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TABELL'S MARKET LETTER

October 26, 1956

The industrial average, at the week's low of 478.29, has retraced about half of the sharp advance from the October 1st low of 463.83 to the mid-October high of 493.01. This appears to be a sufficient technical correction of the too rapid advance and the market should be in a position to move ahead again over the shorter term. From the present pattern of my technical indicator, it is probable that a buy signal will be given early in the week - possibly on Monday. The rise will be selective.

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TIMKEN ROLLER BEARING COMPANY

Statistics

Current Price	90
Current Dividend	\$4.00 - \$5.00
Current Yield	4.4% - 5.6%
Funded Debt & Pfd. Stock	None
Common Stock	2,421,380 shs.
Earnings Per Share-1956-E	\$10.50
Earnings Per Share-1955	\$9.13
Sales-1956-E	\$220,000,000
Sales-1955	\$196,100,000
Market Range, 1956	92 - 62½

Timken Roller Bearing is the country's largest producer of tapered non-friction roller bearings, supplying the major proportion of domestic requirements. Sales and earnings, while cyclical, have over a period of years shown an underlying growth trend due to the company's aggressive effort to diversify and broaden its markets. Thus, although the auto industry is the major customer, increasing amounts of bearings have in recent years been supplied to railroads, machine tool and industrial machinery manufacturers, road machinery and farm implement makers and the paper

and steel industries. Due to this diversification, 1956 earnings will better last year's \$9.13 per common share, despite the drop in auto industry output. Net sales will also be some 10% ahead of last year's \$196.1 million. A dividend payout equal to last year's \$4.00 is the minimum expectation with a strong possibility that a larger year-end extra may bring total 1956 dividends close to \$5.00 per share.

It appears that, due to increasing demand for Timken's products from a number of sources, the company may be embarking upon a new phase of growth. This growth can be financed entirely through internal means as the company's entire capitalization consists of 2.4 million shares of common stock and net working capital is a huge \$60 million or almost \$25 per share. The rising demand for Timken's products mentioned above can be expected to come mainly from two sources: the auto industry and the railroad industry. During recent years, under continuous urging by Timken, the auto makers have made a great deal of progress toward standardizing the number and type of roller bearings used in their cars. Due to this standardization, Timken has been able to construct a high-volume, almost fully automatic, assembly plant at Bucyrus, Ohio. It is understood that this plant has by far the most favorable cost structure in the industry and is able to produce bearings at record low prices. The plant was engineered and developed entirely by Timken and it is expected that it will enable Timken to capture a growing share of the auto market.

Perhaps the most dynamic expansion possibilities for Timken, however, lie in the railroad field. It is a commonly accepted fact that freight cars operating on roller bearings far more than justify their extra cost in maintenance savings as compared to cars equipped with the standard journal box friction bearing. Heretofore, railroads have been reluctant to equip their cars with roller bearings due to the fact that the cars might well spend a good portion of their life on other lines and little of the advantage would accrue to the railroad owning the cars. However, under constant prodding by the Association of American Railroads,

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the roads have of late been far more active in installation of roller bearings. This demand has been heightened by the fact that, with dieselization almost complete, the roads have more money to spend on other forms of capital improvement and by the fact that Timken has been able to sharply reduce costs of roller bearing installation. To supply the new railroad demand, Timken has made plans for an automatic assembly line at Columbus, Ohio, incorporating the advanced features of the auto bearing plant at Bucyrus. This facility will be in operation by mid-1957.

An idea of the potential size of the railroad bearing market can be shown by the fact that according to the latest figures there are more than two million freight cars operating in the United States. Of these, only 28,000 are now equipped with roller bearings.

Thus, Timken appears to be in a position where it will be faced with sharply expanding demand over the next few years. With finances more than adequate to meet any additional capital needs, the fruits of this demand should show up directly in per-share earnings. Another plus factor in meeting the demand will be the company's integration. It is currently, in addition to being a bearing manufacturer, an important alloy steel producer with an annual ingot capacity of 700,000 tons. About one-third of this capacity goes into Timken's own products with the other two-thirds being sold. As more bearings are produced, steel production can obviously be diverted to Timken's own uses and with the anticipated large demand for alloy steel continuing, profits should be realized by sale of the remainder of output. The outlook for rock bits, and other miscellaneous items, contributing a small portion to Timken's sales, also continues favorable.

As mentioned above, 1956 sales are estimated at \$220 million, with net earnings at between \$10 and \$11 per common share. For 1957, sales could well reach \$250 million, with earnings of \$13 to \$14 and continued expansion will probably be shown into 1958. A straight common capitalization and huge working capital position provide the stock with a high investment rating and permit a fairly high rate of dividend payout.

The nearer term technical objective is 104 followed by much higher levels over the longer term, with a price level of a possible 200 or more. There is strong support just under the current market.

The stock is recommended as an excellent vehicle for capital appreciation combined with generous income.

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