Financial Mail

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TOP COMPANIES

PUBLIC-SECTOR CORPORATIONS

Watching the public-sector scorecard

There's no question, though, that delivery from this sector has been significant. But privatisation is sluggish

In an election year, much is being said about the parastatals, especially what they have and have not delivered over the past five years.

Government claims its scorecard since 1994 includes:

- Bringing water to about 3m people, which has created 100 000 jobs each year in 1 025 projects;
- 2,3m electricity connections have increased the number of households connected to the electricity grid from under 40% to 63%;
- 2,1m additional postal addresses have been established, taking the total to 7m or 64% of households; and
- 1,3m phones have been connected, linking 35% of homes to the telephone system, compared to 25% in 1994.

This means, notes President Nelson Mandela, that every day on average since the 1994 elections 1 700 people have gained access to clean water; 1 300 homes have been electrified; 1 200 postal addresses have been established and 750 telephones have been installed.

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For employees, consumers, taxpayers and potential investors the public sector's performance is more mixed than these glossy figures reflect.

The dilemma facing all parastatals is balancing government demands for delivery of often unprofitable social services and affirmative action with demands to become profitable and commercially viable.

Of the 30 parastatals on our list, seven made a loss (eight last year) in their 1998 financial year. Armscor has gone into the red while Sapekoe has returned a minimal profit (R28 000). The most dramatic turnaround is at the SA Broadcasting Corp, which has turned a R60m loss into a R105m profit (this is an 18-month figure as its year-end changed to March).

The major loss makers of 1997 have reduced their losses over their 1998 financial years — the Post Office from R702m to R272m, SA Airways from R323m to R244m and PX from R489m to R322m. This leaves PX as the biggest loss maker on our list.

Three parastatals are more heavily into the red. Abattoir group Abakor's losses have grown from R22m to R55m, holiday resort group Aventura's losses are R8m compared to R2m in 1997 and Northern Cape diamond mine Alexkor has extended its 1997 loss of R11m to R23m.

Overall, eight parastatals made less money during the year compared to the previous year. Alexkor, Armscor and PX had a lower turnover and seven saw their asset bases erode.

On the asset side, the top 10 are unchanged. Eskom (R70bn), Transnet (R43bn) and Telkom (27bn) are the giant parastatals.

Eskom also heads the table on net income (R2,7bn) but Telkom (R2,4bn) has a slightly higher net income than Transnet (R2,2bn). But after Transnet's R1,8bn contribution to the pension and medical aid funds, Transnet made a small R278m profit after losing R170m the previous year.

Of these three giants, only Eskom has seen a drop in net income (from R3,1bn in 1997) and only Telkom has an increase in turnover.

Transnet tops the list on turnover (R21,7bn) followed by Eskom (R21,1bn) and Telkom (R20,1bn).

The restructuring of State assets is co-ordinated by the Ministry of Public Enterprises and is undertaken within the context of the National Framework Agreement reached between government and unions. This three-year agreement, which expires this year, affords high priority to the reduction of State debt, the recapitalisation of public enterprises and the broadening of economic participation.

Labour has indicated that it

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would like to see the negotiation of its extension.

Partly because of union opposition, progress towards the sale of State assets remains slow.

For her part, Public Enterprises Minister Stella Sigcau cites the debt of the firms under her Ministry's ambit as a major problem hindering their privatisation: "Their enormous debt burdens as well as serious inherent structural challenges are the critical tasks. We must address and rectify these issues so as to enhance the market value of these companies before exposing them to the assessment of international analysts and investment experts."

There are plans to launch a new agency to propel privatisation, possibly under the deputy president's office. The agency will be specifically dedicated to selling State assets and could mean the demise of Sigcau's Ministry as recommended by the Presidential Review Commission.

So far, government has received payment from only four sales of which only one was in the 1998 financial year.

The process started with the sale of six SABC radio stations for R510m in March 1997. In the biggest foreign investment into SA, this was soon followed by the R5,6bn sale of 30% in telecoms provider Telkom to a consortium of US telecoms giant SBC and Malaysian group Telekom Malaysia.

Then, in November 1997 Sun Air was sold to an empowerment consortium comprising Rethabile Consortium, Co-ordinated Network Investments and Comair for a net R42m. Government has received half the proceeds with the balance due to be paid in 2000.

Finally, in June 1998 government received R991m from the sale of 24% in the Airports Company. A 20% stake was sold for R819m to Italian group Aeroporti di Roma, which has an option to acquire a further 10% holding on the public listing of the company. A 10% share has been reserved for black economic empowerment, of which 4,2% has been taken up for R173m.

