood of any further provisions

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New life for asbestos as US ban goes

S Times (RUSS) By IAN SMITH

27/10/91

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THE asbestos industry has welcomed this week's decision by the US Court of Appeals to reject the Environmental Protection Agency (EPA) ban on the manufacture of products containing asbestos.

Pat Hart, chairman of listed asbestos producers Gefco and Msauli, says "This is a turning point in the industry's long battle against its opponents.

"It vindicates the claim that asbestos can be used safely under controlled conditions."

SA is a leading asbestos producer and the two groups exported fibre worth R180-million last year.

Petitions

The EPA ban would have halted production of some asbestos products by 1993 and all of them by 1996 at an estimated cost of \$800-million in lost business and replacement charges.

Responding to petitions from the Asbestos Institute and the Canadian and Quebec governments, the court found that the EPA had failed to provide substantial evidence that modern asbestos products posed unreasonable risks.

It also found that the EPA had failed to evaluate the harm that would result from increased use of asbestos substitutes.

The court said that as

many of the substitutes contained carcinogens, the ban could increase the risk of injury.

It dismissed the EPA's conclusion that substitutes like PVC and iron ductile were less hazardous than asbestos-cement as "speculation, musings and conjecture".

Citing the EPA's estimate that a total ban on asbestos-cement pipes could spare three lives over the next 13 years — at a cost to society of \$76-million each — the court said the agency had a duty to consider the economic effects of its decisions.

The ruling means that US manufacturers will be able to continue making asbestos-cement pipes, siding and roofing shingles, gaskets and brake linings.

Mr Hart says the US is not a major market for SA asbestos. But the court's decision is expected to have worldwide implications.

"It is a giant step to rehabilitating the image of asbestos and it will go a long way to restoring confidence in the long-term future of the industry."

Mr Hart says the industry argued for years that asbestos could be mined and milled safely and securely bound in modern products as long as the production and use were properly controlled.

"We are obviously glad that the court agrees the evidence supports this view."

Lime could improve rural sanitation

SANITATION and sewerage systems in rural areas and squatter camps could be improved while lengthy discussions are under way on the installation of proper waste management systems.

Natural lime offers a practical and cost-effective solution to the treatment of raw sewage, says the technical consultant at Anglo-Alpha, Mr Piet Badenhorst. "Because of its strong alkaline properties, a handful of lime put into a pit latrine

once a week would neutralise and deodorise its contents, and reduce the risk of disease," he said.

"Lime is also environmentally friendly, and would do no harm to drinking water. In fact, it has been used worldwide against soil acidity and air and water pollution."

Anglo-Alpha is one of South Africa's largest lime producers and supplies 600 000 tons annually to industry.

(193)

27/10/91

S/Time/CM

Proposals for building of new houses are spelt out

193

Sowetan 28/10/91

THE executive director of the Building Industries Federation of South Africa, Mr Neil Fraser, has spelt out clearly what a national housing programme will mean to the construction industry in South Africa - and this is likely to provoke serious discussion in Government and building circles.

He said this when he presented a detailed "reply" to the Nedcor/Old Mutual proposal for a housing-oriented kick-start to the economy at the recent BIFSA congress.

One of the solutions proposed for the current recession by Nedcor/Old Mutual is that 200 000 low-cost houses a year be built for three years - and that 400 000 plots be serviced and a million houses electrified annually for the same period.

Fraser based his analysis on a typical house of 42,25sq metres. This

By JOSHUA RABOROKO

would have two bedrooms, a living room/kitchen and a bathroom. The roof would be pitched and could be covered with a variety of roof finishings, dependent on the ultimate cost level being targeted.

He said that, while such a house was too sophisticated for all income earners, it was within the affordable levels of many and represented an average demand.

Operator

The analysis included a complete programme for the operation, based on completing 80 houses country-wide each working hour.

Bifsa has programmed the building of a single house at 18 days, exclusive of site clearing and electrical reticulation.

One of the most impressive aspects of the programme is the large number of people to

whom it will give employment.

The BIFSA analysis shows that some 55 000 people would be employed as supervisors, skilled operators, semi-skilled and unskilled workers to provide the services and civil engineering facilities.

In addition, a total force of more than 90 000 people, including 4 000 supervisors, would be employed on the building work.

The majority of the workforce would be semi-skilled.

At least 800 small companies could be established as a result of the programme.

He pointed out that the manufacturer of the materials required would provide many thousands of more jobs and promote small businesses.

For example, Fraser said 286 million concrete blocks required could be almost entirely produced by "dozens" of labour-intensive small entrepreneurs.

COMPANIES

Granite shares at rock-bottom

SHARES in SA's granite companies are at rock-bottom on the JSE with a share price index of leading granite stock down more than 20% since New Year

Investor confidence has been dented by weak market conditions and some firms' failure to turn in results in line with their directors' forecasts, says Irish Menell Rosenberg analyst David Russell

Russell said yesterday commodity prices had slumped worldwide Granite, a luxury item dependent on fashion, was no exception

Economic growth which would drive capital-intensive construction projects requiring granite had not been seen this year Office space was in oversupply

MATTHEW CURTIN

worldwide International granite production had been maintained, despite falling demand

Granite producers had high stock levels and were competing for dwindling custom

Russell noted that the marketing mix of different stone was vital for a company's success In recent rapid local expansion, some producers had failed to get the mix right

Demand for black stone was good, as the stone was used primarily for monuments However, there was a glut of grey stone Customers were becoming more interested in other colours

Russell said the only granite stock worth holding was Keeley and its operating company Kelgran The companies had attractive yields, and Keeley had the benefit of being linked to mining house Genmin

Keeley shares closed at 500c yesterday, up from a 450c low in May but well down from their 635c high for the year

Shares in Marln Corporation have plummeted from a 235c year high recorded in June to 110c Smaller players Minaco and Kudu are trading near year-lows and well off January levels

Quagga has seen its share price tumble since listing last year It is trading at 10c a share against 25c in January

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Boumat performance shoots through the roof

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MARC HASENFUSS

BUILDING supplies group Boumat reported vastly improved interim results after taking tough action in the last financial year to cut costs and close unprofitable businesses

Earnings rocketed 58% to R7,7m (R3,2m) or 30c (13,3c) a share for the six months to September

Chairman Irvin Brittan said the results should be seen against the background of a continuing deterioration in a market which nevertheless remained intensely competitive

He added that there was little evi-

dence of any of the billions of rand which was reported to have been earmarked for low-cost housing

Turnover, which increased 11% to R615m, reflects the slowdown in the building supplies market

However, cost cuts reinforced margins and operating profit lifted 56% to R27m (R17m)

Brittan said borrowings were showing a reducing trend and consequently interest paid should decrease

An interim dividend of 4c was declared. Although this is lower than last year's 24c, it is in line with Boumat's revised dividend policy

The dividend is now paid on the basis of not being more than 25% of annual earnings

Brittan said the next six months would be tougher than the period under review

Boumat was untraded at 365c yesterday, wedged between its 440c high last May and 300c low at the end of last year

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Boumat earnings jump 125% ^{Steur} 0,111/9)

Finance Staff () 193

Building supplies group Boumat has bounced back after taking remedial measures to cut costs and close unprofitable businesses

Earnings jumped 125 percent for the six months to September to 30c (13,3c) a share. An interim dividend of 4c is being paid

Turnover rose 11 percent to R615,1 million (R553,15 million). Operating profit increased 56 percent from R17,3 million to R27 million, reflecting the corrective measures taken

Debt was lower at R65,1 million (R77,6 million), which helped stabilise financing costs at R11 million

Total assets, however, declined by R27 million to R404 million over

the past 12 months, while capital employed dropped by R16 million to R202 million

Equity earnings increased by 142 percent to R7,7 million and due to the increase in number of shares in issue the increase in earnings per share amounted to 30c compared with last year's 13,3c

An interim dividend of 4c was declared compared with last year's 24c a share interim dividend declared last year. However the figures are not comparable because of a change in distribution policy whereby bonus shares would no longer be offered to shareholders

Dividend policy would now be on the basis that dividend paid would not amount to more than 25 percent of annual equity earnings

Chairman Irvine Brittan said the next six months look even tougher than the first

"The deteriorating economy and the failure of low cost housing funds to flow through to the merchanting side of the economy has caused Boumat to review the forecast made in the annual report," he said

"The picture could change dramatically and there could be a major impact on our results if the funds allocated to low cost housing start to flow through the system strongly," he added

Mr Brittan says he saw little evidence of the billions of rand which were reported to have been marshalled for low cost housing

PPC weathers adversity to raise earnings

By Sven Lunsche

1973

Barlow Rand's cement producer, PPC, suffering from depressed conditions in the building industry, lifted earnings per share by seven percent to 284,8c (266,2c) in the year to September

ber. However, the total dividend for the year has been raised by 15 percent from 150c to 172c. Financial director Chris Wrogemann says margins were

under pressure as volumes in both the cement and the lime division fell slightly

Group turnover was up 11 percent to R818,6 million (R740 million)

stay 11/91

Cement division

In the cement division, which accounts for 58 percent of group profits, turnover rose 11 percent to R483,1 million (R435,5 million)

Revenue from lime increased by a mere three percent to R152,4 million (R147,9 million)

PPC's interest income fell by R7 million to R10 million as the group reduced its liquid funds to R16,3 million from R42 million in September 1990.

The cash surplus was reduced after a special dividend payment of R32 million in January.

Taxed profits rose eight percent to R118,2 million (R109,1 million) as the effective tax

rate fell because of allowances on mining capital expenditure and a lower company tax rate.

Mr Wrogemann says the difficult trading conditions in the building industry are likely to continue in the current financial year

However, PPC remains in a strong position, with gearing at six percent and total borrowings of only R37,8 million, he says

Building slump hits PPC profits

B/Daily 6/11/91

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BRENT VON MELVILLE

CEMENT and lime group Pretoria Portland Cement (PPC), unable to shrug off the building industry depression, has posted a sluggish 7% rise in earnings to 284,8c (266,2c) a share for the year to end-September.

The Barlows-controlled group, the largest of the three cartel-linked cement groups with about 45% of the market, declared a generous dividend of 172c, 15% up on last year's allocation of 150c a share, reducing cover to 1,6 (1,8) times

The dividend allocation is in line with the group's policy of increasing the dividend in line with inflation.

The performance puts the share, currently on a high of R42,50, on a dividend yield of 4% and a PE ratio of 14,9.

PPC has enjoyed a higher market rating than the other two producers, which are both slightly below their highs Anglo-Alpha's share price of R39,75 and Blue Circle's R29,50 puts them on historical PE ratios of 11,4 and 10,25 respectively.

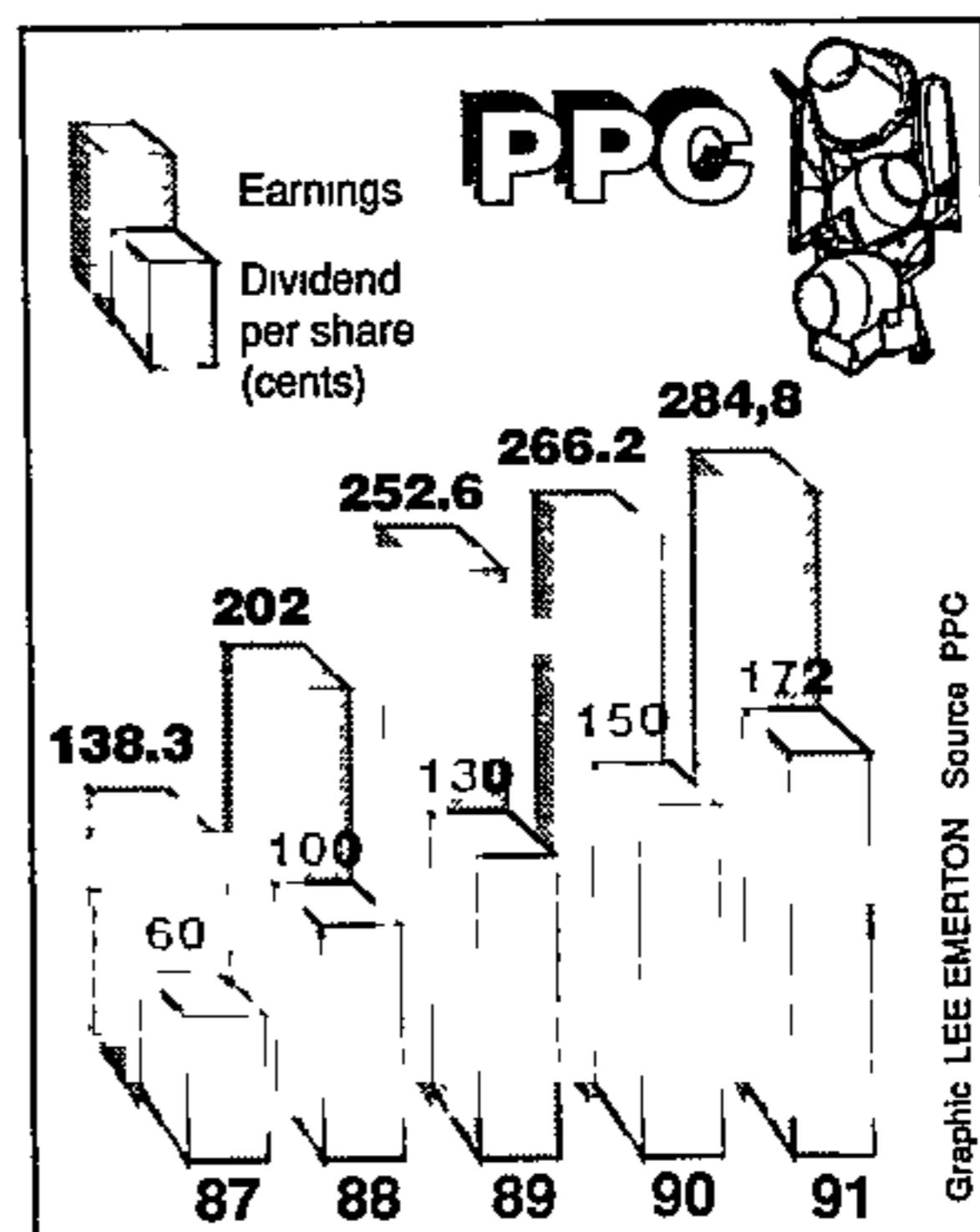
Resources

According to PPC financial director Chris Wrogemann, the results came off reduced volumes in both the cement and lime divisions, putting pressure on margins because of the high proportion of fixed costs in the business

