TOP COMPANIES

PUBLIC-SECTOR CORPORATIONS

# It's a difficult balancing act

Public corporations are on a tightrope — at one end they have to provide delivery; at the other profitability

**As attention** focuses on the accelerated pace of restructuring SA's state-owned corporations, their critical dilemma is in balancing government demands for delivery of often unprofitable social services and affirmative action with demands to become profitable and commercially viable.

Of the 23 public corporations on our list (this year we exclude the Industrial Development Corp's main subsidiaries as it does not provide the data), 11 public corporations experienced a deterioration in their net income during their 1999 financial year compared to the previous year. This includes the three giants — electricity supplier Eskom, transport group Transnet and telecoms group Telkom. Five saw their asset bases erode and six realised a lower turnover.

Eight public corporations on our table made a loss (seven last year) in their last financial year.

SA Airways (SAA) and Armscor have returned to profitability while Spoornet, Autonet and Denel have gone into the red. The most dramatic turnarounds are at SAA, which turned a R244m loss into a R51m profit, and rail group Spoornet, which turned a R573m profit into a R135m loss.

Besides SAA and Armscor, only two of the major lossmakers of 1998 have succeeded in reducing their losses during their 1999 financial years. This leaves arms manufacturer Denel as the biggest lossmaker on our list (R378m for its 1998 financial year).

Three public corporations are heavier into the red. Abattoir group Abakor's losses have grown from R55m to R77m, holiday resort group Aventura's losses are R18m compared to R8m in 1998 and Northern Cape diamond mine Alexkor extended its 1997 loss of R11m to R23m in 1998.

In 1998-1999 public corporations and central government enterprises recorded a R6,9bn deficit to cover both operating losses and investment requirements. Government expects borrowing by public enterprises to be lower in 1999-2000 and to increase to an annual R3bn-R4bn in 2000-2001 and beyond.

Telkom (R2,4bn) overtakes (Eskom R2,2bn) to head the table on net income. Transnet's net income plunged 36% from R2,2bn to R1,4bn, following a 27,5% dip in operating profit from R3,4bn to R2,5bn. If Transnet's R1,4bn contribution to the pension and medical aid funds is included the transport group returned to the black with R426m compared to a small R278m profit in 1998 and after losing R170m in 1997. Retrenchment costs amounted to R400m.

The biggest plunge is at Spoornet. A R135m loss pushes it from fourth place to 17th. Portnet's profit declined to R1,4bn from R1bn. Petronet and Metrorail improved their performances and Fast Forward showed a smaller loss (R276m).

On the asset side, the top 10 are unchanged. Eskom (R75bn), Transnet (R49,5bn) and Telkom (R37bn) are the giant public corporations. But the order has shifted. In particular, Spoornet has dropped to seventh position from fourth (its assets have declined to R14,8bn from R19,7bn) and the Land Bank moves to fifth place from eighth last year.

By comparison, SA's largest private company is Old Mutual, with assets of R380bn. Eskom is 10th on the SA giants table.

Transnet again tops the list on turnover (R23,8bn) but Telkom (R22,7bn) has now overtaken Eskom (R21,6bn).

The total number of employees of the public corporations on our table has dropped from 347 000 in the 1999 table to 335 000 this year. The largest employer is still Transnet but its employee numbers are now under 100 000 (94 600). Of the major public corporations only Telkom has seen a rise in the number of its employees to 63 700 from 57 500.

Government appears to have stepped up the pace for restructuring its state-owned assets.

One of the first measures taken by President Thabo Mbeki when he assumed the presidency last June was to upgrade the Department of Public Enterprises (DPE) to a fully fledged national department headed by a director general. The DPE's budget was ad-

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justed to an annual R50m (R14m was provided in the 1998-1999 fiscal year).

This was followed by a Cabinet decision in December to concentrate the restructuring programme on the big four parastatals — Eskom, Transnet, Telkom and Denel. Of the top 30 State-owned enterprises these four account for 91% of the assets, provide 86% of turnover, contribute 94% of net income and employ 77% of employees. This is 5% of SA's total non-agricultural employment.

