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TABELL'S MARKET LETTER

November 18, 1955

AMERICAN CAN COMPANY

Statistics

Current Market	46
Current Dividend	$2.00
Current Yield	4.4%
Long Term Debt	$65,000,000
$1.75 Cum.Pfd.Stock ($25. Par)	1,649,332 shs.
Common	10,885,591 shs.
Net Per Share, 1955	$3.00 (E)
Net Per Share, 1954	$2.53
Sales, 1955	$700,000,000 (E)
Sales, 1954	$652,400,000
Mkt. Range 1955-54	49 1/4 - 35 3/4

With the industrial average selling at a relatively high price times earnings ratio, it seems wise to recommend that new equity investments be limited to high quality stocks in companies with long unbroken records of stable earnings and dividends. American Can, which we are adding to our recommended list, is an issue of this type.

American Can is the largest factor in the metal container industry and, together with its principal competitor, accounts for over 70% of the total market. Its annual sales volume ranks it among the fifty largest United States industrial corporations. Its favorable trade position in a basic industry enables it to maintain a steady, growing volume of sales.

At its current price, American Can is selling at about 13 times earnings to yield about 4½%. On an earnings basis, this is not too far out of line with a ten-year average P/E ratio of 12.7 times and from a yield viewpoint, the income is extremely generous when compared to a ten-year average 4% yield. This would seem to be a low price to pay for a company which has been able to multiply sales better than two and one-half times since 1945 and at the same time suffer only a small shrinkage in profit margins.

Perhaps the reason that American Can is still on the bargain counter, even after a six-year bull market, is a tendency to regard 1952-1954 results as indicative of the company's future earning power. It can be shown that this is not the case. In 1954 especially, results were hampered by an unusually poor crop year and an unusually cold summer which affected beer sales. During this period, American Can was faced with heavy capital outlays which in 1954 ran to $36 million. As of this writing, a great deal of this capital expenditure has been completed and should begin to be reflected in expanded sales and earnings. This reflection should commence with 1955 earnings which totaled $2.46 for the first nine months and should better $3.00 for the year. Further advances are expected in 1956.

An expression of Management's confidence in the future was its declaration last month of a 50¢ quarterly dividend indicating a $2.00 annual rate. Since, based on 1952-1954 results, this would exceed the normal payout ratio, the indication would be that Management feels confident that future earnings will cover the dividend by a wide margin. It is interesting to note that, except for the war years with their accompanying shortage of tin, American Can has never been forced to cut its dividend since 1932.

It is true that American Can faces a number of basic problems. First of these is the ever-present possibility that the supply of tin may be cut off. It is estimated that only 20 years' supply of tin exists in the entire free world, and if the Far East sources of supply were cut off this would be decreased to 5 years. To meet this threat the company has organized an "Operation Survival". Under this operation constant research is being undertaken to cut down the amount of tin being used in metal cans. This has progressed to the point where the amount of tin in the average can has been lowered considerably and in certain specialized uses, such as motor oil cans, tin has been entirely eliminated in favor of an enamel lining. It is to be expected that the packaging industry will be able to cope with the problem of a depleted tin supply as the need arises.

On the plus side is the growth in use of all types of packaging. With supermarkets dominating the retail scene, a package must not only contain but also sell its product. Furthermore, with high consumer disposable income, the consumer is more disposed to pay a premium for con-

venience, such as that afforded by aerosol bomb cans for insecticide, shaving cream and other products.

Another plus factor for American Can lies in the inroads which metal containers may be expected to make on other types of packaging. Perhaps one of the most important of these inroads may be in the soft drink field. There has been disappointment recently over difficulties which have been encountered by canned soft drinks. In many cases, these have been due to the fact that the product marketed was unknown or even inferior. Another block to consumer acceptance of soft drinks in cans is and has been the excessive cost of a can as compared to a reusable bottle. With the recent general rise in the price of soft drinks, however, this cost becomes a smaller percentage of purchase price and is more liable to be borne by the consumer as a premium for convenience. It is easy to be disappointed by the progress which has been made so far and to forget the fact that development of a new market is a slow, gradual process. An historical comparison would be the growth of beer cans which has taken almost 20 years to reach its current status as the major beer container. It is quite possible that canned soft drinks will enjoy the same slow steady growth.

Meanwhile, research by American Can and its competitors is constantly developing new markets which, added together, present substantial growth potential. Among these are the aerosol bombs mentioned above, cans for frozen foods, fiber and metal biscuit containers and a host of others. These and new products still in the development stage present a picture of long-term growth.

From a technical point of view, the present upside objective for American Can is 63-70 with excellent support just below the current market at 42-40. The pattern could broaden and point to eventual much higher levels. On this basis, the stock would seem to be an excellent commitment for all types of investment accounts.

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