Net investment income dropped 42% to R11,6m (R20m) as cash resources fell from R42m to R16,3m, mainly as a result of a special R32m dividend to shareholders in January

The tax charge dropped to R78,4m (R83,1m), because of tax allowances on mining capital expenditure and the reduction of company tax from 50% to 48%

On the balance sheet, total short-term loans of R1,7m (R2,5m) and long-term



liabilities of R36,1m (R30m) saw total borrowings up at R37,8m (R32,5m), attracting interest charges of R8,5m (R4,9m)

Gearing was only marginally up at a manageable 6% from 5,4%.

The cement division consolidated its position as the primary contributor to profits, with the division's income before interest and tax up 8% at R118,7m (R110m) — 58% of group profits compared with 55% the previous year.

Conversely, the lime division's profits slipped slightly to R50,8m (R51,2m), reducing its group contribution to less than 25% from 26%

The division has been suffering from low demand in the poorly performing mining industry

The fledgling packaging division showed the biggest improvement, kicking in 5,7% (4,9%) on the back of a 20% rise in pre-tax/interest income to R11,8m (R9,8m)

Tough times, but PPC dividend up 15 percent

193 ARG 6/11/91

Business Staff

BARLOW Rand's cement producer, PPC, suffering from depressed conditions in the building industry, lifted earnings per share by seven percent to 284,8c (266,2c) in the year to September

However, the total dividend for the year has been raised by 15 percent from 150c to 172c

Financial director Chris Wrogemann says margins were under pressure as volumes in both the cement and the lime division fell slightly

Group turnover was up 11 percent to R818,6 million (R740 million)

In the cement division, which accounts for 58 percent of group profits, turnover rose 11 percent to R483,1 million (R435,5 million), while revenue from lime increased by a mere three percent to R152,4 million (R147,9 million)

PPC's interest income fell by R7 million to R10 million as the group reduced its liquid funds to R16,3 million from R42 million in September 1990

The cash surplus was reduced after a special dividend payment of R32 million in January

Taxed profits rose eight percent to R118,2 million (R109,1 million) as the effective tax rate fell because of allowances on mining

capital expenditure and a lower company tax rate

Mr Wrogemann says the difficult trading conditions in the building industry are likely to continue in the current financial year

However, PPC remains in a strong position, with gearing at six percent and total borrowings of only R37,8 million, he says

■ Weak performances from Tiger Oats' core food operations were countered by strong showings from Langeberg, Beacon and pharmaceuticals, enabling Tiger to report a 13 percent improvement in earnings to 207c (184c) a share

A final dividend of 46c a share has been declared for a total of 71c (63c) a share

In the 12 months to end-September group turnover rose 18 percent to R7,89 billion (R6,78 billion), representing a volume increase of around one percent

Operating profit rose 21 percent to R598 million (R495 million), reflecting an improvement in margins to 7,49 percent from 7,3 percent

A strong performance from exports helped margins

■ Hosken Consolidated Investments, the holding company of IGI, has reported attributable in-

come of R19,8 million for the six months to September (R18,4 million for the same period last year)

The interim dividend has been raised from 15c to 16c on increased share capital

The directors say they are confident all four major operating companies will have improved profitability in the second half

■ East Daggafontein Mines Ltd have declared an interim dividend of 31c per share for the six months ended 30 September 1991 — down 48 percent on the same period last year (55c)

According to the group's interim report net income before tax was R9,1 million against R16,0 million for the same six months last year. Net income was R4,69 million (R7,98 million)

However it must be taken into account East Dagga has a history of distributing, by way of dividends, all its after tax profits to shareholders

East Daggafontein chairman Mr Peter Bieber said in a statement the decrease in revenue was a result of Dumpco Limited, East Dagga's wholly owned subsidiary, having to contribute 50 percent of ongoing capital expenditure in terms of the contractual arrangements with Ergo

SA bags Lesotho cement deal

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BRENT VON MELVILLE

SA PRODUCERS have signed a contract to supply cement for the first phase of the R9bn Lesotho Highlands Water Project (LHWP) — ending fears that local manufacturers would be left out in the cold

The contract and a pending agreement are said to be worth more than R110m, and should see the SA Cement Producers' Association (Sacpa) — consisting of Pretoria Portland, Anglo-Alpha and Blue Circle — supply about 700 000 tons of cement to the R800m Katse Dam, the R1bn access tunnels and the R400m delivery tunnels

The contract was signed earlier this year, and calls for the supply of about 420 000 tons of pure cement and 180 000 tons of extender (pulverised fuel ash supplied by Ash Resources of Secunda), and

40 000 tons of cement for the delivery tunnels on the SA side. Cement would be supplied by Anglo-Alpha's Ulco plant

According to Sacpa LHWP subcommittee chairman Ernest Cerutti there is also an agreement pending for the supply of about 100 000 tons of cement with the Lesotho Highlands Project Contractors (LHPC) for the access tunnels in Lesotho

While the total contract represented only about 10% of cement demand of about 8-million tons annually, a Sacpa spokesman said it came as a "minor boon" in view of the depressed building industry

Cerutti said the SA industry would also

To Page 2

Cement

810 ans
7/11/91

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be allowed to tender for the LHWP's R1bn hydropower component

There has been concern within the industry since the signing of the LHWP implementation treaty in 1986 that SA materials, including cement, would be prohibited by politically motivated funders anxious to reduce SA's role in the scheme

That worry was underpinned last year when it was speculated that Sweden was seriously considering supplying the full complement of cement for the first phase as a measure of foreign aid to Lesotho

Sacpa was also convinced that the Lesotho government — ultimately responsible for funding of the hydropower component — would prohibit SA companies from

tendering for materials, as a requirement for funding by the World Bank

But economics, logistics and the re-acceptance of SA back into the world political fold had played a large part in awarding the contracts "The LHWP contractors are simply sourcing cement supplies from the cheapest possible suppliers," said Cerutti

In order to handle the large volumes, Sacpa has also commissioned an R8,5m cement depot in Ficksburg, to be constructed by Concor Blue Circle commercial director Peter Kett said the depot would handle about 150 000 tons of cementitious material annually, filling the orders for the first phase within four years

Low-cost housing: the real challenge

Star 13/11/91 193
As every schoolboy ought to know, low-cost housing is an urgent South African priority

And that is almost to understate the case

The huge housing problem, however, is being tackled by the public and private sectors, the latter taking an active part in the design, development and construction of low-cost housing aimed at the urban areas and, to a lesser extent, the rural market.

The challenge lies not only in the building of economical housing, but also in the provision of affordable electrification, lighting fixtures and plumbing for low cost housing

Commitment

East London-based light fitting manufacturer, Datco, as part of their continuing commitment to the orderly development of a new South Africa, has developed a range of low-priced vandal-resistant bulk-head fittings, decorative bulkheads and floodlights.

To meet the need for easy-to-maintain, functional products, these are weatherproof and can be used indoors or outside, giving useful interior illumination and exterior safety and security

All Datco products are engineered to accommodate low wattage fluorescent tubes and, in the case of floodlights, energy-saving mercury vapour and high pressure sodium lamps, as well as proven tungsten halogen tubes

Absolute

Cyril Berman, Datco marketing manager, says "Our commitment to the future of South Africa is absolute and next year we'll be introducing yet more products to assist the less privileged to realise some of their aspirations, in keeping with government policy to provide affordable electricity for everyone"

Brick mountain grows despite production cuts

193
B(Day) 14/11/91

WILLIAM GILFILLAN

NATIONAL brick stocks hit a record high of 439-million at the end of September despite cutbacks in manufacturing capacity to between 60% and 70%

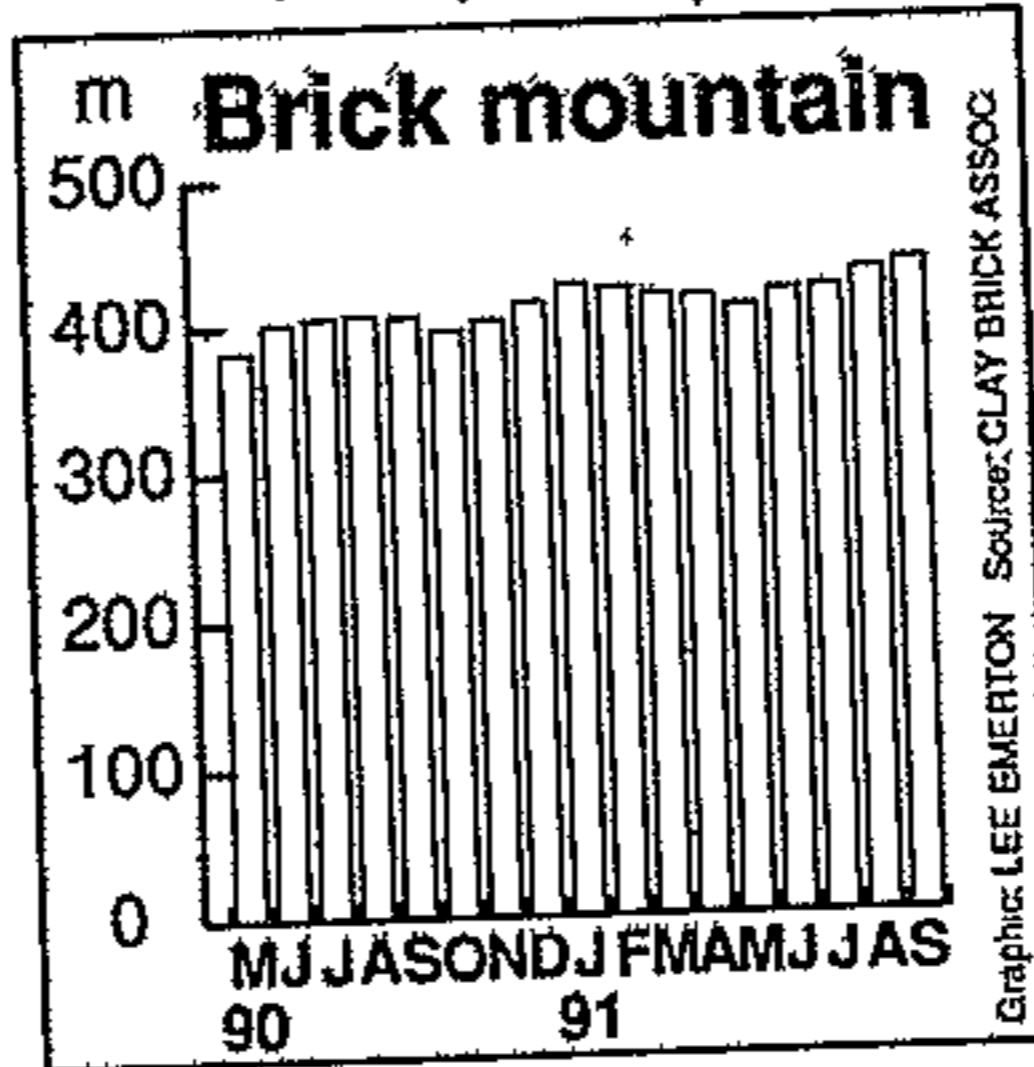
Figures given by the Clay Brick Association (CBA) showed the "brick mountain" — which stood at 414-million at the beginning of the year — dropped to 409-million at the end of May but had since risen by about 30-million in four months

The stockpile represents an 8% increase from end-September 1990

Manufacturers' capacity, although differing on a regional basis, was put at between 60% to 70% of full capacity on a countrywide basis

At about 70% to 75%, capacity in the western Cape was still relatively high and was, in fact, up about 10% over the period six months earlier. A CBA spokesman said this increase was the result of climatic conditions as the manufacturers were not able to maintain full production during the wet winter months

Capacity in the eastern Cape, currently at 65%, was at the same level as six months earlier but lower than a



year ago when manufacturers were operating at 75% to 80% of capacity. The Eastern Cape was experiencing "very slow building activity in the residential market and a sharp decrease in the commercial sector"

Conversely manufacturers in the eastern Transvaal were operating at nearly full capacity, although the bricks were being sold in other regions in the Transvaal as eastern Transvaal bricks were lower priced

The eastern Transvaal building industry was 'static', said the CBA spokesman

The current 65% to 70% capacity

in the northern Transvaal was well down on the full capacity enjoyed a year ago with activity in the regional market described as "very quiet"

Both the non-residential and residential markets were slowing down in Natal and capacity there had dropped to 60% from the 65% recorded six months earlier

There were isolated pockets of building activity in the Free State and northern Cape, where manufacturers were operating at 50% to 55% of capacity, which the CBA spokesman attributed to activity in the low-income housing market

"In the PWV area building activity in the residential market is good while the non-residential market is very tough," he said

Corobrik spokesman Ray Andrews said stockpiles "were substantial" despite the cutback in capacity to about 65%. Corobrik was the country's largest brick manufacturer

One reason for this was concrete bricks had taken a large slice of the plaster (non-face) brick market. But the most important reason for the depressed state of the industry was the high interest rates which hit the residential market dramatically

SOWETAN Building the Nation

Cheap bricks for low-cost housing

Sowetan 14/11/91.
SEEMINGLY South Africa has seven million insufficiently housed black people with four million squatters on the Witwatersrand and in the vicinity of Durban alone.

