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TABELL'S MARKET LETTER

February 17, 1956

PAN-AMERICAN WORLD AIRWAYS

Statistics

Current Price	18
Dividend	80¢
Current Yield	4.5%
Long Term Debt.	$49,325,000.
Common Stock	6,091,822 shs.
Net Per Sh-1955	$1.75- E
Net Per Sh-1954	$1.71
Gross Rev.1955	$245,000,000-E
Gross Rev.1954	$218,900,000
Mkt.Range-1956-55	22 - 16 5/8

One of the most disappointing of this letter's recommendations has been Pan-American World Airways which has held in the 16-22 range for a period of 15 months. Part of the reason for this poor action may be found in the poor performance of the airline group. New relative strength of the entire airline group seems to be improving and their current fundamental cheapness would seem to justify contention that the air carriers are close to their lows. It is also possible to point out that PN now deserves a considerably better investment standing within the airline group than was formerly the case. The company was strongly dependent on a U.S.Government subsidy for profitable operations.This subsidy is now a negligible factor. This and other basic improvements would seem to make PN currently equally as attractive, if not more attractive,than the domestic trunk airlines.

Perhaps the most important recent development in the improved outlook for PN is the Dec.1955 C.A.B.'s decision setting a permanent subsidy rate of $9.9 million.This is based on a $14 million service mail pay rate and will be reduced by any excess of mail pay over this figure and by capital gains on sale of equipment.Since this is a permanent rate,there will be no recovery of previous years' subsidies,thus enabling PN to be positive what income its operations have produced during a given year. Furthermore,with a strong growth trend in gross revenues, PN will make a profit entirely exclusive of subsidy.

During previous years,growing revenues caused the C.A.B. to reduce subsidy so that little change in actual per share net was shown. With the subsidy now negligible, increase in revenues will go down directly to per share earnings. On this basis, taking the most reliable estimates of growth in air traffic, PN can be expected to earn close to $2.50 per share in 1956 and better than $3.00 for 1957.Since the stock is now selling at less than ten times current earnings and six times projected earnings two years hence, PN's growth potential would seem to be available at an unusually low price. Worthy of note is the fact that by 1960 PN will have the most modern airline fleet in the entire world. As the first airline to order jets, it will get first delivery, thus giving it substantial advantage over its competitors. Although no estimate can be made of jet cost,it seems logical to expect that they can be used to their greatest advantage over long-haul overseas runs.It must therefore be further assumed that the jet age will have a more favorable impact on PN than it will on the domestic trunks.

Worry has been expressed by some analysts as to the possible dilution of equity in order to finance jet purchases. While $269 million, the cost of PN's new jets, seems a large amount to spend,spreading this amount over five years of large cash flow earnings makes it loom a little less ominously. With the earnings projected above, it seems probable that PN will require no new equity financing in order to complete its jet fleet.

Another advantage which PN holds over the domestic airlines is lack of competition from other forms of travel - notably the automobile. There is a large school of thought which believes that each time overseas fares can be lowered a huge new segment of the population can be tempted to venture overseas. Increasingly favorable operating costs, plus possible economies to be realized from jets,seem to make such a future projection a possibility. It can thus be seen that the future growth rate for PN may well be substantially steeper than that which we anticipate.

Technically,the long term projection of our graphs continues to indicate a possible 45. With a $3.00-$3.50 earnings level foreseen for 1957 and with further growth in prospect as jets come into the picture,this projected price would require a P/E ratio of 15 or less. As the improved growth standing of PN (and the airline industry)becomes more obvious,such a ratio would not appear to be unduly optimistic.On this basis, we continue to recommend PN for substantial capital appreciation over the next few years.

EDMUND W.TABELL