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TABELL'S MARKET LETTER

June 25, 1954

Both averages reached new high territory for the move during the past week. The Dow-Jones industrial average reached the highest level since October, 1929 at the week's high of 335.09. The rail average, at 114.59, reached a new high since October 1930 and also penetrated the late 1952 high of 113.94.

The market has shown excellent action in its recovery from the mid-June dip and still appears headed higher over the near term. The rail average appears headed for the 120-122 area and, while there is no definite count indication on the industrial average, some individual industrial issues still indicate higher levels.

As readers of this letter know, I have been extremely bullish on the stock market since September, 1953 and I still continue to feel that, over the longer term, the market will move much higher. However, a word of caution must be injected at this point on the intermediate term outlook. The industrials have advanced almost eighty points or over 30% in nine months with no correction of as much as 5%. While a great many stocks have had only nominal moves and others still indicate moderately higher levels, an increasing number are reaching the upside objectives outlined by my work. On the favorable side, very few issues have as yet built up vulnerable top patterns. This will take some further time. The technical pattern, as it looks today, indicates some further strength followed by a long consolidation period before the advance is resumed. During this consolidation or adjusting phase I do not expect the industrial average to sell much below 300.

For intermediate term traders, the pattern suggests some profit taking on strength. For long term investors in good, sound equities, there is no reason to change position. After a consolidating phase, the market should move much higher.

Below is a write-up on American Potash & Chemical B. This stock was first suggested in the low 30s, but it still looks attractive for long term holding.

AMERICAN POTASH & CHEMICAL B.

Statistics

Current Market	49
Current Dividend	\$2.00
Current Yield	4.1%
Long Term Debt	\$2,700,000
Preferred Stock	\$9,200,000
Common (shares)	431,227
Net per Share, 1953	\$4.01
Net per Share, 1952	\$3.26
Sales - 1953	\$22,500,000
Sales - 1952	\$18,100,000

Market Range 1951-1954
49 3/4 - 28 1/4

I believe this issue is an excellent vehicle for long term capital appreciation. It combines a steady earning power in low profit-margin fertilizer chemicals with excellent growth potentials in higher profit fine chemicals and rare metals. The management appears to be embarked on a long range program to transfer the emphasis on the company's output from lower grade and lower profit margin products such as potash into higher quality chemicals. In 1953, the company devoted approximately 3% of its sales to research and it appears that research outlays have been stepped up this year.

Until 1930, the bulk of the potash used in this country had been imported principally from Germany. The only known domestic deposits were American Potash at Trona, California, on Searles Lake in the northern part of the Mojave Desert. At that time, these deposits were largely untapped because of inadequate refining facilities. In the last twenty-five years, the situation has radically changed. Discovery of large deposits near Carlsbad, New Mexico, and improved facilities have enabled the industry to reach a point where it is now able to meet virtually full domestic requirements. In addition to the American Potash operation, about 85% of the present industry output is contributed by three companies operating in New Mexico.

American Potash is the only producer of potash on the West Coast and supplies substantially all the potash requirements for that area. Unlike its competitors that operate in New Mexico, it recovers potash and other valuable minerals from salt brines pumped up from wells in Searles Lake.

There are no miners and no mine shafts and no ore mined. Huge pumps lift the brine through insulated pipe to the refining plant at Trona where, after a complicated refinery process, the minerals are extracted one by one. The principal products recovered are potash, borax, soda ash, salt cake and lesser quantities of bromine and lithium carbonate. These products are used in the manufacture of industrial chemicals, glass, soaps, detergents, kraft paper and board, pharmaceuticals, dyestuffs, porcelain enamels and for processing textiles, leather and oils and, of course, for agricultural purposes as fertilizer components and for the correction of soil deficiencies.

American Potash owns in fee 2,560 acres and holds, under long term leases from the United States, an additional 5,960 acres with rights of mineral removal. Reserves in the upper deposit, from which the company has extracted brine from the beginning of operations in 1913, are estimated to be sufficient for about 35 years of operation at the present annual pumping rate. The newly developed lower deposit is believed sufficient to meet estimated annual requirements of the new plant for over a hundred years.

American Potash's cost per ton of potash produced have remained high and will continue to remain above several other producers because of high fuel oil costs involved in the Searles Lake unit. This situation cannot be altered nor does it appear that natural gas will ultimately be a solution to lower costs. The management has, of course, recognized the cost problem and is attempting to upgrade the quality of its production by moving into higher priced chemicals where it can obtain the benefits of potentially higher margins.

The initial step in this program was the acquisition of Eston Chemicals, Inc. in 1952. Eston's products complement those of Amer. Potash as many of them are derived from the raw materials produced by the company. The company has expanded its research program. A new laboratory was opened in 1953 at Whittier, California, which supplements the Trona laboratory and pilot plant.

Research has been developing along several lines, but principally in chemicals based on boron and lithium. Boron is chemically related to silicon and may have complementary usages in the silicon field. Research in boron compounds has developed a refrigerant, a new chemical for fire extinguishing that is indicated to be vastly superior to carbon tetrachloride, a possible high energy jet fuel, and a water based paint with fireproofing qualities. Extensive research has also been done on lithium compounds. In order to increase the small by-product output of lithium, American Potash, along with American Metal Co. Ltd. and Selection Trust, Ltd., is participating in the development of a large lithium-beryllium property in Southern Rhodesia. Ore is now being marketed and the construction of a chemical plant for lithium salts is a probable near term development. While not an immediate addition to earning power, the lithium operations hold definite long term promise toward a helpful influence on earnings.

Prospects for 1954 are favorable. Net for 1953 equalled \$4.01 a share. For the first quarter of 1954, American Potash earned \$1.01 as compared with 96¢ a year earlier. Earnings of at least \$4.50 a share for 1954 appear to be a reasonable estimate. Dividends will remain conservative for some time to come. Average earnings for the past decade have been approximately a \$3.20 average with average rate of dividends of \$1.75. Company has operated at a profit every year since incorporation in 1926 and has missed only a few dividend payments. These omissions occurred in 1927, the first year of operation as a corporation, and during the depression period of 1932-1935. Since then, payments of at least \$1.50 have been made annually and in recent years have been at the rate of \$2.00 annually. Book Value as of December 31, 1953 was \$44.15. The stock sold at a high of 109 $\frac{1}{4}$ in 1940 and at 59 in 1945.

The stock has an exceedingly strong technical pattern for the long term. My projections indicate an intermediate term objective of 75 followed by much higher levels over the longer term. There is downside support around the 40 level in the event of a general market decline.

The stock has appeal as an equity in a company with a sound base in fertilizer chemicals. It has a stable earning power of \$3 to \$4 which nearly supports the current price of 49. In addition it offers the romance of potential growth in rare metals and fine chemicals. The small amount of shares outstanding is a favorable factor. The stock is available at a reasonable price to earnings ratio as compared with other chemical shares selling at a high multiple of earnings representing optimistic distant forecasts.

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