For these people to be properly housed, the country will need to build 1,9 millions homes - right now and not later.

But the main actors in the building scenario - the Urban Foundation, the South African Housing Trust and the Independent Development Trust - have only touched the tip of the iceberg by building slightly more than 13 000 homes.

Judging at that rate it will take 138 years to clear the critical housing shortage that has caused disease and violence in the so-called changing South Africa.

As aptly put by one observer: "South Africa is tackling the legal institutions, financial and land ownership issues - all prerequisites in meeting affordable homes".

The situation is becoming catastrophic. However, a former financier and now a low cost-housing entrepreneur, Mr David Herbstein, says the situation is not disastrous - it is challenging.

He believes the country can do it - given the will. It certainly has the technology. But he does acknowledge that the picture is bleak.

"While I appreciate that building homes will gain momentum only when land is available, we could be moving much faster with the actual building of homes," he said.

Tens of thousands of people already have land but they cannot afford to build because prices have gone

through the roof. Finding ways to make cheap, but durable, bricks is therefore absolutely essential. The tragedy is that they are available but people do not know it.

Herbstein is determined to provide a solution to the housing shortage. He has developed a new brick machine - a boon for squatters. He put all his capital into developing a machine that makes high-quality bricks.

The cost of the bricks needed for one house is around R450, he explains, saying that is five times cheaper than normal. With unskilled workers, it is possible to turn out enough for two houses a day.

What is good about the machine is the fact that it can be towed - and it makes bricks on the spot by using sub-soil dug from the house's own foundation.

The bricks are six times bigger than the conventional housebrick, it takes 700 to build a 34sq m house.

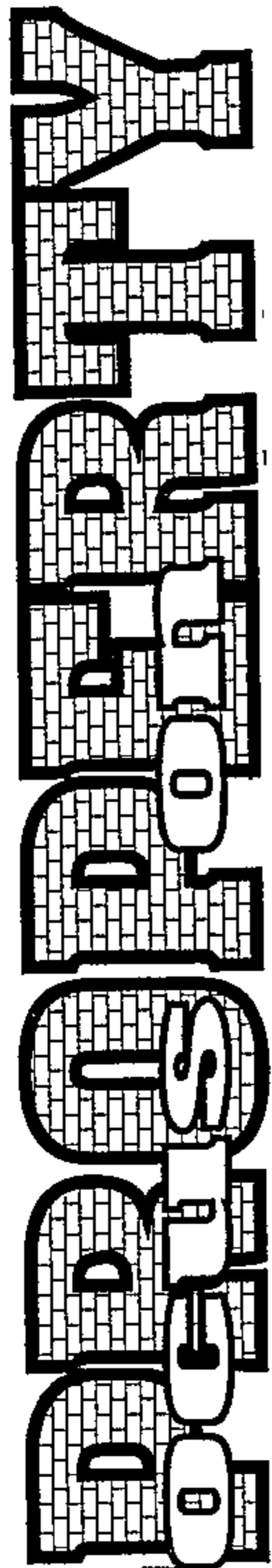
He believes that the squatter community could be helped to buy these machines and also create employment for many. He has suggested this notion to many companies and a few have responded.

He was unable to hide his irritation when talking of the disparity between what squatters are expected to pay for bricks and what they "really need to pay".

A tiny four-roomed core house - one that can easily be added to - would cost only R2 500, he adds.

He was perturbed about the national debate aimed at developing strategies for dealing with the housing problem.

"A more positive and vigorous approach has to be taken soon, otherwise the next century would see us still faced with a huge problem," he said.



Granite in survival fight

S/Times (RUSS)

By JULIE WALKER (193)

THE Southern African granite industry faces rationalisation as competitors undercut one another to survive

SA exports about 180 000m³ of dimension stone a year and is the world's largest supplier. Using a weighted average selling price of \$600 a cubic metre, the industry is worth roughly \$100-million a year.

Keeley, Kudu, Impala and Transkei Pioneer Mining issued a joint warning to shareholders on Friday that negotiations were taking place. Gencor has interests in Keeley and Transkei Pioneer.

Talk has long been of a marketing tie-up among the majors. Now, a share deal could be in the offing. The other big producer Marlin is not included in the announcement.

The industry exports almost all its production and has been hard hit by the recession and the Persian Gulf war.

It came through a price war on the

high-volume Rustenburg grey stone, but price cutting is believed to have resurfaced. Analysts say Italian buyers have declined to do business with SA producers believed to be entering a second round of price cuts.

The Italians — leading dressers of dimension stone — are concerned that their competitors will pick up granite cheaper through price cutting and that they will be at a disadvantage.

Some rationalisation took place last year when Kudu took over the doomed Aurora, which tried to set up as a producer of monument-quality black granite from Belfast. Black headstones are favoured by the Japanese.

The Belfast stone is notoriously difficult to quarry, with low yields. But its price is more than treble that of Rustenburg material.

Zimbabwean producers of a black

24/11/91
stone of quality roughly comparable with Belfast's poorest grades are selling into its traditional market at a much lower price.

Aurora has been closed. It is believed that Kudu is acting as agent for some of the Zimbabwean stone.

Gencor bought a stake in, as well as the option to acquire control of, the Keeley group, to add to its Transkei interests, for which it paid R35-million.

Marlin is believed to have cash-flow problems after a policy of stock building in the hope that sales would recover.

Market sources speculate that if a deal emerges — possibly rationalising production of certain colours of granite — Keeley will emerge as the dominant player in the high-volume Rustenburg grey material with more than 80% of the market.

Keeley would have a quarter of the Belfast market of which Marlin has 60%.

Anglo still studying ¹⁹³ R900m sands project

ANGLO AMERICAN may decide early next year about going ahead with a R900-million Namakwa Sands project on the west coast.

An Anglo spokesman says feasibility studies are continuing.

Anglo said in July 1989 it was studying the possibility of producing titanium and zirconium heavy minerals from sand deposits 50km north of the Olifants River.

Annual production targets, planned to begin in early 1992, were 100 000 tons of zircon, 25 000 tons of rutile and 1 000 monazite

If it goes ahead, this project will be

S | TIMES (RUSS) 24 11 91.

By IAN ROBINSON

the first in the world to produce zircon as the main product. Other mineral sands projects — such as Richards Bay — produce zircon as a by-product of titanium minerals.

World prices of zircon, used in refractories and ceramics, are depressed.

The project would be a sensitive environmental issue and Anglo has involved the environmental evaluation unit of the University of Cape Town.

Cartel of granite producers is on the cards, say analysts

B/Days 25/11/91 (193)

NEGOTIATIONS which started last week between SA's main granite producers might see the establishment of a granite cartel, analysts said at the weekend

Little information has emerged on the content of the talks, but speculation is mounting that with a two-month delay in the publishing of year-end results by market leader Keeley, the dire straits the industry is in has brought producers together

Shares in Keeley rose 10c to close at 435c on the JSE on Friday. Shares in operating company Kelgran fell 15c to 425c, while stock in rival producers Kudu and Marlín held at 80c. The sec-

MATTHEW CURTIN

tor's share prices have fallen 30% on average since January as results have not met market expectations

Officials at Keeley, Kudu, Marlín Corporation — apparently excluded from the current restructuring talks but monitoring their progress — and corporate advisers Neil Thomas & Associates remained silent on details of the prospective deal

Edey Rogers analyst Keith Bright said a consolidation of the granite sector seemed to be on the way

Producers had begun co-operating in setting floor prices for Rustenburg Grey material this year, after a fierce price battle in 1990 shredded margins on exports of the popular hard stone

Bright said it seemed one producer had broken ranks and abandoned the infor-

mal pricing agreement by selling the stone forward at a discount, triggering the latest and more concerted negotiations

Irish Menell & Rosenberg analyst David Russell said it was likely that Keeley was proactive in starting the talks, keen to "clean up the market and eliminate competitors". If some sort of cartel emerged, it would leave Keeley as the undisputed market leader, with Marlín reduced to being the "price-taker"

He said Genmin, which is also involved in the talks and has a 26,7% stake in Keeley and owns the unlisted Transkei Pioneer Mining (TPM), would be able to establish an integrated granite producing arm. This would dominate the SA industry

One analyst said Genmin had been left with "egg on its face" after buying TPM for an "overpriced" R35m

Abacus posts long-awaited results, with losses trimmed

193
May 28/11/91

BRENT VON MELVILLE

THE long-awaited results of Abacus Industrial Holdings (formerly Interboard) for the year to February, show attributable losses have been trimmed to a relatively low R1,2m, compared with losses of R126m in the previous year

The annual report, however, includes a qualification from auditors Ernst & Young, who query the inclusion of costs associated with the closure of the group's flatboard division, including the trading loss incurred to the date of discontinuance, as part of the extraordinary item of R28,9m

Ernst & Young says the trading loss up to the date of discontinuance should be disclosed as part of the operating loss. It makes the point, therefore, that it is not possible to determine the amount of the trading loss up to the date of discontinuance

The operating income of continuing operations was shown as R239 000, while net financing costs slashed off R9,7m (R18,1m), leaving a loss after taxation of R9,6m (R17,6m)

Extraordinary items were reflected as a positive R5,4m compared with an extraordinary loss of R110m, mostly related to "questionable" transactions last year allegedly involving former Interboard chairman Ed Dutton

Also included in the extraordinary item

is an amount of R28,9m of assets allegedly defrauded from the group. Ernst & Young add that pending the resolution of further actions being taken to recover assets, it is unable to establish whether or not additional adjustments will be required to the financial statements

Several disposals were made during the year. The flatboard division was sold to Sappi, resulting in losses over and above those provided for in the previous year, aggravated by the substantial trading losses incurred both before and after the closure

Investment holding company Despipe was also sold to Sappi. Interboard Trucking was also sold

Subsequent to the year-end the group disposed of a further four subsidiaries — Ian Fuller Agencies (an import agent trading in hardwoods), Abacus Forestries, Glea Property Two and Glea Property Three

Chairman Trevor Coulson said the proceeds of these sales had been used to reduce group borrowings

In addition, the proceeds of a R16m rights issue were used mainly to repay the outstanding borrowings of the flatboard division. Borrowings were reduced by R43,6m to R63,1m during the year

Firm buys ⁽¹⁹³⁾ new furnace

Business Day Report

Monday 28/11/91
LEADING automotive glass manufacturer, Pilkington Shatterprufe Safety Glass (PSSG), has installed one of the most advanced press bending furnaces in the world at its Ga-Rankuwa factory near Pretoria

The R32-million furnace was supplied by Libbey Owens-Ford Technologies of Ohio in the US. It will enable PSSG to produce high volumes of complex, tong-mark-free glasses for the automotive industry.

The furnace will double the factory's tempering capacity to 2,7-million car windows a year.

PENNYPINCHERS / PENBOARD

FM 29/11/91 (193) ~~193~~
Panel flexes its muscle

The Securities Regulation Panel has intervened in the bid by building materials supplier Pennypinchers Holdings (Penpin) to minorities in listed subsidiary Pennypinchers Boards (Penboard), by telling the holding company to raise its offer (193)

Citing Rule 5.1 of the Securities Regulation Code, which came into effect in Febru-

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FM 29/11/91

(193)

ary, the panel ruled the offer must be increased from 65 to 75 Penpin shares for every 100 Penboard. Penboard is currently quoted at 30c against Penpin's 50c.

Rule 5.1 stipulates that if a party acquiring a company has dealt directly or indirectly in that company's shares in the three months before making an offer to minorities, those minorities should be offered terms similar to the most favourable conditions of the previous acquisitions.

