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TABELL'S MARKET LETTER

April 20, 1956

WESTERN PACIFIC RAILROAD CO.

Current Price 72 3/4
Current Dividend \$3.00
Current Yield 4.1%
Funded Debt \$42,859,000
Equipment Oblig. \$15,099,933
Common Stock 566,367 shs.

Net per share, 1955 \$8.14 *
Net per share, 1954 \$6.90 *

Mkt. Range 1956-55 73 7/8-56 3/4

*Before Sinking Funds. Earnings after S.F. were \$6.86 in 1955 and \$5.62 in 1954.

Western Pacific, which has held in the 73-57 trading area for over fifteen months, is now showing signs of a possible nearby upside breakout. This would be a very encouraging technical development and indicate an advance to a higher price plateau.

The long term growth prospects of Western Pacific are very impressive. Reflecting rapid development of population and industry in the territory served, revenue growth is well above that of Class I railroads in the aggregate. Traffic volume will be substantial in the coming months, with the \$40 million Ford assembly plant at Milpitas, California, (near

San Jose) and other new industrial shippers affording considerable business. This growth is expected to continue and eventually top the \$59.2 millions of total revenue in 1953 generated by the unusual revenue bulge during the Korean hostilities because of movement of high-rated Government traffic. Total revenues were \$53.7 in 1955 and are expected to be higher in 1956.

Largely serving as a bridge-line carrier to the Pacific Coast, the company operates 1200 miles of first-line track. The main line of 927 miles extends from San Francisco-Oakland to a connection with the Denver & Rio Grande Western at Salt Lake City. While this route is longer than the competing 785 miles of Southern Pacific to Ogden, Western Pacific's route through the Feather River Canyon crosses the Sierra Nevada at a lower elevation and with less grades and curvature. Western Pacific also has its "Inside Gateway" route with 107 miles of main line from Keddie, California, to Bieber, California, which connects with the Great Northern to form, with the Santa Fe at Stockton, one of the two Pacific Coast North-South systems.

The traffic is almost entirely freight. Western Pacific operates only two passenger trains. One is the famous California Zephyr which operates at a profit. The other is a small RDC Budd Car which is run primarily for railroad personnel and operates at a loss. The freight traffic has been enlarged by an aggressive industrial department supplemented by acquiring land for industrial purposes to attract customers. This policy has paid and is evidenced by the large number of plants locating in San Jose, Stockton, Sacramento, Pittsburgh, Modesto and other localities.

Since coming out of reorganization in 1954, the company has ploughed back into property over \$50 a share in excess of dividend payout. This modernization program, which was stepped up when Mr. Fred Whitman was installed as President in 1949, is expected to continue. Just when it will be completed is difficult to ascertain, but it should result in a sharp increase in earning power with \$15 or \$20 a share as a possible projection. Progress has been substantial already. For example, the signal program has been practically completed. At a cost of over \$7 million, Centralized Traffic Control has been installed from Salt Lake City to Oakland and a modified C.T.C. has been installed on the San Jose branch to the Ford plant at Milpitas.

Western Pacific will receive a tax benefit of approximately \$5 million from the reorganization of the Sacramento Northern Rwy under which Western Pacific will receive 75,000 shares of the subsidiary's stock, its sole capitalization in return for over \$25 million securities in the old company. Just to what years this tax credit will be allocated is not certain.

The stock, in my opinion, possesses considerable merit for intermediate and long term appreciation. With the elimination of the preferred stock in 1954, further anticipated gains in earnings should result in a higher dividend payout. There is also the long term speculative possibility that Western Pacific can some time become part of transcontinental railroad system. The technical pattern is very impressive. The upside potential of the 73-57 area is 105-115 for the intermediate term. However, the broad range in which stock has held since 1951 suggests a much higher potential over longer term.

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