

BUSINESS DAY

Why should we believe BioScience this time?

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AS SCHOOLCHILDREN we used to sing “why the hell should we believe you” for no apparent reason when going on a school jaunt. Investors in BioScience may be thinking the same thing. Promises have often been made ... and broken. After endless sets of results reporting losses, the company has — at last — reported a profit, even if only R126561. This is better than last year’s loss of R6,1m. And, the CEO assures us the company has turned the corner. But Wellco shareholders have heard this refrain before. Two years ago it said it should return to profitability within two years after a headline loss per share of 16,74c. Auditors Deloitte said at the time there was “material uncertainty which may cast significant doubt on the group’s ability to continue as a going concern”.

Deloitte noted that the group had recorded a net loss of R34,7m for the year, much worse than the previous year’s loss of R7,1m. It also said that, at the end of that financial year, its current liabilities exceeded its current assets. Its turnaround plan centred on sourcing fresh capital, improving cash flows and rearranging its debt with creditors. Instead, the company in that form was killed off and resurrected as BioScience Brands, with an all-new team. In 2005, when Wellco listed, its shares traded at almost R1. When it was suspended by the JSE in the middle of last year for failing to abide by the rules, its stock was trading at 8c. When the company, now known as BioScience, was reincarnated in October, its shares opened at 8c. Yesterday, its shares were unchanged at 4c.

Perhaps if profit grows bigger, some faith might be restored. BUSINESS Connexion seems to have spent a long time, and an inordinately large amount of money, trying to bring itself back to health. Like several other hi-tech companies it implemented a turn-around strategy, and its financial figures are still burdened by the costs of implementation. Its net profit and profit margin are dominated and dented by the restructuring costs, with R24m incurred in the first half and up to R25m more in the second half. It’s ironic just how expensive this effort to save money has become. CEO Benjamin Mophatlane says the revitalisation plan can be accelerated in coming months now that the research has been done and targets fully articulated.

Don’t hold your breath. Mophatlane says it will be anything from 12-18 months more before the plan pays off. And by that time, the economic climate may have inflicted further damage as customers cancel or delay orders and insist on getting more while paying less. Business Connexion is in a vulnerable position, with its shares down 33% from a year ago. But whether it

remains a take-over target is debatable, with one source saying it is taking so long to get its house in order that potential suitors have begun to wonder how desirable the operations still are. GOLD is having a good run, rising from \$820/oz to \$940/oz over the past month. The rise is most probably due to the rising global economic uncertainty, but ironically what gold needs is for the global economy to start working properly.

On the assumption that gold works not only as a reserve store of value, but also as an inflation hedge, the near-term pressures on the gold price are actually down. BMO Capital Markets said this week gold appears to run ahead of its main drivers, since the dollar is strengthening and the short-term outlook for inflation is down. But as soon as the fiscal and monetary infusions introduced by governments around the world over the past few months start to work — assuming they do — then all of a sudden inflation will start looking much more likely. But when will that be? Not soon, is the short answer. As they say, the market has the ability to remain irrational longer than your ability to remain patient with your underperforming gold stocks.