Penpin, of which P G Bison holds 48%, announced on November 21 that it was offering to buy the 2.2m Penboard ordinary shares (17% it does not already own or control). In the event of acquiring more than 90% of minority interests it intends to invoke section 440k of the Companies Act and compulsorily acquire the outstanding shares.

However, panel executive director Doug Gair says Penpin last month acquired 11,200 Penboard at 40c each, so the group was instructed to improve its offer to minorities accordingly. Gair says this is the first time this section of the Securities Regulation Code has been applied. The closing date of the revised offer has been extended from December 13 to 17.

Simon Cashmore

PROPERTY

'Drop brick prices and stimulate the economy'

THE building industry is asking why, when there is a massive brick stockpile in SA, there has been no significant fall in brick prices

Realty 1 - Basil Elk director Dave Miller says colleagues in the housing industry believe that only with a cartel or monopoly situation could there be a glut of bricks and no drop in prices

SA's brick stockpile was estimated at about 439-million bricks at the end of September

"The building industry is in the doldrums, yet the price of bricks has not dropped. This reminds one of the Dairy Board debacle when SA had a glut of butter and the prices went up"

However, Clay Brick Association executive director Leon de Bruin says the national stockpile figure represents only about 60 days of supply at current levels of demand

Reports by
PETER GALLI

"It is quite natural for brick supply levels to have risen, which obviously reflects the slowdown in the building industry. Further, it would be irresponsible of the brick industry not to stockpile in view of the present housing shortage"

Miller contends that with so many people homeless, this would be an ideal time to cut brick prices and encourage building

"I am not advocating that government need get directly involved, but it should at least set a framework for development, which could include subsidies and incentives to create an active building climate"

De Bruin says government's role has become that of facilitator, with the private sector playing a greater role in provision of housing. "Responsible action is being taken by numer-

ous players in the building industry"

Miller feels an active building environment could stimulate the economy as a whole. A recent survey in the US showed there was an enormous multiplier effect within the economy through building. "The survey showed that for every \$1bn spent on new home construction, an additional \$7bn was generated in the economy"

De Bruin says there is a framework for a healthier building industry which in turn will stimulate the economy

"For example, the Old Mutual/Nedcor scenario proposes the provision of 200 000 houses, 400 000 serviced sites and the electrification of 1-million new homes by 1994

"The National Association of Home Builders' objective is to provide 1-million affordable homes and two-million sites by 2000. In addition, the IDT has allocated a R750m capital subsidy for 108 projects," he says

Granite Sector was 1991's headache

MARTIN & Co's Richard Jesse said key investment events of 1991 were the ending of the Gulf war and thus no ultra-high oil price environment, selective easing of sanctions on SA, a fall in the firrand discount from around 25% to 8%, and dramatic improvement in the rating of industrial shares in SA with the average P/E ratio moving up from 9.3 at the end of January to the current 14.1 (tending to confirm forecast in this column a year ago that industrial shares would become "overvalued" in 1991).

"The best three performing sectors in 1991 have been printing and publishing (+144%) driven by a quadrupling in the M-Net price, transportation (+93%) and motors (+90%). The worst three have been other metals (-26%) with granite shares the villain; Evander gold (-21%), and tin (-19%)."

"What of 1992? International economies will be slow to get into gear, which will retard the performance of cyclical commodity-based shares. Golds should do better than in 1991."

"The ebb and flow of negotiations to establish the new SA will make for a bumpy ride in top quality industrials (and financials to a lesser extent), where the P/E ratings are already historically high. The best part of the market is likely to be selected second line industrials and financials largely ignored by the institutions," Jesse said.

Mathison & Hollidge's Peter Redman said 1991's main feature had been the incredibly

Investors bumped their heads against a rock-hard, unforfeiting granite sector this year. The uncertainty of negotiations to establish a new SA will make sure that nothing is carved in stone for 1992. **MERVYN HARRIS** reports in the third of a series of articles on brokers' prospects for the year ahead.

high and sustained level of industrial share prices despite high interest rates and relatively poor company results.

"Part of this is due to the so-called 'house effect' of large institutional cash flows chasing too few blue chip stocks."

"In the third quarter the pressure was somewhat alleviated by the announcement of several large rights issues. I would expect more companies coming to the market with rights offers in 1992 and a cooling off in the industrial sectors."

"On the other hand, events in the US and the Soviet Union have begun to make precious metals, in particular gold and platinum, look more attractive and I foresee growing interest in the shares of mining companies."

Redman said the JSE's Traded Options Market would open in the new year, allowing investors to hedge risks in underlying securities. He hoped the confidence this should bring would improve activity levels in the equity market.

Cuba's sugar crisis a sweetener for SA

PAUL ASH

SA SUGAR producers are banking on a collapse in Cuban sugar production this year to stop an already weak sugar price from tumbling further.

A severe fuel shortage in the Caribbean state, caused by a slump in the supply of crude oil from the Soviet Union, has brought its sugar industry to a halt and it appears unlikely Cuba will be able to harvest much of its crop this season.

If the crop was harvested, however, the world market price, currently around 9 US cents a pound, could be substantially affected, SA Sugar Association (Sasa) economist David Hardy said yesterday.

Only 18 months ago, the world price was at 14-15 US cents a pound.

SA supplies about 820 000 tons a year to the world market *APW 6/12/91*. If the Cubans manage to harvest a large portion of their crop, most would have to be sold on the open market and not under a preferential trade agreement with the Communist bloc, as was normally the case. This could push prices down even further.

The world market had "jumped quite a bit" on the back of the news from the Caribbean, Holcom Futures analyst Lindsay Williams said.

"The Cuban sugar industry is used to receiving high prices for their product and many growers might be forced out of business," he said.

"It also seems that Cuba has overextended itself on hedging and is being forced to buy back contracts on speculation of a bad crop," Williams said.

STAR 9/12/91 (193)

Ozz lifts earnings 36 percent

Ozz yesterday announced a 36 percent increase in earnings for the first half of its financial year.

Company chairman Gary Zulberg predicted that the annual dividend should be exceeded in 1992, "subject to forecasts being achieved".

The company pays a single annual dividend in July, which was 17c last year.

Turnover for the first half-

year rose by two percent, with operating income increasing by about five percent to R8,57 million.

Ozz shares are currently trading at about 300c, at which level they yield 15,4 percent and 5, percent on historical earnings and dividend respectively

These figures compare with actuaries index averages of 7,2 and 2,6 for the industrial holdings sector — Sapa.

Pool industry takes dive as boss is barred

STAR 10/12/91

By John Miller
Star Line

193

The fibreglass pool industry took a further dive recently when the chairman of the South African Fibreglass Pool Builders' Association, Jerry Golding, from Living in Style, was suspended

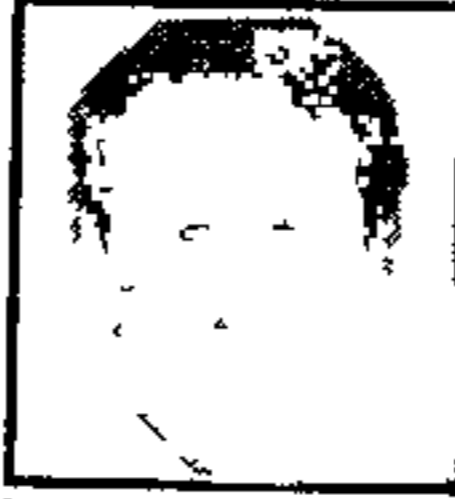
Mr Golding was appointed as first chairman when the association was established two years ago.

During the past few months Star Line has received several complaints about Living in Style

Mr Golding was suspended following his inability to deal with the numerous complaints satisfactorily

Hugh Temlett, secretary of the association, said he had received various complaints about Mr Golding

Recently, a Bramley pool owner, who wished to remain anonymous, said the only way he was able to get anything out of Mr Golding was to attach two of his trucks following a lengthy court case and a warrant of execution



Star
Line

JOHN
MILLER

The final settlement of R10 000 took almost 18 months of evasion by Mr Golding and no positive help from the association

Mr Temlett admitted the industry had a bad image and in an attempt to clean up the image members had decided to establish a service section which will be funded by the association

"The biggest problem with complaints is that our members do not react because they are too busy building pools and they do not have anyone specialising in repair and maintenance work"

Mr Temlett said this step should go a long way in resolving numer-

ous outstanding complaints from pool owners as well as helping those members who do not have specific repair teams

The service section will begin operating from the beginning of this week and its first priority will be to deal with any outstanding and current Living in Style complaints

The 14 members of the association are Fountain Pools — Sarah/Johann Jacobs, Miami Pools — Peter Fourie, Executive Pools — Preston Israelsohn, Fibre-Life — Henry/Lesley Temlett, Fibre-Con — John Barbos, Forever Fibre — Gideon Lewis, Living in Style — Jerry Golding, Fibre-Crete — Rene Broccardo, Opal Pools — Tom Nutter, Mexican Pools — Harry Papas, Germak Pools — Ronnie Webber, New Wave Pools — Sarah/Johann Jacobs, In Pools — Neville Borchards, Pool Masters — Billy Pillay

Any pool owner who has outstanding complaints with these companies can contact these companies on (011) 907-1923

Pilkington sells ^{SIAR} 12/12/91 GSA stake to PGSI

By Ann Crotty

(193) (CP)
Plate Glass & Shutterprufe Industries (PGSI) has acquired Pilkington's 48,4 percent stake in Glass South Africa (GSA) for R525 million

This means that SAB which is currently negotiating to acquire control of Placor — which holds 50 percent of PGSI — will be getting a substantially different and larger asset than was originally thought

Ahead of the deal PGSI and Pilkington each held 48,4 percent of GSA. PGSI's share of GSA's attributable earnings in financial '91 was R56,5 million — equivalent to 80 percent of PGSI's total earnings

On a straightforward price/earnings basis this suggests the Pilkington stake was bought on an historic p/e rate of almost 11 times. This compares with PGSI's rating of 13,9 times

PGSI chief executive Ronnie Lubner says that the deal was not based on a p/e calculation. He also stresses that it has nothing to do with the move by SAB to get control of Placor

"We have always liked the Pilkington stake in GSA and have had our eye on it ever since we got together back in 1983. Four weeks ago Pilkington became sellers — we were the obvious buyers"

At present all that PGSI shows of GSA is the attributable income it contributes. In the next financial year — when the deal is finalised and PGSI holds 96,8 percent — GSA will be consolidated in the income statement and balance

sheet This will considerably enlarge both documents

Given that the SA assets are the strongest performers in the group, it may also enhance the offer that SAB is prepared to make for Placor

PGSI has not yet finalised the funding arrangements for the stake in GSA. These will not be finalised until the SAB deal is tied up. Mr Lubner says that management will be looking at the capital structure of the enlarged PGSI to determine the best way to fund the acquisition

PGSI's results for the six months to end-September show earnings down 18 percent to 174,2c (213,1c) and an unchanged dividend of 65c. The figures are a little better than market expectations.

Mr Lubner notes that due to the discontinuation of a number of operations the review figures are not comparable with the previous year's interim. The overall figures reflect a mixed bag of performances

GSA's figures were adversely affected by the weak state of the economy and margins came under pressure from imports. PG Bison did well although there was a hiccup with Penny Pinchers.

The UK automotive operations did well, Benelux operations did very well, Germany is continuing to grow, France was not as good as expected and, the US continued to be the toughest part of the group's operations

Mr Lubner is not expecting to hold the drop in earnings at 18 percent for the full year

Negotiations between SAB and Placor are at an advanced stage

World recession reflected in Plate Glass's interims

193 B/DAY 12/12/91.

WILLIAM GILFILLAN

FACING tougher markets both locally and worldwide, Plate Glass & Shatterprufe Industries (PGSI) reported interim earnings down 18% to R28,7m from R35,1m for the six months to September.

Turnover dropped 25% to R1bn from R1,3bn. But executive chairman Ronnie Lubner said the disposals last year of the overseas wood operations and the UK building-glass operations "make comparisons meaningless".

The group declared an unchanged interim dividend of 65c a share which, on earnings a share of 174,2c (213,1c), reduced the dividend cover to 2,6 (3,2).

As operating profits were down 22% to R127m from R162m, margins widened to 12,5% from 11,9%. Lubner said the disposal of underperforming operations saw the margins improve.

Interest payments were slightly down to R17m (R19,5m) on borrowings which had dropped to R71,4m from R88,3m. But borrowing had in-

creased from the R51,4m recorded at the March year-end.

A non-trading expense of R12,4m was deducted from the R28,7m in earnings which Lubner said was related to the writing off of goodwill on a number of small acquisitions mainly in Europe and also to some rationalisation costs related to closures and disposals of discontinued operations.

The group's retained income carried forward, which plummeted to R11,2m from last year's R120,2m, was largely the result of the write-offs taken on last year's disposals (At March a non-trading deduction of R75,6m was made).

The drop in the retained income saw the shareholders' interest decline to R301m from R386m and the net asset value was 22% lower at 1 831c (2 384c) a share.

Lubner said Glass SA, in which PGSI said it was to increase its interest from 48,4% to 96,8% in a R525m acquisition, experienced a slight re-

duction in earnings over the six-month period mainly as a result of reduced activity in the local building and automotive markets.

