# Walston & Co.

MEMBERS NEW YORK STOCK EXCHANGE AND OTHER LEADING STOCK AND COMMODITY EXCHANGES

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**TABELL'S MARKET LETTER** February 11, 1955

The industrial average has now passed its January peak of 412.47 and has now reached new high territory at 416.55. The rails have failed so far to better the comparable high of 147.73, but are close to the past top and the technical pattern suggests that they will confirm the break-through in the industrials shortly. A failure to do so would be disappointing. The upside objective on the industrials for the next phase of the advance appears to be 425 and an upside breakout by the rails would indicate 152-155. If these objectives are reached, at least another consolidating period would be in order. As has been true for the past five years, extreme selectivity will continue.

## ALLEGHENY LUDLUM STEEL CORPORATION

Statistics

| | |
|---|---|
| Current Market | 45 |
| Current Dividend | $2.00 |
| Current Yield | 4.5% |
| Notes Payable | $29,556,000. |
| Preferred Stock (shs.) | 81,346 - A |
| Common Stock (shs.) | 1,689,360 |
| Sales, 1954 | $170 million |
| Sales, 1953 | $241 million |
| Net Per Share-1954 | $2.30 |
| Net Per Share-1953 | $4.40 |
| Mkt.Range,1951-1955 | 52 1/8-25 1/8 |

A -$4.37½ Cumulative Convertible Pfd. (no par) redeemable at $102.50 through Nov.1,1955

At 102 thru Nov.1,1956,then less Conv. prior to Nov.1,1961 into 2.08 common shs.

ALLEGHENY LUDLUM was reviewed in this letter about a year ago and the common stock recommended for purchase at the then current level of 32. Since that time the stock has broken out on the upside of the 26-39 area in which it had held since mid-1952 and has reached the highest price level since 1951 when it sold at 52 1/8. This is despite the fact that earnings for 1954 were sharply below 1953. The lower earnings of 1954 were largely the result of reduced demand for specialty steels in the first nine months of the year. The bulk of Allegheny's output is in specialty steels, such as stainless, silicon, alloy and tool steels. Sales weakness in these higher-grade steels was due to the defense stretch-out and reduced output of automobiles, appliances and farm equipment. Another major factor was the widespread move toward liquidation of inventories, both in the hands of ultimate users and in supply channels. Because of their high value per ton, alloy steels offer a ready target for purchasing agents anxious to slash their dollar values of inventories. However, just as alloy steel makers were hardest hit by inventory reduction in 1954, so their recovery is expected to be most dramatic in 1955. This is evidenced by the gain in earnings in the fourth quarter of 1954 when Allegheny earned $1.01 as compared with 76¢ in the corresponding period a year earlier. E.J. Hanley, company president, told the stockholders and directors on February 3rd that demand has improved for all products and particularly for flat, rolled steel where facilities are operating at near capacity levels. He stated that there is every indication that operations for 1955 will be substantially better than in 1954.

Earnings have also been affected by heavy accelerated amortization charges. The company has spent roughly $96 million since 1946 in plant expansion and improvement. This is equal to nearly $60 per share of common stock and makes Allegheny Ludlum virtually a new and more efficient company. This has resulted in heavy charges for depreciation and amortization. Certificates of necessity are held covering $55 million of new facilities of which about 65% may be amortized over five years. During 1954, deductions for accelerated amortization totaled $6,156,319. Had the company elected to forego accelerated amortization and take normal depreciation on facilities necessary to national defense, net earnings after related tax adjustments would have been increased by $1.19 per share of common stock. Total charges for accelerated amortization, normal depreciation, depletion and plant retirements during 1954 were $9.8 million or roughly $5.75 a share.