In total, proceeds from the sale of State assets amounts to R7,2bn of which R2,7bn has been used to reduce State debt.

Proceeds received by the exchequer from the sale of strategic oil stocks since 1995/1996 total an additional R7,6bn.

For this fiscal year Finance Minister Trevor Manuel wants to raise R4bn from the proceeds of the restructuring of State assets. Beyond this the Medium Term Expenditure Framework is silent.

In the case of loss-making Aventura, Cosatu's investment arm Kopano Ke Matla was last September chosen as a preferred bidder for 85% of Aventura for R93m with the 15% balance going to the National Empowerment Fund (NEF).

But the deal hit snags when its backers, Malaysian-owned Samrand, pulled out. Absa and JCI stepped in as possible financiers. In April, government finally cancelled Kopano's acquisition after it repeatedly failed to meet payment deadlines. Kopano claimed Aventura's liabilities of R90m by

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February compared to R64m last April were too onerous.

The collapse of the deal has negative ramifications for future bids for State assets by union black empowerment companies.

It leaves government with a few options. It could give the current management team the right to run the business. Alternatively, a new management team could be brought in with a mandate to restore Aventura to profitability. The State could also place Aventura on the market again or sell its resorts and land holdings piecemeal.

In its 1998 financial year Aventura's larger losses (R8m) were off higher turnover and assets that increased to R146m (R137m) and R111m (R108m) respectively.

Pre-marketing started in March for the sale of State forests held by Safcol (the SA Forestry Co) and related assets. The transaction is expected to be finalised this year. Safcol assets will be combined with half of the former homeland forests.

Government is offering 75% of its forest assets worth an estimated R1bn-R1,5bn to the private sector. The underlying land is not being sold but the assets are being offered under long-term leases with a minimum of 10% of this reserved for empowerment groups. The remaining 25% would be offered to employees, the NEF (10%) and government. The forests include all those of Safcol and 60% of the commercial forests managed by the Water Affairs & Forestry Department.

Bidders have a choice of bidding for any or all of the seven packages that have been identified.

In its 1998 financial year Safcol made a smaller R9m profit (R22m in 1997) on a slightly higher R569m turnover (R558m) and reduced asset base of R808m (R810m).

Government has also awarded

PROCEEDS OF THE RESTRUCTURING OF STATE ENTERPRISES

R million	Date of transaction	Stake sold	Proceeds from sale of assets	Proceeds paid to exchequer to reduce debt
Sun Air	Nov 1997	100%	42,1	21,1
Telkom	May 1997	30%	5 630,5	1 165,4
SABC Radio Stations	Mar 1997	100%	510,4	510,4
Airports Company	Jun 1998	24,2%	991,3	991,3
Total			**7 174,4**	**2 688,2**

Source: Department of Finance

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a two-year management contract for Alexkor's operations to Nabera, an empowerment mining and union consortium. Negotiations are also underway to determine how the noncore mining activities should be restructured and managed to eliminate the recurrence of irregularities. Much needs to be done. Over the financial year Alexkor saw a deterioration in its profits, turnover (from R189m to R175m) and assets (from R229m to R200m).

Government has corporatised national air carrier SA Airways, split it from holding company Transnet and intends to sell a 30% equity share this year to an international equity partner. SAA is talking to six bidders. Up to 49% of SAA could be sold if government allocates a stake to the NEF and employees.

SAA expects to report a lower loss than its R244m loss in financial 1998 despite a R247m loss in the first half of this financial year. In 1998 its turnover rose to R6,4bn (R5,7bn in 1997) and its assets are valued at R6bn (R5,3bn).

SAA's sale has been facilitated by the acceptance of the principle of burden-sharing in respect of the obligations of the Transnet pension fund shortfalls. Government will take over R1,3bn of the debt attributable to SAA, subject to an agreed strategy to ensure an offsetting revenue stream to government through the further restructuring of the Transnet group.

Transnet's other core business units are also being restructured.

In the case of its most successful unit, Portnet, it has proposed that the State continues to own the space (land, sea, sand) but sells the port equipment and secures long-term leases for the land.

As part of the plan, Transnet hopes to establish a National Port Authority responsible for the operators, marketing of the port and provide basic services and revenue collection. To maintain control over the port function, Transnet has ruled out a sale of all Portnet's assets which would have netted R12bn-R25bn. Asset sales should still bring in around R3bn.

Portnet is toying with the idea of splitting up its operations into operating, consulting and port authority. In 1998, its profits fell to R1,65bn (R1,7bn) while turnover rose to R3,8bn (R3,6bn).