On the other hand, British and Benelux automotive glass replacement operations achieved good growth in both sales and earnings. In particular, the German operation was promising, he said.

"But Windshields America's 136 fitment centres have been squeezed further by a depressed market and a sharp reduction in margins, particularly in the insurance market."

A restructuring of the Australian glass interests helped to contain losses but the economy remained locked in a severe recession and no real improvement could be expected in the short term, he said.

Board manufacturer PG Bison almost matched last year's earnings even though Penny Pinchers made losses. The Central African Division achieved a record performance but devaluation of the Zimbabwe dollar moderated its contribution.

SAB bids for control of Placor

PGSI buys up Glass SA in R525m deal

B/D ay 12/12/91. (193)

IN A deal worth R525m, Plate Glass & Shatterprufe Industries (PGSI) would acquire UK-based Pilkington plc's 48,4% interest in Glass SA, PGSI executive chairman Ronnie Lubner said yesterday.

Lubner also confirmed that negotiations, which would see SA Breweries (SAB) buying out the controlling shareholders' interests in PGSI's holding company Placor, were well advanced.

Placor is jointly controlled by the Lubner and Brodie families and the Liberty Life Group through a combined interest of marginally under 50%.

Although he declined to comment on how the Glass SA acquisition would be financed, Lubner said the funding would inevitably be related to the SAB deal. "As this is a R525m deal for our group, which has a market capitalisation of about

WILLIAM GILFILLAN

R900m, PGSI's capital base will have to be expanded," he added.

The Glass SA acquisition, which takes PGSI's interest in the company to 96,8%, was announced as PGSI reported earnings down 18% to R28,7m from R35,1m for the six months to September.

Old Mutual holds the remaining 3,2% interest in Glass SA.

Glass SA, formed in 1983 following the merger of PGSI and Pilkington, is SA's only glass manufacturer as well as a major player in the local automotive glass industry. The company has about 7 000 employees, 13 factories and 183 outlets.

The main business units are Pilkington Flat Glass in Springs; Pilkington Shatterprufe and Safety Glass in Port Elizabeth and GaRankuwa, P G Glass with 110 outlets, P G Autoglass with 50 outlets and P G Silvering in Springs.

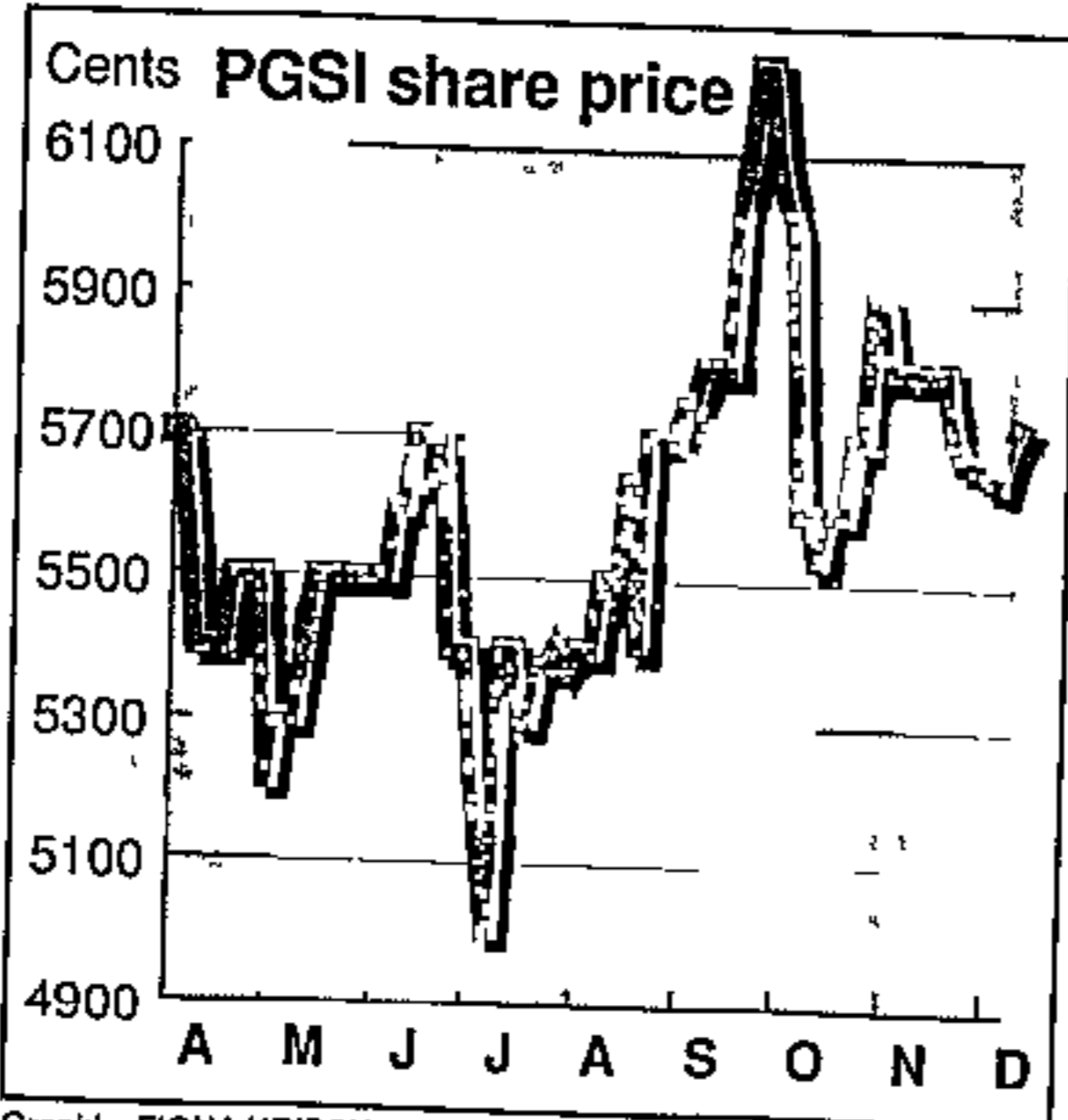
Lubner said Pilkington had approached PGSI, saying it "wanted out" PGSI had a pre-emptive right to buy out Pilkington's stake, which it exercised under terms described by Lubner as fair.

"The numbers made sense," he said, adding it had "always been PGSI's dream to own 100% of Glass SA".

"PGSI regards the acquisition as important for the growth and stability of the glass industry in SA and the transaction will have a positive impact on PGSI's performance in the medium to long term."

Pilkington chairman Sir Antony Pilkington said its stake in Glass SA no longer formed part of Pilkington's international strategy which focused on Europe, the

□ To Page 2



Graphic: FIONA KRISCH Source: I NET

PGSI B/D ay 12/12/91. (193)

Americas and the Pacific Rim.

Pilkington representative on the Glass SA board Gil Phillips agreed the move was a disinvestment but denied his group was moving out of SA for political reasons.

He said the main reason for the sale of its stake was that Pilkington did not have sufficient resources to take up opportunities in regions it identified as "key".

He said it had not yet been determined when or how the proceeds of the sale were to be remitted to the UK. However, it was

possible part of the funds would leave under the financial rand mechanism and the remainder through the commercial rand.

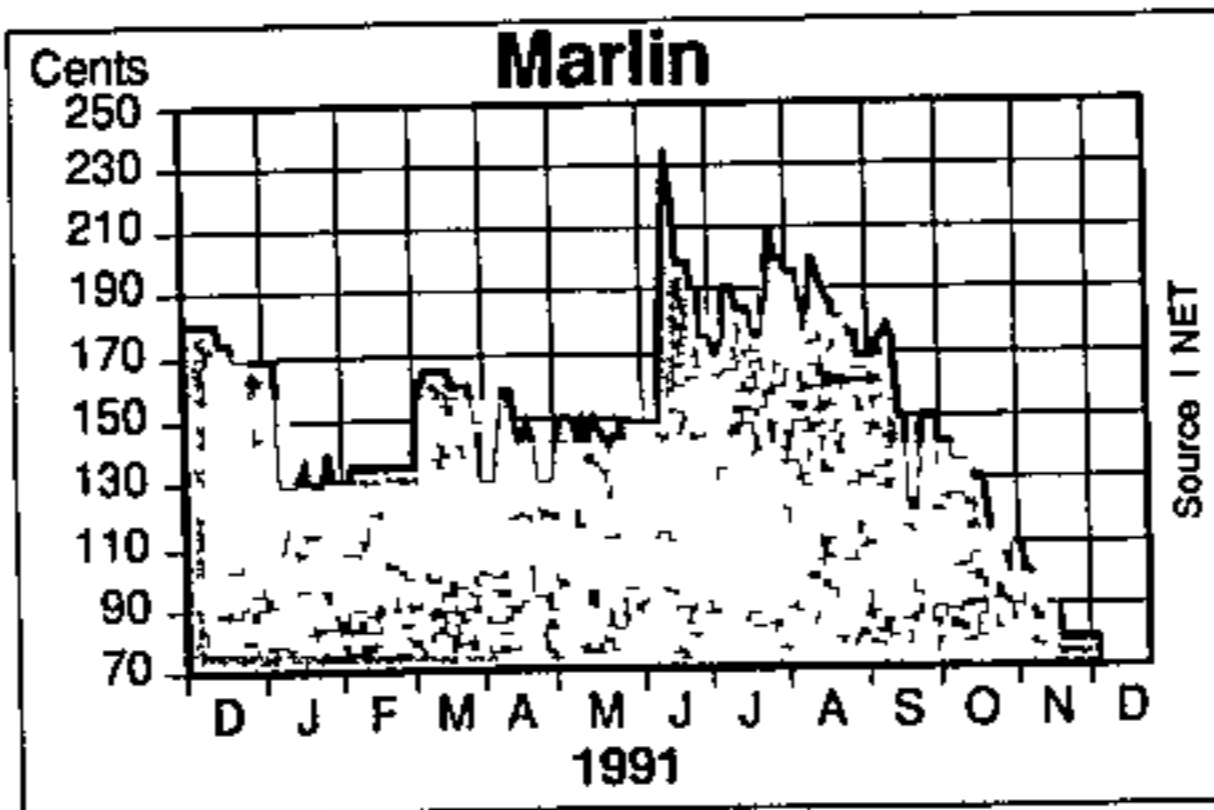
Glass SA made operating profits of R227m on sales of R800m in the year to end-March. Earnings from Glass SA of R56,5m constituted 80% of PGSI's earnings of R67,3m last year.

As the acquisition will become effective only from March 31 1992, it will have no effect on PGSI's earnings for the full year.

● See Page 8

□ From Page 1

FM 13/12/91 (193)



for about US\$750/m³ compared to about \$1 250 for Belfast Black, according to Simpson McKie analyst Hennie Vermeulen

Bargain hunters with faith in the future of granite might believe Marlin's share price has bottomed but its slide over the past six months, and the high gearing, don't make the share overly attractive — though rationalisation among competitors might help

Shaun Harris

MARLIN FM 13/12/91

Showing cracks (193)

Activities: Quarrying and international trading of dimensional stone, processing of dimensional stone into finished granite products

Control: Marlin Holdings (69,5%) Ultimate holding company Usat Trust Ltd

Chairman: Peter Gain, MD Graham Treagus

Capital structure: 46,8m ords, 84 500 red conv prefs Market capitalisation R37,5m

Share market: Price 80c Yields 6,3% on dividend, 28,4% on earnings, p e ratio, 3,5, cover, 4,5 12-month high, 240c, low, 90c Trading volume last quarter, 175 910 shares

Year to June 30	'88	'89	'90	'91
ST debt (Rm)	6,1	8,0	13	29
LT debt (Rm)	4,2	8,0	7,9	11
Debt equity ratio	0,08	0,02	0,04	0,21
Shareholders' interest	0,55	0,56	0,64	0,61
Int & leasing cover	147,8	22,5	n/a	5,5
Return on cap (%)	22,8	31,4	15,0	7,1
Turnover (Rm)	62,2	92,0	91,6	121
Pre-int profit (Rm)	18	31	17	16
Pre-int margin (%)	22	25	14	11
Earnings (c)	56,3	84,1	37,2	22,8
Dividends (c)	20	30	14	5
Net worth (c)	179	243	213	234

In what is proving to be a dark period for producers of black granite, Marlin saw profit margins crunched and borrowings rise to an uncomfortable level in the year to end-June

Its results are indicative of conditions in the granite industry So, too, was last



Marlin's Gain signs of recovery

month's cautionary announcement of negotiations between market leader Keeley, Kudu, Impala and unlisted, Genmin-owned Transkei Pioneer Mining

Marlin was involved in talks but dropped out because agreement could not be reached, says MD Graham Treagus It is understood the negotiations may at least lead to co-operation on international marketing and price setting, after the fierce price war of last year It's also possible the talks will result in a merger, with Impala, Keeley and Kudu, forming a group that could dominate the industry, with Marlin left as the only big independent

While Marlin's focus on Belfast Black granite — coupled with sluggish international trade in the wake of the Gulf War and US recession — has dented profits, the expected indication from Keeley that the industry is picking up has not materialised

Keeley's share price, aggravated by poor interim results, has plunged more than 100c, to 380c, in less than a month Marlin has fallen from around 115c in early November to an all-time low of 80c