The four utilities are expected to enter into a shareholders' compact that will commit them to indicative targets to be reached within four years. These compacts will define performance measures between the four entities and the shareholder.

Government's proposal for Eskom's reshape involves gradually introducing competition to the generation, transmission and distribution sector by unbundling the utility.

It suggests that Eskom's 24 power stations, valued by some analysts at about R100bn, should be split into a number of competing companies and an independent transmission company be established that could be partially sold or listed in the future. Though an equity partner for the R20bn transmission group in the longer term will be considered, privatising Eskom is not on the cards.

Eskom has indicated that it wishes to retain the generation company as a single entity for the next three years at least to ensure it remains viable.

Though government's original plan was to deal with the urgent needs of the electricity distribution industry, it is now giving more attention to electricity supply reform.

Investment decisions in new capacity have to be made by 2003. The big question is whether the risk should be taken up by the private sector or the State.

Eskom is in the process of being set up as a limited liability company that will pay tax and dividends. This makes profitability a key issue. The utility has posted two consecutive falls in profits, 12,4% to R2,2bn in the year ended December 1999 following a drop from R3bn in 1997 to R2,8bn in 1998. It expects profits to grow this year. Eskom saw a 2,3% rise in net revenue to R21,6bn as sales grew 1,1%, a turnaround from the negative sales growth of 1998. Net profit was hit in part by higher operating expenditure, which rose 11,7% to R17bn. This is largely the result of "separation packages", which saw the utility reducing its work force to 34 000 employees from about 37 300 in 1998. Eskom's profits are also linked to aluminium smelting and ferrochrome production, which have come under pressure.

# SA MEDIA

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| Ranked by | | | | Total assets | | Turnover | | Net income | | Employees | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Rm | | Rm | | Rm | | | | |
| Assets | Turn-over | Net income | | Latest | Previous | Latest | Previous | Latest | Previous | Latest | Previous | Financial year-end |
| [illegible] | | | | | | | | | | | | |
| 7 | 4 | 20 | Spoornet | 14 827 | 19 727 | 9 013 | 8 875 | -135 | 573 | 43 736 | 47 782 | Mar 99 |
| 8 | 7 | 4 | Portnet | 12 478 | 5 570 | 4 000 | 3 845 | 1 383 | 1 653 | 11 921 | 11 948 | Mar 99 |
| 9 | 5 | 13 | SAA | 7 795 | 6 011 | 7 664 | 6 364 | 51 | -244 | 10 331 | 10 235 | Mar 99 |
| 10 | 8 | 23 | Denel* | 4 353 | 4 253 | 3 177 | 3 013 | -378 | 82 | 13 700 | 14 200 | Mar 98 |
| 11 | 15 | 8 | Petronet | 3 193 | 1 494 | 724 | 636 | 392 | 321 | 663 | 620 | Mar 99 |
| 12 | 12 | 10 | Rand Water | 3 015 | 2 702 | 1 823 | 1 943 | 120 | 267 | 3 300 | 3 400 | Jun 99 |
| [illegible] | | | | | | | | | | | | |
| 19 | 18 | 21 | Fast Forw | 206 | 261 | 453 | 536 | -276 | -322 | 2 990 | 3 920 | Mar 99 |
| 20 | 20 | 17 | Alexkor* | 200 | 229 | 175 | 189 | -23 | -11 | 1 078 | 1 355 | Jun-98 |
| 21 | 21 | 19 | Abakor | 166 | 115 | 148 | 290 | -77 | -55 | 451 | 2 200 | Jun 99 |
| 22 | 22 | 16 | Aventura | 109 | 111 | 144 | 146 | -18 | -8 | 2 100 | 1 610 | Aug 99 |
| 23 | 23 | 12 | Metrorail | 69 | 139 | — | — | 54 | 41 | 9 781 | 10 019 | Mar 99 |

*Safcol, Alexkor and Denel declined to provide figures for 1999.
Notes: By including the holding company and its subsidiaries the table double counts Transnet.