The corporatisation and restructuring of Transnet's noncore business units has been agreed. Assets expected to be sold include passenger and cargo transporter Autonet, transport equipment manufacturer Transwerk, management services company Protekon, Connex Travel, baggage handler Apron Services and Production House.

The possibility of merging Transnet's telecoms and IT activities with similar networks of other public enterprises is being evaluated with a view to creating a new player in the communications industry.

Government is reviewing options to restructure the arms industry, including the merger and sale of Denel Informatics and Transnet's Datavia. The process of corporatising Denel Aerospace as a stand-alone company is also expected to be completed by May and then it is to be partly sold to a foreign strategic equity partner and empowerment group.

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Then four foreign groups are short-listed for a management partnership with the State-owned Post Office — Canada Post; La Poste; Deutsche Post; and a joint venture with New Zealand Post and Royal Post.

The Eskom Amendment Act passed last year took the process of restructuring SA's electricity supplier further. The Act vests ownership of the equity in the State and revokes Eskom's exemption from the payment of income and other taxes.

The national electrification programme, through which 2,3m households have been electrified since 1994, is to be restructured and refocused with the objective of giving more attention to rural areas where 38% of households have electricity compared to 80% in urban areas.

Government and Eskom have made it clear that the electricity utility will not be privatised. This is partly due to trade union pressure but also relates to Eskom's ability to keep the cost of electricity low in international terms.

Privatisation is unlikely soon as Eskom provides the social service of electrifying poor and rural areas.

Eskom's net income dropped from R3,1bn in 1997 to R2,7bn last year though its turnover rose from R20,4bn to R21,1bn and its assets grew from R65,3bn to R70bn.

But the door to competition is opening first in the supply sector followed by generation and transmission.

Last year's draft White Paper on energy proposes that the supply industry be consolidated into five financially viable independent regional distributors owned by municipalities and Eskom. Control of all distribution network assets must pass to the companies.

Out of the 400 or so municipalities that distribute electricity, almost 290 earn under 1% of the total surplus earned by municipal distributors. The bottom 25% actually lose money on their electricity sales. Four municipalities earn 50% of the total surpluses.

Also attracting attention this year is the SA Special Risks Association (Sasria), established in 1979 to insure against loss of property due to riots and which government underwrites.

New legislation provides for the conversion of Sasria into a public company owned by the State. In terms of the legislation, government can appoint an independent actuary to advise on the portion of the reserves, currently over R10bn, that the converted Sasria will require to continue its business. A dividend may then be declared to be paid from the excess reserves to reduce public debt.

Another key legislative move over the year is final approval allowing for the NEF. The fund, announced in 1996, wants to give black business communities a stake in the economy. It will buy shares in privatised utilities — including 10% of Telkom, 15% of Sun Air, 15% of Aventura, and 10% of the Airports Co and Safcol — at a discount of up to 20% and resell them to empowerment institutions.

The NEF has bought 1,5% of cellular network operator MTN and is in line for 5% of the national lottery.

The fund is divided into three areas:

- An investment trust will build a share portfolio in privatised parastatals, selling small parcels of shares to blacks;

- Another trust will target second and third generation black consortiums; and
- A third trust will focus on bolstering small- and medium-sized enterprises with the IDC a core investor with R100m.

At local government level, the Greater Johannesburg Metropolitan Council (GJMC) has started talks with trade unions in an effort to agree on the proposed sale of council assets including Orlando and Johannesburg stadiums. The GJMC also intends to privatise Metro Gas, Rand Airport and the fresh produce market. These represent about 3% of the GJMC's assets.

Public-sector firms have raised their presence in the local capital market. The Industrial Development Corp (IDC) has launched a new DMTN (domestic medium-term note) debt instrument that enables it to borrow R3bn. This signals the IDC's return to the local capital market after 15 years.

Then the Development Bank is raising R500m through the issue of a five-year floating rate note (FRN), an effective variable interest bond.

Another emphasis of government over the year is around corporate governance. In line with the private-sector trend towards corporate governance, government has developed a Protocol on Corporate Governance for the wider public sector, including decentralised government agencies that are not subject to ordinary treasury control.

Public bodies are now required to provide information to the Department of Finance on financial performance and risk. The Protocol also includes guidelines on the composition and management of boards, arrangements for audit, tax and dividend policies and business plans.

Though this list is limited, it is a start. Government reports progress has been made in collecting this information and analysing the financial performance and risk profiles of the larger public entities. Other initiatives it cites include the co-ordination of financial market access by public entities, the lengthening of debt maturities, setting of benchmarks and reducing the dependence of public bodies on government guarantees.

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