This follows a 25% drop in attributable income, with EPS sliding 39% to 22,8c, a far cry from the 84,1c peak two years ago The final dividend was passed after an interim payout of 5c

More worrying, though, is the increase in loans and bank overdraft, with interest-bearing debt up 86%, to R39,4m The R2,9m interest bill compares with interest income of R763 000 last year, and is more than double the interest paid in 1989

Stock levels stand at a high R28m, having risen by just under R10m after a decision to maintain normal production levels while world demand slackened during the Gulf War With more than 85% of Marlin's production going towards exports, the group depends heavily on the international market, where demand remains well below pre-Gulf War levels

Chairman Peter Gain expects the current slow upturn in world demand for granite blocks and related products in world markets to gather momentum by early 1992 However, Treagus does not expect a return to normality before about the second quarter of next year

He says competition and price cutting has caused confusion in the market, particularly for the high-volume Rustenberg material Marlin's market for black granite has been affected partly by Zimbabwean production This product, while of inferior quality, sells

GRANITE PRODUCERS

United we stand

F.M.
13/12/91
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Conditions in the granite industry have deteriorated to the point where it appears Anglo American Corp and Gencor are banging heads together to bring an end to the price-cutting of the past two years

The mining houses have strategic stakes in some granite producers named in the recent joint cautionary announcement stating negotiations were under way involving Keeley Group, Kudu Granite, Impala Granite and Transkei Pioneer Mining

The attraction of the business is the projection that the international market for finished stone could double by the year 2000, offering scope for expansion of granite quarrying operations as well as diversification into more lucrative downstream beneficiation to make finished products

Intense local competition appears to be threatening these prospects. The outcome is likely to be some kind of merger of the various companies, though none of those involved will comment on details

Alan McKerron, head of Anglo American Corp's new business division, says the granite industry "has been shooting itself in the foot," while Marlin financial director Ian MacMillan says all the granite companies are bleeding and "a lot of money is being left on the table"

Keeley dominates the SA granite business, producing about 400 000 t of stone a year. Gencor has the option to take control in five years, through a deal struck in April by which the house teamed up with founder Fred Keeley. Anglo moved into granite in 1989, buying 35% of German group Destag, which owns Impala Granite and has widespread interests in the international dimension stone business

Earnings have been hammered by the Gulf War and the failure of the world economy to recover as quickly as expected. Bal-

FOX F.M. 13/12/91.

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ance sheets have been saddled with rising debt incurred to fund growing inventories of unsold blocks, while prices of Rustenburg Grey granite, in particular, have suffered in the fight to maintain sales volumes

Marlin (see *Companies*) is not participating in the negotiations, apparently because it is not heavily involved in Rustenburg Grey, being instead SA's largest producer of Belfast Black material. Keeley markets a cheaper black granite from Zimbabwe which appears to be causing severe marketing headaches for Marlin. MacMillan confirms Marlin has had to make heavy retrenchments and halve production at its Boschkop quarry because stocks had risen too high

In a strange deal on the JSE on Monday, the price of Marlin Holdings plummeted to 25c from 75c, on turnover of just 200 shares but Marlin Corp was unchanged at 80c

Brendan Ryan

CHARTER (193) ~~(193)~~ ~~(193)~~
Taking a dip FM13/12/91

With the UK construction industry in deep depression, fierce competition in the road-stone business and flat results from 38,5%-held Johnson Matthey, Charter Consolidated's first-half earnings took a dip

But, helped by cost-cutting at Anderson (mining equipment) where 1 135 jobs have gone, the fall was only 7% to £38,5m pre-tax for the six months to end-September

EPS were 8% off, at 22,4p, and the dividend has been held at 7p. The sale of the final tranche of Minorco — which owns 36% of Charter — yielded £12,5m after tax, restoring the net cash position to £131m after capex of £13,2m and £10,5m spent on acquisitions

The brunt of the downturn was borne by Cape (67% owned), the building products

FM13/12/91 (193) ~~(193)~~
and services group, where operating profit was 26% down at £6,4m on 4% higher sales of £97,8m

While the outlook for construction in the UK remains bleak, Cape is increasing overseas business, which accounted for 32% of sales (25% last year) through acquisitions in Holland, Belgium and Germany and new contracts in Australia and the Gulf

Cast, the quarrying and mining division, suffered a margins squeeze and reduced demand for coal in the US, leaving its surplus almost 27% off, at £1,6m, and turnover down 7% at £28,4m

At Anderson, the second-biggest business, falling sales (£54,7m against £58,3m) reflected cutbacks by British Coal. But cost reductions in the UK plus exports to Poland, France, Australia and the US helped the division to turn around — though from a low base. Operating profit was up 54% at £2m

Finally Pandrol, the rail track equipment division where profit jumped by 77% in 1989/1990, consolidated its international business which is now extended to Hong Kong and China. Profit rose 4,8% to £6,6m

CE Jeffery Herbert called it "a strong performance in tough trading conditions". But, against the sluggish economic background, the accent for Charter must be on further cost reductions and the hunt for good acquisitions. With its dividend under no threat, Charter's yield of 5,8% limited market reaction to the 9p fall to 485p — on a weak morning for London equities

The share has had an up and down year rising 38% from the 1991 low and losing almost half the gain since the peak at 554p. The stake in Johnson Matthey — 40% of Charter's market capitalisation and 41% of pre-interest earnings — and its recovery prospects on any upturn in the world car industry should provide a cushion. *John Cavill*

Break for consumers as competition heats up

STAR 16/12/91

By Neil Behrmann (193)

LONDON — As the South African market becomes increasingly open to outside competition, consumers should derive the benefits in the form of lower prices.

South African companies, however, will have to become more competitive because many business and industrial sectors have been protected by tariffs and import duties.

It is the greater exposure to foreign competition that has led Pilkington to disinvest from South Africa, ironically just as South Africa's political isolation was ending.

Stake

Pilkington announced last week that it was selling its 48,4 percent stake in Glass South Africa (GSA) to Plate Glass and Shatterprufe Industries for R525 million.

This disinvestment was followed a day later by the announcement that Swiss-based Nueva Holding was selling its

52 percent stake in Everite Holdings and its 10 percent interest in Everite to an undisclosed party.

However, the reason given for the sale of the interests, valued jointly at about R72 million, was a strategic sale similar to that undertaken by Nueva in parts of Europe.

In the case of Pilkington, however, it is a more open market, with a resulting cut in profit margins.

Pilkington's finance director Andrew Webb says Glass South Africa controls 95 percent of the domestic market.

That monopoly, however, is fast vanishing.

A surge in imports from countries such as China has reduced profitability.

Previously Glass South Africa could sell its products at attractive prices.

Now it is competing with lower-priced glass imports.

Prices of float glass on the international markets have fallen by 26 percent in the past two years, says Mr Webb.

It can be sold in South Africa at cheaper prices than the lo-

cally manufactured product. An open market is good news for South Africa industry and consumers.

But since Glass South Africa must now cut prices to compete, Pilkington is withdrawing. Its SA company will no longer have the advantage of non-competitive pricing.

"As the South African market becomes more open, pressure on pricing will increase," says Mr Webb.

GSA's profits were down by 20 percent in the six months to September, compared with the same period the previous year.

Both recession and competition contributed to the decline.

Mr Webb insists that Pilkington is not withdrawing because the directors are fretting about South Africa's future.

Pilkington, an international glass manufacturer, intends concentrating its activities in Europe and to a lesser extent North America.

To expand, the company needs financial resources.

Capital expenditure in 1990 was \$270 million (R1,35 billion) and is now running at an annual

rate of £150 million (R750 million).

Net profit to shareholders slumped to £7,8 million (R39 million) from £49 million (R245 million) in the six months to September because of the deep recession of its major customers in the construction and motor industries.

Borrowings are 60 percent of shareholders funds.

Finance

Pilkington's share price has slumped by 40 percent this year, so it will be difficult to raise equity finance. In short, Pilkington needs cash.

The sale of Glass South Africa for £100 million will solve some of the group's problems, even though most of the money will be transferred through the volatile financial rand market.

The transaction will incur negligible tax, says Mr Webb, and the profit will be five times the book value of £19,4 million (R97 million).

The money will be used to repay borrowings and for reinvestment in group businesses, he says.

Shareholders in Placor get top offer from SAB

By Ann Crotty

SAB's bid for control of Placor sees Placor shareholders getting a very attractive package

SAB is offering one automatically convertible preference share for every two Placor shares. As SAB is currently trading at R55 the offer values Placor shares at R27,50. This is significantly above the R23 at which Placor was trading yesterday and in fact represents a record level for Placor.

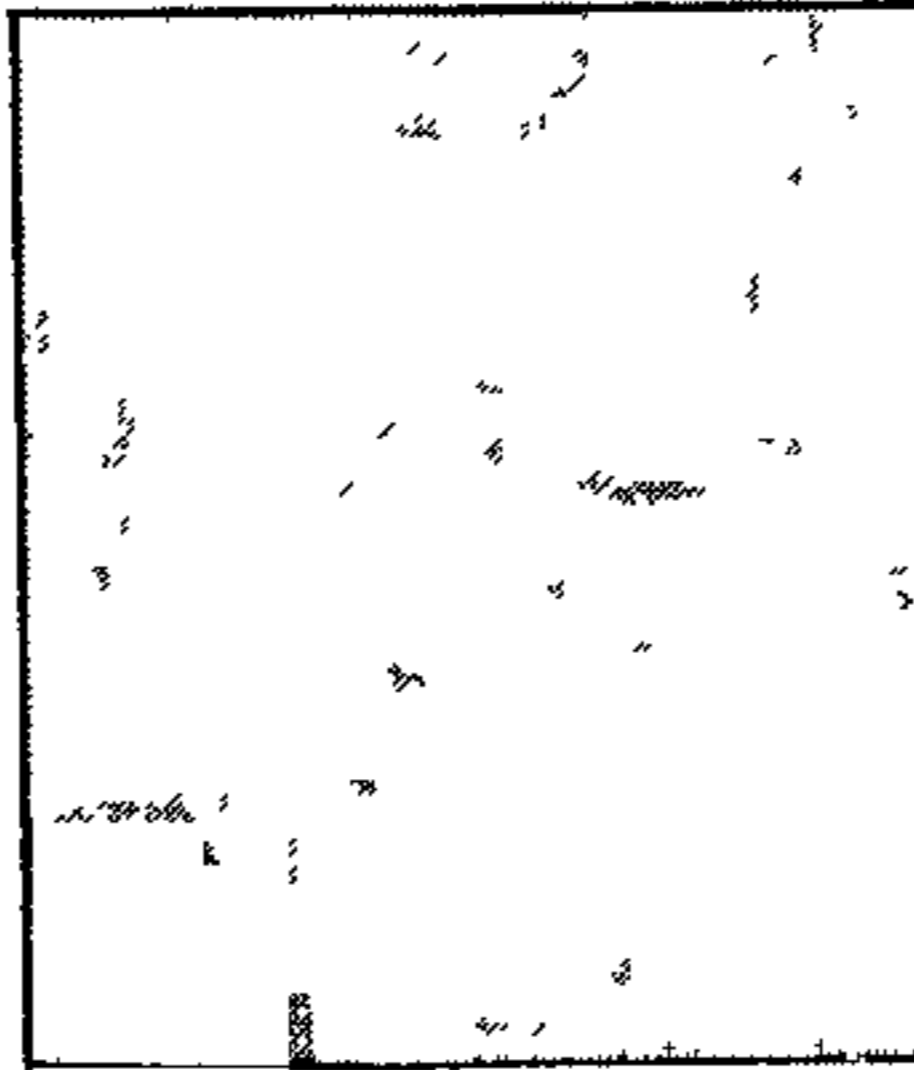
In addition to this attractive valuation, Placor shareholders who accept the SAB convertible prefs will be getting an annual fixed dividend of 255c. This is equivalent to a dividend yield of 4,6 percent which is extremely generous compared with the 2,2 percent yield offered at SAB's current market price.

In view of the attractiveness of the offer (which is extended to 100 percent of Placor shareholders), it seems inevitable that there will be 100 percent acceptance.

According to the announcement SAB has agreed to acquire the 54,6 percent of Placor that is held in a pool arrangement controlled by the Lubner/Brodie families and Liberty Life. Placor holds a controlling 49,7 percent of Plate Glass and Shatterprufe Industries (PGSI).

Some of the Brodie/Lubner family shareholders have made arrangements with institutions to get cash in place of the SAB shares. Given the generosity of the dividend yield on such an attractive blue chip, this facility was presumably easily arranged.

For the longer-term the more significant and exciting aspect of



PGSI chief executive Ronnie Lubner

today's announcement is the reference to the proposed rights offer by PGSI. "In order to re-finance certain local activities and to enable PGSI to expand the equity base of its international operations, it is envisaged that PGSI will undertake a rights offer."

These plans are over and above the recently announced R525 million acquisition of Pilkington's 48,4 percent stake in Glass SA (GSA). According to chief executive Ronnie Lubner the GSA deal is a separate transaction the funding plans for which will be announced at a later stage.

