Walston & Co.

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TABELL'S MARKET LETTER

September 24,1954

Since the first of the year, I have issued special reports on ten stocks that I believed had both a strong technical pattern and an interesting fundamental and statistical background. Another such issue is reviewed below.

DRESSER INDUSTRIES

Statistics

Current Market	33
Current Dividend	$2.00
Current Yield	6.0%
Long Term Debt	$12,500,000
Preferred Stock	$4,773,000-A
Common (Shares)	1,300,000
Net Per Share,1953 *	$3.80
Net Per Share,1954 *	$5.00-E
Sales, 1953 *	$128,870,000
Sales, 1954 *	$130,000,000-E
Market Range,1951-1954	33 5/8 to 17¼

A - 47,730 shares of $3.75 Cumulative Convertible Preferred ($100 par) convertible into 2½ common through Sept. 15th, 1955.

* - Fiscal year ends October, 31st.

E - Estimated.

Dresser Industries is a growing company serving the expanding oil and natural gas industries. In recent years, the management has wisely shifted the emphasis from capital goods -- for which there is a cyclical demand -- to expendable goods for which there is a steady and more stable demand. Thus,it is estimated that such expendable items as drilling muds, drilling bits and repair parts now account to close to 50% of sales and capital goods items such as drilling rigs, pumps, engines, blowers and compressors account for the balance. Until recently, the latter items were by far the larger part of sales. This shift to expendable items should result in more moderate fluctuations in earnings and a higher evaluation of such future earnings.

The original Dresser Company dates back to 1880.The present Dresser Industries was formed in 1944 as a consolidation of S. R. Dresser and Clark Brothers, a wholly owned subsidiary. The company has grown, in part, through the acquisition of a number of companies, both prior to the consolidation and also after. All of these acquisitions were made on an exchange-of-stock basis. However, earnings remained low and the management, in order to obtain a higher profit margin and a higher return on invested capital, decided in 1948 to divest itself of some of its former acquisition. Three of its gas appliance subsidiaries were sold to Affiliated Gas Equipment in 1948 and the retail oil field supply stores were sold in 1951 and the Kobe division was sold this year. The only acquisition since 1948, but a very important one, was the Magnet Cove Barium Corporation, which was acquired in 1951.

Dresser Industries, through seven divisions and subsidiaries, manufactures and sells a wide range of equipment and supplies to mainly the oil gas and petro-chemical industries. The company's plants are decentralized and are spread from New York to California with the main facilities concentrated in the oil-producing areas of Pennsylvania, Texas and California.

The Clark Brothers division is the largest of the Dresser units. It is the leading manufacturer of gas engine driven compressors. These compressors are used in gas transmission systems for the movement of natural gas from the producing fields to the ultimate consumer and also in certain refinery operations. Clark has also invaded the industrial field with motor-driven compressors for compressed-air systems and other important industrial applications.

The Dresser Manufacturing division is also an important contributor to profits. It manufactures couplings for gas distribution systems. Couplings are used in gas distribution systems of every city in the country. Dresser also produces its product for general industrial use such as electric motor frames, dump car cylinders and rings for jet engines as well as housings for diesel-electric locomotive generators. Dresser has almost no competitors in the coupling field. Its principal competition stems from other methods of joining pipe.

The Pacific Pump division has an outstanding reputation as a manufacturer of high-pressure, high-temperature centrifugal pumps for refinery

use. These pumps will be found in almost every refinery here and abroad. A line of pumps for steam generation in electric utilities and a steam turbine for maritime use have also been developed.

The Ideco division manufactures oil and gas well drilling and production equipment. It also produces radio, radar, TV and microwave towers. Sales of this division are large, but competition from National Supply, U.S. Steel and Bethlehem Steel and independent producers is keen.

The Roots Connersville Blower division recently celebrated its 100th-year anniversary.This division manufactures blowers and exhausters for moving air and gases at low pressures and high volumes. It enjoys an excellent reputation, but meets stiff competition from Allis Chalmers, DeLaval Steam Turbine and Westinghouse Electric.

The two important contributors to the expendable goods side of the ledger are the Magnet Cove Barium Corporation division and the Security Engineering division.

Magnet Cove Barium Corporation sales have quadrupled in recent years. Its sole product is drilling mud. This product is essential to the successful completion of a well, particularly as wells get deeper. It is used to alleviate the surrounding earth formation pressures which increase geometrically with depth. Wells are being drilled today at increasing depths. The average well may use $2,000 of these various mud additives, but in extreme cases mud costs per well may exceed $100,000. Drilling mud is an expendable item, used up in the drilling process, so its sales are much more stable than those of heavy equipment. Due to increasing drilling depths, it would appear that the use of mud will increase much more rapidly than drilling activity, and as a result Magnet Cove has excellent growth possibilities. The division's principal competitor is the Baroid division of National Lead Company. There are a number of other mud additive producers who have a limited line and who serve primarily restricted local areas.

The Security Engineering division was acquired in 1945. It produces oil and gas well drilling bits and related drilling specialties. Its marketing area has been broadened from California to include the Rocky Mountain area and the Mid-Continent. Like drilling mud, drilling bits are expendable, and are worn out in drilling operations. Bit sales, like mud, are more stable than heavy equipment. Recent operations have been concentrated on the tri-cone drilling bit which was pioneered by the Hughes Tool Company. The Hughes bit has enjoyed patent protection since its conception, but the patent situation is no longer an obstacle and production in the Dallas plant of Security Engineering has increased. The present market for tri-cone bits is roughly $100 million a year and Security now has an opportunity to participate in this lucrative field.

Another development that could eventually result in higher earnings is the recent announcement that Atlas Corporation and the Argentine Government were reported to have agreed on a contract to develop the latter's oil resources. It was indicated that Dresser would be associated in the project.

Earnings have been showing a rising trend. Earnings for the nine months ended July 31st were $4.28 as compared with $2.39 in the 1953 period. Part of 1954 earnings were non-recurring, but net for the fiscal year ending October 31st should be somewhere in the neighborhood of $5.90 per share.

In July, the dividend was increased from 40¢ quarterly to 50¢, thus putting the stock on a $2.00 annual rate. Dividend payouts in the past have been modest and have averaged only about 35% of earnings.

The company's financial position remains strong. Cash alone exceeds total current liabilities by a comfortable margin and total working capital continues to increase.

With expendable items constituting an increasing portion of sales,it is to be expected that earnings in the future might be evaluated at a higher rate than in the past. An earnings projection of $7.50 per share over the next several years does not appear to be out of line. At a price-to-earnings ratio of 8-to-1, an average price of 60 appears indicated.

This checks with the technical pattern. The upside potential appears to be an initial 44 followed by a long term 60-70. There should be downside support at 28-27 in the event of a general market decline.

EDMUND W. TABELL
WALSTON & CO.

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