

Walston & Co.

Inc

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TABELL'S MARKET LETTER

May 6, 1960

Monday's decline to an intra-day low of 596.61 tested the March low of 596.20. The rail average also held above the March low of 137.63 at Monday's low of 137.77. Both averages advanced from the lows and closed higher on the week. The rally in the rails has just about broken the four-month downtrend line from the January high of 161.00. Ability to hold above the previous lows is an encouraging technical factor. Ability of the breadth-of-the-market index to show above average action would be, from a technical viewpoint, a most constructive development and would indicate a reversal of the downtrend that has been in effect since January. This has not yet occurred.

In the meantime, individual issues continue to move against the trend. In most cases, the new highs are being made by specialty growth issues and defensive groups rather than the "favorite fifty".

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BESTWALL GYPSUM COMPANY

Current Price 42
Current Dividend Stock
Current Yield None

Long Term Debt None
Common Stock 2,004,281 shares

Sales-1959 \$39,420,000
Earned per Sh.-1959 \$2.40

Market Range 1960-1959 45 3/4 - 33 5/8

Much has been written about the virtues of expansion from internal cash flow without recourse to outside financing. A company almost unique in this respect, whose potentialities seem unrealized by the market, is Bestwall Gypsum.

Bestwall is currently the third largest United States producer of gypsum products including wallboard, sheathing, and plaster. By the end of 1960, the company will have largely completed a program which calls for the virtual doubling of plant

capacity over that which existed at the end of 1958. This doubling of capacity will have been achieved without recourse to any equity financing and with no long term debt other than a relatively small line of bank credit. Some idea of the program's magnitude may be gained by examination of capital expenditure figures. In 1956, the company spent \$860,000. This increased to \$1,200,000 in 1957, \$1,820,000 in 1958, and \$6,880,000 in 1959. For 1960, capital expenditures have been budgeted at \$17,000,000. In 1959, Bestwall had sales of almost \$40 million and earnings after taxes of \$4,820,000 or \$2.40 per common share. Pre-tax profit margin was an extremely high 22 1/2%. It would be logical to expect profit margins to increase on the addition of so much new and modern plant, but even without this possibility, the potentials for sharply increased earnings are excellent.

It has been estimated that capacity for the company with all new plant completed is an annual volume of around \$80 million to \$90 million. Taking \$80 million of sales and applying a reduced profit margin of 20%, would result in per share earnings on the present common in the neighborhood of \$4.00. Applying a 25% profit margin to \$90 million sales could produce earnings of as much as \$5.50. It is estimated that this earning potential could be reached by 1964 at the latest, and possibly much sooner. Thus, the company has room to virtually double earnings in a space of less than three to five years.

The stock's technical pattern would seem to confirm an optimistic fundamental outlook. The stock has a potential objective of 67, with support at 40-38. With cash being reserved for expansion, no dividends are paid, but it has been the company's practice to reward stockholders with a small stock dividend each year.

Dow-Jones Ind. 607.62
Dow-Jones Rails 140.85

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