But it does seem that the balance sheet would benefit from a rights offer and would therefore place PGSI in a more comfortable position vis-a-vis choosing various options for financing GSA.

The balance sheet at end-March '91 showed gearing at 40 percent — down sharply from the previous year's 78 percent.

(It seems very likely that on completion of the funding of all the deals on the cards at this stage, SAB will have more than a

49,7 percent stake in PGSI.)

Mr Lubner disputes the suggestion that these plans (the rights issue and the Pilkington deal) reflect a more aggressive approach to PGSI's growth that are related to the change in controlling shareholder.

He points out that the identity of PGSI's major shareholder would not influence the group's investment plans as these are motivated by PGSI's management and not the controlling shareholder.

However if some of the Lubner/Brodie shareholders are now looking to cash in part of their Placor holdings, it is unlikely that they would previously have been keen to follow a rights issue.

With SAB as controlling shareholder this sort of restraint is removed which means that PGSI management should now have a stronger hand to work operations — local and international — that are at a developing stage and therefore need funds.

From SAB's point of view, the acquisition "will provide a major diversification for SAB's consumer related manufacturing interests."

The SAB prefs will automatically convert into ordinary shares on a one-for-one basis in the year following that in which SAB's annual dividend is equal to or exceeds 255c.

The seven year compound growth in SAB dividends is 18,5 percent per annum. Assuming this rate is sustained, the SAB prefs should be converted in financial '97.

If there is 100 percent acceptance by Placor shareholders some 10,4 million SAB prefs will be issued.

R320m deal gives SAB Placor control

(193) WILLIAM GILFILLAN (193)
IN A R320m deal, SA Breweries (SAB) has acquired a 54.6% controlling interest in Placor, holding company for SA's only glass manufacturer Plate Glass & Shatter-prufe Industries (PGSI)

The acquisition, to be financed by the issuing of convertible preference shares in SAB, will leave the Liberty Life Group with an effective 20% holding in SAB from 19%.

SAB, which bought the Placor stake from a controlling consortium of the Lubner and Brodie families and Liberty, will exchange one convertible preference share for every two Placor shares.

As SAB was trading at 5 375c a share when the negotiations were being concluded, this places an effective value of about 2 700c on each Placor share (excluding the recent interim dividend of 24c a share). Placor closed yesterday at 2 250c, meaning SAB paid a 20% premium for its controlling interest.

Liberty Holdings MD Farrell Sher said once the preference shares had been converted into ordinary shares, Liberty's direct interest in SAB would increase to about 8% from 7%. Also, Liberty had about a 12% indirect interest in SAB through its 34% stake in Beverage & Consumer Industry Holdings, which holds 35% of the beer group. So Liberty's effective holding in SAB would come to just under 20%.

The two families would receive about 0.6% in the beer group in lieu of their 20% stake in Placor, which holds 49.7% of PGSI. Ronnie Lubner, who will remain chairman and CE of PGSI, said yesterday that one reason for the Placor sale was that some members wanted to "cash in".

Shareholders in PGSI were also warned that a rights offer was imminent to refinance local operations.

Lubner said the proceeds would be used to reduce debt locally and to expand international operations. Proceeds from the rights offer would not be used to finance the R525m acquisition by PGSI of a 48.4% interest in Glass SA.

SAB executive chairman Meyer Kahn said the Placor acquisition gave SAB a unique opportunity to diversify its consumer-related manufacturing interests.

EVERITE

Breaking up

(200) (193)

FM 20/12/91

The announcement that Nueva Holdings planned to sell control of Everite unfortunately appeared on the same day as the Pilkington sale (see separate report). They set off fears of a renewed pattern of disinvestment. Both moves, however, were motivated by a trend for international conglomerates to sell fringe operations. Nueva has gone one step further.

It is selling its controlling interests in commodity businesses worldwide and investing those funds into hi-tech companies, which it will not necessarily control.

Also, it's believed that Nueva's controlling shareholders, the Schmidheiny family, are strong environmentalists and feel that control of industrial commodity companies is incompatible with this position.

Certainly, Nueva's investments in asbestos have been environmentally controversial.

But it is a good time to take the environmental high ground, as Everite has recently provided disappointing returns. EPS have fallen from 26c in 1989 to 6.9c in the year to

FOX FM 20/12/91

(200) (193)

June 1991. Since the results were announced in August, Everite's share price has fallen from 275c to 230c, though it has recovered to 250c since the sale was announced. This is still substantially below net worth of 419c.

Arguably, Nueva would be able to get a better price after Everite's December interim results are announced. Everite has undergone a major restructuring during the year, and the staff complement has been reduced by a fifth. The FM said recently that EPS could double in the year to June 1992, though this would still be well below recent levels.

Market capitalisation of Nueva's controlling interest in Evhold is less than R60m. Everite's product portfolio includes fibrecement roofing, pipes, plastic sheeting and pottery products. It would fit in nicely with existing building materials groups such as Murray & Roberts' subsidiary Darling & Hodgson or Rembrandt-controlled Fraser Alexander. Neither company would have much difficulty raising the appropriate funds. But other players in the building sector cannot be ruled out.

Stephen Cranston

Continue →

PILKINGTON/PGSI

FM 20/12/91

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More from home markets

The purchase of Pilkington Plc's share of Glass SA by Plate Glass & Shatterprufe Industries (PGSI) has added urgency to the negotiations with SA Breweries over control of pyramid Placor

PGSI chairman Ronnie Lubner says the purchase will not be funded by borrowings — the additional debt would increase gearing to well over 100%. That leaves equity funding. The trouble is that if there is a rights issue, the Lubner and Brodie families will not be in a position to follow their rights. At March 31, directors and families held 4.6m shares, or 20.8%, of Placor.

At PGSI's present market capitalisation, an issue to fund the purchase fully will increase the number of issued shares by about 55%.

Liberty Life already owns 29.9% of Placor, and it would probably not be keen to underwrite a rights issue. Should the stake rise to 30% or more, then Liberty would have to make a full bid under the rules of the Takeover Code. But Liberty does not usually hold outright control of industrial companies.

It would be more logical for PGSI to be controlled by another industrial company SAB, in which Liberty already has a substantial stake, fits the bill. Liberty's name does not appear on the cautionary announcements, and it is not involved directly in the negotiations between PGSI and SAB. Liberty does not need to sell its stake in Placor to raise cash, but it may well see attractions in exchanging its shares in Placor for additional shares in SA Breweries.

For Pilkington, the R525m price tag represents an historical earnings multiple of about nine on its share of Glass SA. This compares with a p/e of 14 on the market price of PGSI. But Lubner describes the price as fair to both sides.

Pilkington spokesman Tony Cove points out the net worth of the Pilkington interest in Glass SA is £19.4m at present financial rand rates. Pilkington will make a capital gain of £70m from the deal. He says the talks between Placor and SA Breweries have no bearing on Pilkington's decision to sell.

The money will be payable in cash by March 31, the end of the PGSI financial

year. The outflow will be staggered so as not to disrupt the financial rand market. Pilkington will also receive its share of attributable earnings from Glass SA for the year to March 1992, as a special cash dividend.

Pilkington received its best-ever earnings from SA last year, and is not expecting the SA operations to perform as well — at least



PGSI's Lubner look.ng at funding options

when denominated in sterling — in the short term. The UK group says it is selling because it wants to concentrate its operations in Europe, the Americas and the Pacific Rim. Political concerns did not influence the decision but Pilkington's view on the SA economy was a factor.

Glass SA has become an increasingly important part of PGSI's attributable earnings, now accounting for more than 80% of the total. In the interim results to end-September, R29m, almost half of PGSI's after-tax profit, was attributable to outside shareholders, virtually all of which went to Pilkington.

Once PGSI owns an effective 96.8% of Glass SA, the relative impact of its overseas earnings will be negligible. PGSI has already sold its overseas wood interests and concentrates almost entirely on the autoglass market. Potentially, there is enormous scope for specialist autoglass shops overseas. Bertie Lubner describes the autoglass shops as a McDonald's phenomenon waiting to happen. The British and French motor markets are about five times that in SA, and the German market is seven times as big.

The British and Benelux operations are already profitable as PGSI has the critical mass to set up national networks. The German network is improving. But the French operation is still too small to be effective, and the group is making losses in the US and

Australia, which are badly hit by the recession.

The Central African division made more money in six months than during all of last year, but profit increased by just 11% because of the devaluation of the Zimbabwe dollar.

Unfortunately, PGSI has been unable to offset losses in one country against profit in another. Its tax rate of 48% is well above the average rate of corporate tax in its markets.

Stephen Cranston

COAL EXPORTS FM 20/12/91 Prices slacken

Warnings from coal company chairmen that 1992 will be a flat year for the industry have been borne out by initial price settlements on exports to Europe.

Major exporters Amcoal, Trans-Natal Coal Corp (TNC) and Witbank Colliery have all settled with Italian government power utility Enel by taking a US\$0.35/t cut in price. This reduces the average paid by Enel for SA coal to \$31.80/t from this year's \$32.15/t.

The Enel contract is widely seen as a benchmark for Europe because many others follow suit at the same price. To rub salt in the wounds, industry sources indicate that Enel has insisted its suppliers agree to grant negative supply options of about 100 000 t each.

The utility is overstocked and the options mean Enel can reduce its contracted sales volumes for next year by these amounts at will.

Amcoal chairman David Rankin and Witbank Colliery CE Allen Cook confirm their groups have settled with Enel but refuse to disclose prices. TNC MD Mike Salamon refuses to comment on the group's sales arrangements because other negotiations are still under way.

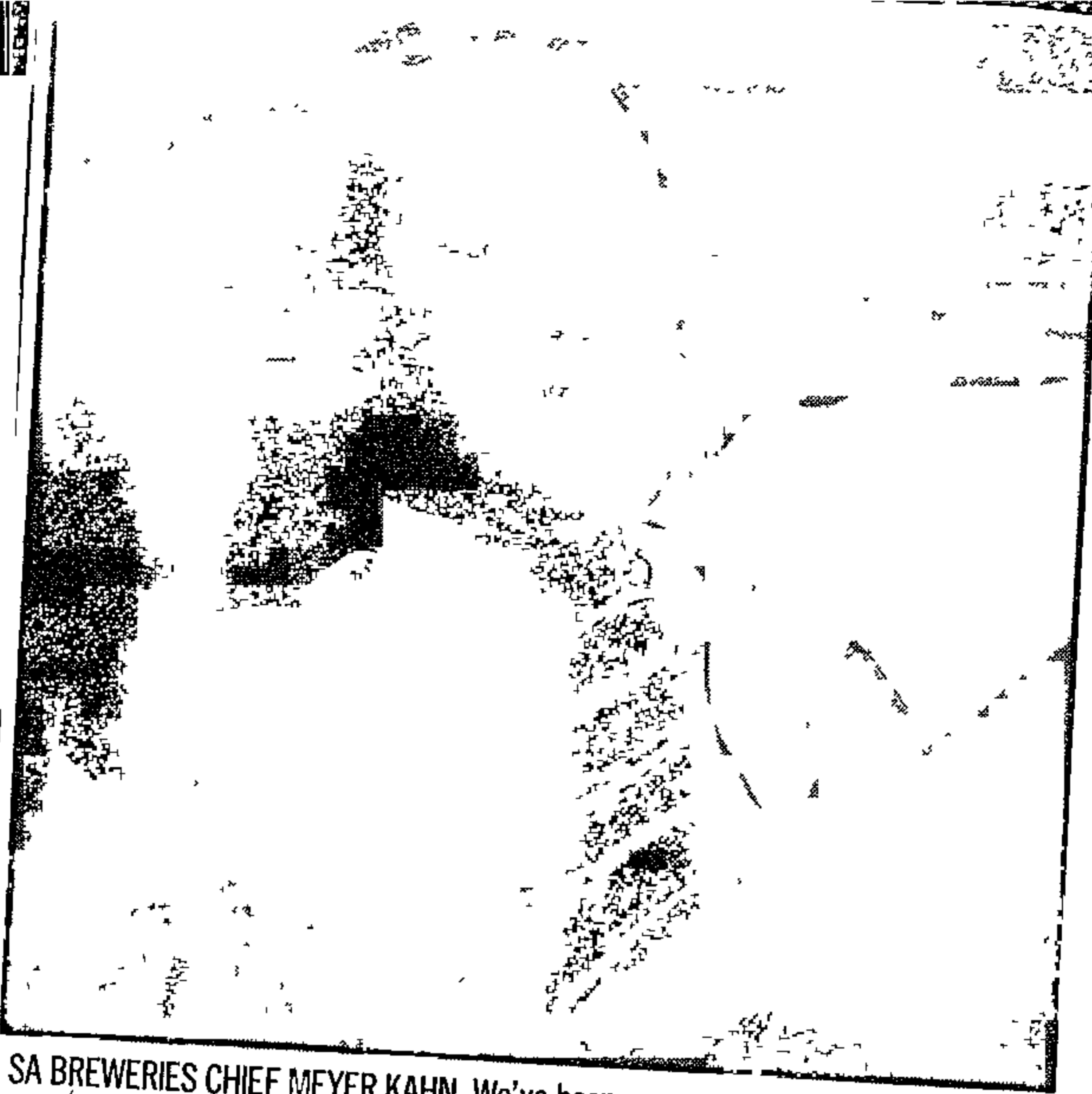
The Enel settlement reflects both the state of the world steam coal export market, where coal is plentiful, as well as tighter conditions in shipping.