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Though Transnet's R700m loss for the six months ended September last year (from an interim loss of R133m the previous comparable period) is expected to have fallen in the full year to March, government has made it clear that a big reshape is in the pipeline.

The troubled Spoornet, which accounts for R266m of Transnet's R700m six-month loss, has proposed a significant overhaul that includes leasing about half of its freight rail network to private operators. This comes as Spoornet expects to lose R200m for the year ended March 2000 after its R135m loss for the previous year.

Spoornet recorded an operating profit of about R580m this financial year against R337m in 1999 on turnover of almost R10bn from R9,6bn previously.

Outside Spoornet, Transnet is selling a majority shareholding in its medical aid administration division Transmed as part of an ongoing programme to sell its non-core assets.

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Telkom's initial public offer next year is likely to amount to 20% of the company's shares, which could bring in as much as R4bn for government. The questions are about where the listing will take place, and when Telkom's monopoly will come to an end, either in 2002 or 2003.

Denel is likely to get a strategic equity partner, probably foreign, with up to 20% of the arms manufacturer expected to be up for sale. Government has appointed an adviser to review restructuring options. Denel will be corporatised by October.

The first strategic partnership agreement was signed this year for Denel Aviation to supply gearboxes to international conglomerate Rolls-Royce in a R200m deal.

The regulatory environment is being strengthened as new approaches to public utility regulation evolve. The National Electricity Regulator (NER) replaced the Electricity Control Board to oversee the industry. The SA Telecommunications Regulatory Authority (Satra) was created to promote competition and universal service while protecting consumer interests through fair pricing. In the water sector, the National Water Act has resulted in the establishment of new structures, such as Catchment Management Agencies, to manage and allocate water rights.

A key legislative move during the year is final approval allowing for the National Empowerment Fund (NEF). The fund has an asset value of over R2,2bn. Announced in 1996, it seeks to give black business communities a stake in the economy. It will buy shares in privatised utilities — including 10% of Telkom, 15% of Aventura, 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% in cellular network operator MTN and is in line for 5% of the national lottery.

DPE is investigating instruments to broaden the scope of empowerment, including the use of the NEF's unit trust structure. The aim is to go beyond the restrictive use of shareholder stakes and absentee partnerships to ensure black entrepreneurs participate in operational management as well.

Up to now government's record has been the partial sales of Telkom, the Airports Co and SAA to foreign consortiums, the complete sale of six radio stations, airline Sun Air and several of Denel's interests, the placing under management contracts of diamond mine Alexkor, resort group Aventura and the Post Office and the selection of preferred bidders for the state's commercial forests.

A total R8,6bn has been raised from asset sales, mainly from international equity partners, of which R3,3bn has been paid to the exchequer to reduce debt. This has allowed a further R6,2bn in debt to be redeemed.

Current public-private partnership transactions include two new prisons to be built in terms of asset procurement and operating partnership contracts; the reconstruction of the N4 road linking Gauteng and Maputo, and the further development of the N3 national road between Heidelberg and Cedara. A Public-Private Partnerships Unit is being established in the Treasury.

In 1998-1999 government received R476m in dividend payments which increased to R610m in 1999-2000.

During 1999 the Central Energy Fund paid a first dividend of R180m, a special restructuring dividend of R6,2bn was paid by Sasria, which now pays normal dividends to government based on its profit levels. Legislation was passed, which forms the basis for negotiating the revoking of Eskom's tax-exempt status and dividend payment and the Development Bank of Southern Africa accepted the principle of becoming a tax and dividend paying entity.

Last year, parliament passed the Public Finance Management Act (PFMA), which sets out a framework for modernising the financial management of national and provincial departments, government agencies and public enterprises. This includes tax and dividend policies, and a code of corporate practice and conduct. The objective is to enable managers to manage and hold them accountable. **Simon Segal**