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TABELL'S MARKET LETTER

September 21, 1956

After backing and filling, the market declined sharply in the early part of this week and at the intra-week low of 482.86 was in the 490-480 support area. The market's action made it unlikely that the sell signal given on July 18th with the averages at 513.39 will be reversed for some time. However, at the week's lows many issues on our recommended list were close to support and could be considered eligible for purchase. It is to be remembered that selectivity will continue as the key to future action, and purchase of recommended stocks at their support levels should work out well in the long run.

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THE CARBORUNDUM COMPANY

Statistics

Current Price	42
Current Dividend	\$1.60
Current Yield	3.8%
Long Term Debt	\$7,964,826
Common Stock	1,717,711 shs.
Sales-1956-E	\$105,000,000
Sales-1955	\$89,830,000
Earn.per Sh.1956-E	\$4.25
Earn.per Sh.1955	\$3.01
Mkt.Range 1956-1951	45 1/8 - 21 5/8

Many investors are properly conscious of the growth potential inherent in atomic energy. Many fail to realize that future atomic expansion will in a large part be carried on by old established companies which have a long history in other fields of manufacture. Carborundum Company may well be such an organization.

Carborundum has for many years been a leading factor in the production of abrasives which are, of course, a necessity for the finishing of industrial products. Of late, it has been producing zirconium, a metal widely used in

atomic reactors for the AEC. It is felt that at current levels Carborundum is fairly priced as a maker of abrasives and that little allowance is made in the price for the growth potential inherent in zirconium and other new products. The stock is, therefore, recommended for purchase as a long term investment.

Carborundum has been producing abrasives and abrasive grains since 1891 and, together with one competitor, it dominates the abrasives field. Virtually every manufactured item in our economy requires abrasives at one stage or another of its production. This activity, which now constitutes by far the most important phase of Carborundum's business, has demonstrated moderate growth over the past few years at a rate somewhat faster than the FRB Index of Industrial Production. It should continue to expand at this rate in the future.

Working with abrasives naturally involves high temperatures and Carborundum has been working since 1922 with zirconium, a metal which has an unusual ability to withstand extreme heat. As atomic energy was developed in the post-war period, it also became evident that in addition to its heat resistant properties, zirconium also had the property of repelling neutrons rather than absorbing them, thus making the metal ideal for the lining of atomic reactors. Carborundum, through its subsidiary, Carborundum Metals, was the first commercial company to supply zirconium sponge to the Atomic Energy Commission. It is currently producing zirconium sponge at a rate estimated between 300,000 and 350,000 pounds annually and under a recently announced program, was given a contract to produce additional sponge at the rate of 500,000 pounds annually. This contract, in addition, carries an option for an additional annual rate of 400,000 pounds and industry sources feel that it is almost certain that the option will be exercised. Carborundum would thus retain its position as the largest producer of the metal.

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In order to exercise the contract, Carborundum is building a new plant at Parkersburg, West Virginia, with a capacity of 1.5 million pounds annually, thus allowing room for even further expansion. Although other producers were involved in the AEC contract, it is to be noted that Carborundum's established position in the field will probably give it a more favorable cost basis than its competitors.

Another bright spot in Carborundum's future is found in Fiberfrax, a ceramic fiber which has unusual insulating properties. It maintains all its properties up to 2300 degrees Fahrenheit, well above the limits of any other insulator including asbestos, and a furnace lined with it is able to reach operating heat twice as fast as one lined with conventional brick. After overcoming some initial production difficulties, Carborundum is now installing machinery for full production and over a period of time this metal may be expected to add to the company's profit potential.

Carborundum is excellently managed and financed. The president of the company, Clinton F. Robinson (Maj. Gen. USA Ret.) has a distinguished record as an administrator and engineer in both the U.S. Army Corps of Engineers and Infantry. A functional staff of specialists whose primary responsibilities are the development of policies and progress reports directly to him. Ownership of some 50% of the outstanding stock by various Mellon interests should insure adequate financing for expansion as needed.

At current levels, Carborundum is selling at fourteen times 1955 depressed earnings of \$3.01 and at ten times the \$4.25 estimated for this year. Over the past six years, Carborundum has been able to average about \$3.50 per share of annual earnings mostly from abrasives production, a figure amply covering the current dividend rate of \$1.60 and coming close to justifying current prices for the stock. Over a period of time it appears that zirconium, and other new products, will expand earnings substantially and that the stock has merit at current levels for participation in this expansion. The long term technical objective is 75 and strong support is encountered just below current levels. The stock is, therefore, recommended for purchase in investment accounts.

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