Most coal sold into Europe goes fob Richards Bay. Freight rates on a Cape-sized vessel from Richards Bay to Rotterdam are now around \$9.5/t compared with an average \$7.5/t a year ago. This is because many dry-bulk carriers are being used to ship grain to what was the Soviet Union.

Customers in Europe are using higher freight charges as a reason to hold down coal prices. Despite this, some industry sources reckon SA exporters buckled too easily and could have held out for at least roll-over

STILL FRAGILE

Six months to	Sep 30 '90	Mar 31 '91	Sep 30 '91
Turnover (Rbn)	1.35	0.95	1.01
Operating income (Rm)	162	136	127
Attributable (Rm)	35	32	29
Earnings (c)	213	196	174
Dividends (c)	65	157	65



SA BREWERIES CHIEF MEYER KAHN. We've been eyeing each other for some time

A different glass for Charles Glass

By JULIE WALKER

SA BREWERIES' purchase of the controlling stake in Placor extends its base as SA's leading consumer-based company

Placor is the holding company for South Africa's only glass maker, Plate Glass & Shatterprufe Industries (PGSI)

SA Brews executive chairman Meyer Kahn says there was a "natural gravitation" of the two companies towards each other

"Each party has been eyeing the other for some time"

Mr Kahn says the deal does not signal a change in SA Brews' traditional fine focus on consumer markets

Mr Kahn describes PGSI as a capital-intensive consumer-based business SA Brews already has exposure to almost every aspect of consumer retailing through its holdings in Edgars, Amrel and OK Bazaars

There were several conditions to be met before the deal could go ahead, not least of which was the sale by Pilkington UK of its 48% holding in Glass South Africa

Eyebrows

Placor owns almost 50% of PGSI, which now has 97% of Glass SA

PGSI and Pilkington have been partners in the SA float and safety glass manufacturing, distribution and fitment industry since a 1983 merger

Last week's apparent disinvestment raised a few eyebrows at a time when SA is shedding its pariah status internationally

But Mr Kahn says the R525-million offer to Pilkington was made at the right time

Pilkington has been hard hit in its domain with the slump in building and the recession in general It will focus its attention elsewhere

In contrast, SA's domestic housing needs have never been greater. Since each house requires glass and wood, manufacturer and supplier Glass SA is in a strong position for growth

Placor's control pool comprises the Lubner and Brodie families and Liberty Life

Placor chairman Bertie Lubner says the pool finally agreed to sell because of the widespread interests and requirements of family members

PGSI will continue to be chaired by chief executive Ronnie Lubner, who welcomes the opportunity to be part of SA Brews while retaining the advantages of a family-style business

Current management will be retained

Financing for the PGSI purchase of Glass SA is in place and the group will come to the market early next year to raise additional money and to refinance debt

PGSI's other interests include 48% of PG Bison, which in turn controls Pennypinchers and has a slice of Masonite

Harare

PGSI also holds 45% of Harare-quoted PG Industries and 80% of Belron International, which has more than 600 autoglass fitment centres in Europe, Australia and America

SA Brews is to exchange one automatically convertible preference share for every two Placor shares

The prefs will carry 255c a year, compared with SA Brews' ordinary dividend of 118c in the latest financial year The prefs will be converted when the ordinary dividend matches 255c

PPC cautious about short-term prospects

STAR 23/12/91

PPC is facing an unexciting year ahead in the light of current political and economic conditions

In the annual report, chairman JC Hall says earnings are unlikely to show real growth and that sales will, at best, remain stable

He adds that political stability is the key that could turn these forecasts around

In the longer term, PPC is in a very strong position to meet the challenge of heightened demand

Mr Hall says group factories are modern, well-maintained, low-cost producers and strategically located

PPC manufactures and distributes cement, lime and limestone products, paper sacks and other containers

It supplies about 45 percent and 65 percent respectively of local requirements for cement and lime

PPC has investments in the ready-mixed concrete industry and in other companies engaged in the supply of cement-related products

The cement division accounts for 11 percent of turnover, lime three percent, packaging 23 percent, and investments and other interests 12 percent.

In the year to September, group turnover grew 11 percent from R740,0 million to R818,6 million

Notwithstanding some reduction in volumes in both the cement and lime divisions, operating profit rose seven percent from R167,3 million to R176,5 million

After interest expense grew 73 percent from R4,9 million to R8,5 million and investment income fell 19 percent from R25 million to R20,1 million, pre-tax profit was R196,6 million

This is two percent more than financial 1990's R192,2 million

Diagonal Street

(193) LYNNE PEACH

The decline in investor income is attributable to reduced cash available for investment, while interest paid rose relative to the capex programme at Kohler Sacks

A fall in the effective tax rate from 43,2 percent to 39,9 percent resulted in taxed profit rising eight percent from R109,1 million to R118,2 million

After deducting outside shareholders' interest, attributable profit rose eight percent from R106,7 million to R114,8 million

Based on a higher number of shares in issue, earnings per share grew seven percent from 266,2c to 284,8c

The ordinary dividend was 172c a share, 15 percent higher than the previous year's 150c

An extraordinary loss of R4,4 million is attributable to a donation to the Private Sector Initiative

The balance sheet reveals modest gearing of seven percent and a rise in capital employed from R729 million to R775,2 million

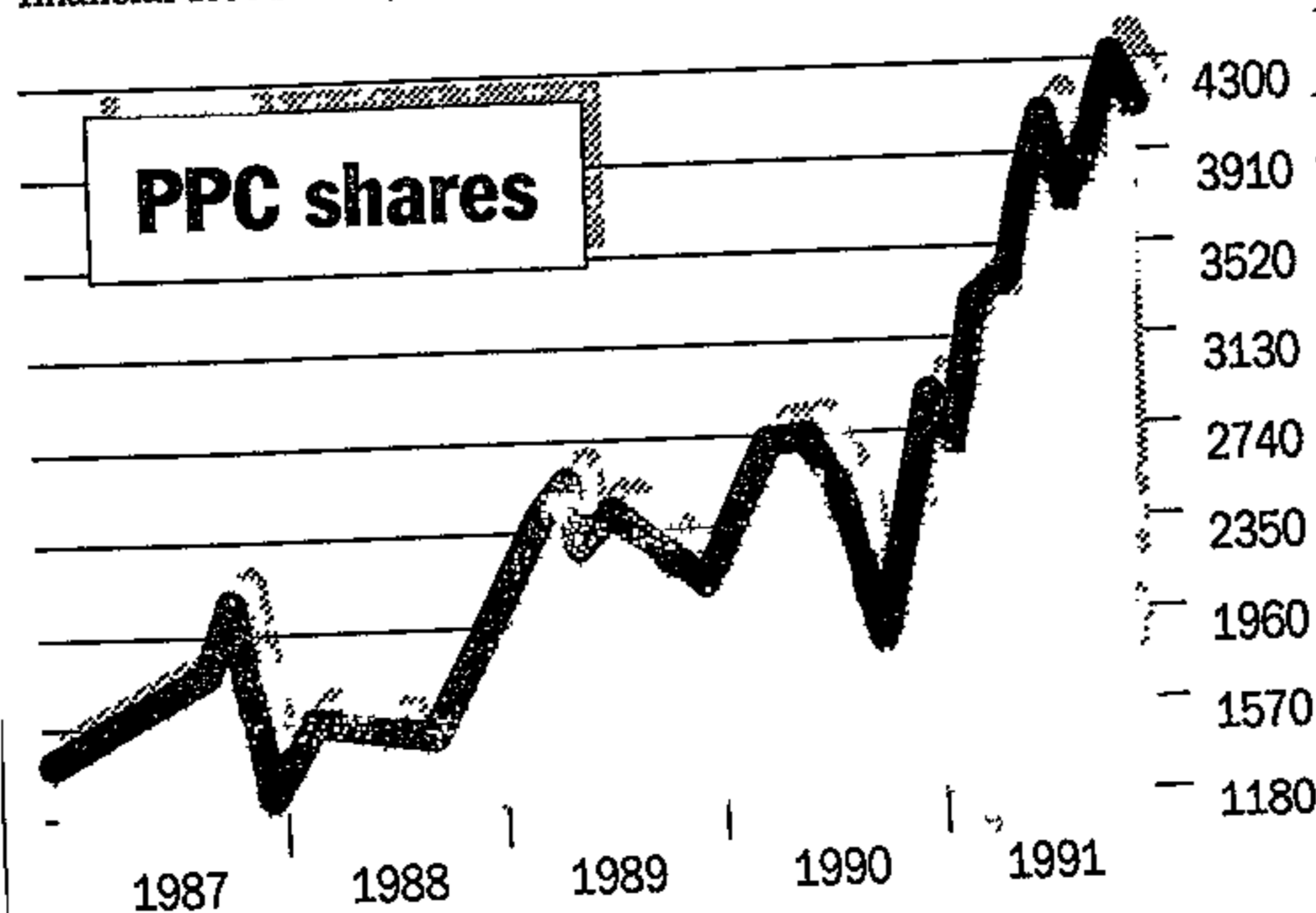
Net asset value appreciated nine percent from R12,79 a share to R13,89

PPC, priced at R41, is trading on a P/E ratio of 14,4, with a dividend yield of 4,2 percent

The share appears a bit expensive, but is worth investing in on price weakness in view of the group's inherent strengths, including its financial health and sound long-term potential

COMMENT. The share price rose particularly steeply in 1991 and touched a high of R43, before slipping back to its current R41

The primary trend remains favourable and will only be threatened if the price slips below R38



Hard times abroad

Unfortunate for SA

Finance Staff and
Sapa-Reuter

Recent news that Pilkington and Colman Foods were moving out of SA came at an unfortunate time in terms of local political and economic developments

Both moves reflect the current tough times facing the major international economies much more than any local developments

As far as local politicians and businessmen are concerned, the weakness of the international economy could not have come at a worse time

The recent political initiatives need the support of a healthy economy that is in a position to generate wealth and employment

The state of the major world economies indicates that in the short term there is unlikely to be much external impetus on this front

Corporations in each of these economies are battling to survive tough trading conditions

Recent dismal news about the slump in IBM's profits, combined with last week's news about the closure of a number

of GM plants in the US, emphasize the difficulty in kick-starting the American economy

On Friday, the US Federal Reserve Board took its boldest move in years to try and stimulate business activity, cutting the discount rate by a full percentage point to 3,5 percent, the lowest level since 1964

In so doing, the central bank responded dramatically to criticism by some observers of the gradualist approach it had been taking for the past year towards the mission of promoting recovery from the recession

At the same time, it rejuggled the numbers in the political calculations shaping up for early 1992 over possible tax and spending measures by the US government and Congress in an election year

"We think this will make a very significant difference," said Samuel Skinner, President George Bush's chief of staff, after the Fed had made its move

The Fed's "Christmas present" came wrapped in the kind of vague rhetoric that is customary whenever the monetary authorities speak

If said its move, "together with the cumulative effects al-

ready in train from previous actions, should provide the basis for a resumption of sustained economic expansion"

What that signalled, analysts said, was a conclusion by Federal Reserve Board chairman Alan Greenspan and other Fed policymakers that business conditions had deteriorated in recent weeks to the point where strong measures were called for

Among stock and bond analysts, some saw an effort by the Fed to dampen momentum in the White House and Congress for fiscal-policy action — in the form of tax cuts, spending increases, or both — to try to revive the economy

Mr Greenspan had warned as recently as last Wednesday about what he described as the dangers of a quick fix

"Only in the context of prudent, non-inflationary expansion of money and credit are improvements likely to be lasting," he said

When the Fed moved on Friday, it said it had concluded that present inflationary pressures were subdued enough to permit a more aggressive strategy

Analysts say the reduced in-

flation rate, which has been a consistently stated aim of the Fed's decisions, stands as an important plus for recovery prospects

And in Japan on Friday the government revised downwards its estimate for economic growth for the year to end-March 1992 amid widespread evidence of an economic slow down

The government's Economic Planning Agency set a new estimate for real growth of 3,7 percent, down from 3,8 percent. It also fixed a target of 3,5 percent for growth in 1992-93

The Japanese government's latest admission that the economy is slowing will lead to further demands for stimulative measures, including interest rate cuts and pump-priming public spending

President Bush is expected to press for such action when he visits Tokyo next month

Japanese officials believe the president will argue that Japan has the capacity to help a recovery in growth in the industrialised world

Many private economists believe that even domestic considerations will eventually persuade the Japanese government to resort to stimulative action

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STAR 23/12/91

Fly ash (193)
Stimes (BUS)
in cement
29112/91

ASH Resources will supply at least 200 000 tons of classified fly ash for cement extender for the Lesotho Highlands Water Project. It will be used in construction of the Katze Dam and 80km of tunnels.

Ash Resources, jointly owned by Blue Circle Cement, Anglo-Alpha, PPC and Eskom, is supplying the ash from its plant at Lethaba power station.

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