TOP COMPANIES

PUBLIC-SECTOR CORPORATIONS

Pain and gain with changing of the guard

Major change has already taken place but there is still more to come as many public corporations bite the bullet

Public-sector corporations have been forced into far-reaching changes, their dilemma being balancing government demands for delivery of unprofitable social services and affirmative action with demands to become profitab[le] and commercially viable.

The results for employ[ees, con]sumers, taxpayers and p[rivate] investors are mixed.

Of the 28 public corporations on our list probably seven, depending on the SABC, made a loss compared to five last year.

The State broadcaster, now with a March year-end that makes its latest financial results for an 18-month period, has returned to operational profitability after losing R60m in its 1996 financial year. But it could report a loss if it writes off R70m on its AstraSat satellite venture. It has retrenched 1 000.

The most serious losses are at the Post Office with R702m after interest and before the R605m subsidy. The PO has been the subject of a due diligence exercise to evaluate its potential for "restructuring". Price Waterhouse and Ebony Financial Services found the government department could break even within three years if government is prepared to inject capital. The PO says it will break even next year and earn profits within three years.

Other major losses are at Transnet's PX (R489m) and SA

Airways (R323m). Despite these, Transnet was able to report a modest 7% increase in net income to R1,9bn thanks largely to Portnet (up from R1,4bn to R1,7bn) and Spoornet (R712m compared to R98m). But with the group's R2,1bn contribution to the pension and medical aid funds, Transnet still made a net loss of R170m (less than the previous year's R253m).

Of last year's list that made net income losses, only the IDC's Atlantis returned to profitability (R20m). Aventura and SAA are new to the loss-making group. In total, 13 of the public corporations report reduced net income from their previous financial years.

Only Denel and the IDC's Konoil record a drop in turnover while Abakor, Denel, Spoornet, the PO and Alexkor have lower net assets.

The top five public corporations in terms of assets are unchanged, still headed by Eskom (R57bn) and Transnet (R41bn).

These are also the largest in terms of turnover. Eskom has the highest net income (R3,1bn) but Telkom (R1,95bn) now has a higher net income than Transnet (R1,93bn). Armed with its new foreign shareholders, the telecoms group plans to raise R20bn (US$4bn) on the local and international market over the next four years to fund its expansion programme. Telkom has a favourable BB+ international rating from Standard & Poor's. A listing is being looked at for around 2002.

Of the top four public corporations in employee numbers, only Telkom is employing more people than the previous year.

The big issue for publ... orporations is their relationship to the private sector, be it in the f... m of asset sales or partr... ips. Privatisation, more pa... to the ANC government, is slow.

Over the past financial year government received R1,7bn from the sale of State assets: R1,2bn ($261m) for 30% of Telkom to SBC/Telekom Malaysia (a further $1bn went to Telkom to recapitalise its business), R510m for six radio stations (R516m was budgeted) and R21m as partial payment for Sun Air (50%).

Sun Air was sold to a consortium comprising Rethabile Consortium, Co-ordinated Network Investments and Comair for R124m. The deal includes taking over R74m in debt.

Subsequent to the financial year, a 20% stake in the Airports Company was sold to Aeroporti di Roma for R819m. Six foreign operators prequalified. The Airports Co is the healthiest of government's entities scheduled for privatisation. Bidding was the most competitive of government's privatisations.

Government valued the company at over R2bn. In the year ended March 1997, net income was R123m (pre-tax R298m), with this year's pre-tax profit expected to come in at R350m. Revenues last year were R578m (estimated R700m for the current year).

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Before the deal the price of the sale was estimated to be R1bn-R1,5bn.

Government offered an initial 20% shareholding to a strategic equity partner (SEP), with an option to buy 10% in two years' time; 10% to the still to be formed National Empowerment Fund (NEF); and 9% to staff under an equity share option scheme.

For the next three years the Medium Term Expenditure Framework is silent on privatisation proceeds.

Information services group BusinessMap is willing to open up the betting with a figure of around R2,5bn for this fiscal year.

