

COMPANY COMMENT

An industrial world full of black swans

ALUMINIUM producer Hulamin encapsulates many of the ills plaguing large South African manufacturers. To wit, the industrial world is full of black swans — unexpected incidents that can severely damage the financial results of companies. In its case it lost about 25,000 tons of rolled products production in the interim period to June. This was despite heading towards record output, before a 68-ton main motor seized.

In the past six months the company's share price has halved to about 450c. But the production outage came after the stock was already more than halfway down. A number of things stand out: the erratic background noise of global economic instability, Chinese imports and, specifically, the recent loss of rolled products production at its KwaZulu-Natal hot mill. Finally, and probably most pertinently, BHP Billiton is thinking of halting all sales of rolling-slab to Hulamin from its Bayside smelter in Richards Bay by the end of the year.

One can hazard a guess that Eskom's sky-high electricity prices may have something to do with it. To this end, Hulamin will need to look for other — more expensive — product supply for about 30% of its needs. Similar problems face SA's primary steel producer, ArcelorMittal SA. It has also had damaging production outages, and lost its domestic supply of zinc after Exxaro's Zincor refinery closed down last year.

The government says the problem is that companies are not investing in ageing plant. Industry says the state is oblivious to its needs.



MEDIA group Avusa, a JSE-listed company that owns half of Business Day, has not had a permanent CEO or independent chairman for 10 months. And for two successive reporting periods



— the six months to September last year and full year to March — profits have been dropping.

Despite the dearth of good news, some investors apparently still find Avusa attractive. In the past year, two companies (Capitau and Times Media Group) have made buyout bids. The belief is that it is a great collection of assets that are boxing below their weight and therefore need a turnaround strategy.

Oddly, last year Capitau offered Avusa shareholders R26 a share, R2 more than the R24 currently on the table from Times Media. Some shareholders who now support the Times Media bid, objected to Capitau's expression of interest for not offering enough.

Something has clearly changed, so whatever the outcome, it cannot be business as usual for Avusa if management is serious about turning the group's fortunes around.

Avusa needs shareholders with vision, not cabals that support or oppose bids for political rather than business reasons. A single strong shareholder with some media expertise could be the ideal solution — not one in search of a vanity project. A new-broom CEO from outside the group would also be preferable.

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