Including the Airports Co, eight companies are earmarked for restructuring this year with private-sector involvement. But fewer are likely to go through a privatisation in the 1998/1999 fiscal year. Denel and Alexkor are earmarked for a restructuring, while SAA, Autonet, Safcol (SA Forestry Co), Aventura and Abakor are scheduled for full or partial privatisation.

Denel's privatisation will start with the sale of its IT arm Denel Informatics.

The sale of Alexkor, the West Coast diamond mine, has been complicated by the difficulty in ascertaining a value. Government has been jittery about the risk of rich deposits being discovered after a sale. Now, there is a proposal for a phased approach towards privatisation with the private sector coming in through management contracts, rather than as shareholders.

In phase one, the company will be organised into three operating units: marine mining, land mining, and development of new businesses. Contractors will be expected to procure funding for exploration programmes, and to assume full operational control of the business. During this phase, government will retain the equity.

Phase two will see contractors and certain stakeholders (including labour) share in the equity or profits of the relevant business, with government continuing to be a minority shareholder.

Only in the third phase will government sell its remaining shares to stakeholders or the public, but retain ownership of the mineral rights.

SAA will be a difficult privatisation. Due diligence exercises may result in a drop-out rate among bidders, and hence a less competitive process than for the Airports Co. In the year end-March 1997, SAA reported turnover of R5,7bn (R5bn in 1996) but moved into a net loss position of R323m from a R324m profit in 1996.

The first sale of a Transnet asset is likely to be 49% of SAA. Of this up to 25% is expected to go to a SEP. The transaction is still expected to go through before the end of the fiscal year in February 1999. Interested parties are said to include British Airways, Virgin Atlantic, and Lufthansa.

The price that is seen as realisable is around R1bn.

Transnet's cargo and passenger transporter Autonet is a possible privatisation customer before year-end, with an estimated value of R100m. Each Transnet division is earmarked for corporatisation. Its port division, Portnet, is scheduled to be split into two entities to separate its port authority and operational elements.

For the first time the table can incorporate Transnet's subsidiaries thanks to the greater details in its financial statements.

This reflects the drive towards corporatising the business divisions of Transnet as a precursor to (full or partial) privatisation of

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the various entities. A steering committee is investigating the key complications of allocating Transnet's debt, the role of Transnet as a holding company and resolving its R10bn pension and medical aid fund deficits.

On the latter, options include changing the pension fund from a defined benefit fund to a defined contribution fund, cancelling the T011 government stock and transferring responsibility for many pensioners to the State.

Despite poor market conditions for timber — worsened by the Asian crisis — government says the privatisation of Safcol will not be postponed. Market conditions could mitigate against the company being sold as a single entity, and instead be parcelled up for sale. The idea of incorporating State forests (once under homeland governments) into Safcol is no longer being considered except for the Eastern Cape homeland forests.

Performance is slipping and net income dropped to almost R22m for the year to June 1997 (R38m in 1996). But for the same period turnover increased to R574m from R467m.

Safcol's restructuring will not see land sold, only the forests and operations, but probably leased on a 99-year leasehold basis. This avoids the restructuring process being stalled by any land claims.

About 70%-80% of Safcol is expected to be sold, with the black empowerment component not yet resolved and the SEP taking less than 50%. A R1bn price is thought reasonable, but some analysts reckon as little as R600m could be realised.

The State-owned resorts company Aventura says it has undergone a thorough restructuring in preparation for its privatisation, expected for later this year. Staffing levels have been reduced (from 2 100 to 1 600); a refurbishment programme has been implemented; the client base has been shifted away from the predominantly Afrikaans to a wider range of mid-income families; and changes in the bureaucratic management style and occupancy rates are evident.

Aventura has moved into the red, R18m (its first net profit was recorded for the year to August 1996 of R2m on a turnover of R124m). This is a 100% sale, which has been held up recently by land claims. An early estimate of the value of this privatisation is R50m, but only once the tourism resorts company proceeds decisively towards privatisation will the estimates of the value firm up.

Five consortia have been shortlisted for the bid: Cosatu's Kopano ke Matla; the SA National Civics' Organisation, Boiketlong Investment, Shomang Investment Holdings, and Phalafala Leisure.

Abakor, the State's meat processing company that operates 10 abattoirs around the country, is also being prepared for privatisation. A R55m debt to government will first have to be resolved before the company, said to be worth R110m, can be put up for sale.

Eskom will this year become a corporation with the State as 100% owners. It will thus pay tax, dividends and stamp duty. Any future sales of its assets are likely to start with distribution.

The electricity supplier's restructuring involves the consolidation of the electricity distribution industry into a maximum number of financially viable and semi-independent regional electricity distributors. Cost-effective tariffs, an electrification levy and a capped tax fee to fund municipal services will be introduced. Since 1994 Eskom has electrified 1,15m homes (273 000 in 1997).

The Land Bank announced a new orientation towards rural development and support of small farmers. It introduced a range of banking products which are directly targeted at farmers who do not have freehold title to their land, and whose rights are based on a range of formerly unrecognised agreements. The bank aims to target small borrowers directly and, together with the PO, to bring financial services to the countryside.

Also attracting attention this year is the SA Special Risk Association (Sasria), established in 1979 to insure against loss of property due to riots. It is underwritten by government and has accumulated R9,4bn in reserves. Government intends converting Sasria to a public company with the State as the sole shareholder. This will allow Sasria's surplus assets to be used to reduce State debt.

Cash-strapped provincial governments could also look to asset sales to help them out of their financial crisis. Most notably, KwaZulu-Natal is considering a sale of up to 24% of the KwaZulu Finance Corp, the privatisation of the nonresearch elements of the Natal Parks Board.

Revenue from privatisation has become an attractive motivation to drive the process as a result of the difficulties that government authorities are finding in meeting tight budget targets.

However, it remains to be seen whether this need will speed up the process — even if it means selling low — or whether it will cause prevarication where price expectations are not met.

The private sector needs more decisive leadership and action to retain keen interest, the State needs healthier competition in the bidding process and political interests need to see benefits for citizens through empowerment.

Public Enterprises is criticised for lacking strong, decisive and focused leadership. So line ministries, most notably Transport, have tried to fill the gap, creating serious political tensions.

The empowerment component to privatisations has not been finalised. Government is considering Esop schemes, but the financing of such a scheme is unresolved. Similarly, the NEF to hold part of the privatised assets earmarked for empowerment, remains outstanding. The NEF will no doubt be finalised before canvassing starts in earnest for next year's elections to allow the ANC to claim credit and progress.

The unions are still far from convinced about the merits of restructuring public corporations. Transnet, Safcol and Alexkor have all had clashes to sort out.

A key union gripe is around government spending on advisers while unions have to do with less.

Privatisations are to some extent a distraction. Government's priority with its corporations is more to extend the delivery of basic services by bringing the private sector into infrastructure projects. So business partnerships are encouraged between municipalities and private concerns for financing, extending, operating and the management of infrastructure services.

By April, about 18 pilot projects had been established including water, sanitation, refuse collection and transport projects. In the 1997/1998 financial year the private sector invested R1bn in these projects — R5 for every R1 spent by government.

In addition to these, the first major road construction and maintenance concession on the N1 opened to traffic last year. Construction will soon begin on the Maputo Corridor project.

In water, the Lesotho Highlands Project opened in January, funded by private-sector loans and paid for by user charges. Under the Asset Procurement & Operation Partnership (Apop) initiative, four prison facilities will be built and operated in partnership with private firms. The idea is that prison facilities — buildings, mines, ships etc — can be managed through a service delivery contract with a private sector partner.

Similarly, police stations and magistrates courts may soon be built and acquired by the private sector, if a proposal by Theta Securities and Cape-based Property Asset Managers is accepted. The proposal is for a bond that will finance the initiative, which should begin on a limited basis.

Another major emphasis of government is the restructuring of the public service, including "right-sizing". To this end the national Budget set aside R100m for State Expenditure to enhance financial management in national and provincial departments. An additional R300m (R200m to the Department of Education and R100m to the Department of Welfare) went to improving management and modernising information systems.

But realigning pay levels has led to a 30% rise in government's spending on personnel over the past two years. Government projects this increase to continue but at a less rapid pace.

Government is stressing that personnel management includes not only administration but the long-term management of human resources and investment in people. Within the public service, attention is turning to resource planning, career management and performance evaluation.

Government is moving away from central regulation and control of personnel policies. New legislation is being introduced to devolve greater autonomy and responsibility for the control and management of personnel resources from the centre to line departments.

Simon Segal

PUBLIC-SECTOR CORPORATIONS

Ranked by: Assets	Ranked by: Turnover	Ranked by: Net income		Total assets Rm: Latest	Total assets Rm: Previous	Turnover Rm: Latest	Turnover Rm: Previous	Net income Rm: Latest	Net income Rm: Previous	Employees: Latest	Employees: Previous	Financial year-end
1	1	1	Eskom	56 912	53 770	20 448	18 687	3 083	3 072	39 241	39 857	Dec '97
2	2	3	Transnet	40 925	40 239	20 140	17 934	1 930	1 798	110 358	113 634	Mar '97
3	4	6	Spoornet	20 263	20 761	8 336	7 704	712	98	60 476	63 063	Mar '97
4	3	2	Telkom	16 498	16 103	16 347	13 326	1 950	1 208	56 811	55 347	Mar '97
5	8	5	IDC	14 796	13 534	2 552	2 253	725	535	520	520	Jun '97
6	17	11	DBSA	7 949	6 676	567	465	103	114	492	527	Mar '97
7	9	12	Land Bank	5 810	4 391	2 037	1 737	97	178	1 294	1 285	Dec '97
8	5	26	SAA	5 320	5 175	5 680	5 013	-323	324	11 598	10 574	Mar '97
9	6	4	Portnet	4 863	4 369	3 [illegible]94	3 050	1 709	1 397	11 597	11 360	Mar '97
10	7	13	Denel	4 253	4 384	3 [illegible]13	3 401	82	379	14 200	14 150	Mar '97
11	21	18	Findevco	3 126	1 824	365	172	20	18	—	—	Jun '97
12	24	19	Impofin	2 978	2 923	207	203	9	8	—	—	Jun '97
13	12	9	Rand Water	2 844	2 435	1 076	949	228	244	—	—	Mar '97
14	28	7	Konoil	2 075	1 653	80	138	432	129	—	—	Jun '97
15	10	28	Post Office	1 572	1 703	1 990	1 747	-702	-536	30 000	23 015	Mar '97
16	18	8	Petronet	1 483	1 452	551	472	273	180	617	641	Mar '97
17	11	21	SABC*	1 200	1 032	1 700	1 652	**0	-60	3 100	4 667	Mar '98
18	15	10	Airport Co	1 119	981	578	455	123	134	—	—	Mar '97
19	14	14	Foskor	941	726	633	538	70	12	—	—	Jun '97
20	16	15	Safcol	810	761	574	467	22	38	5 560	5 020	Mar '97
21	13	17	Atlantis*	638	616	713	694	20	-44	2 200	2 200	Jun '97
22	22	20	Armscor	486	478	347	317	5	13	1 140	1 104	Mar '97
23	19	27	PX	330	282	541	517	-489	-433	7 643	7 978	Mar '97
24	20	16	Autonet	322	280	483	425	22	23	1 780	1 603	Mar '97
25	27	25	Sapekoe	162	174	98	122	-44	-21	10 00	10 100	Jun '97
26	26	23	Aventura	158	137	137	123	-18	2	1 597	1 469	Aug '97
27	23	24	Abakor	150	263	277	226	-22	-30	2 300	2 300	Jun '97
28	25	22	Alexkor	120	226	189	173	-11	-1	—	—	Jun '97

Notes: By including the holding company and its subsidiaries the table double counts Transnet and the IDC.
* Interim results. ** The SABC is expected to report an operating profit but write-off around R70m for AstraSat.

Source: Annual Reports/Companies