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TABELL'S MARKET LETTER August 26, 1960

The Dow-Jones Industrial average reached an intra-day high of 645.30 on Wednesday for an advance of 45 points in fifteen trading sessions. The pace of the advance has been fairly rapid and some consolidation may be needed. There is some overhead supply at 645-660. However, breadth-of-the-market action continues its decided improvement. While the figures are not available at this writing, my breadth-of-the-market index probably moved above the March high. Volume indications also remain favorable on both the ten-week and twenty-five-week moving totals. This also is the case on my advance/decline patterns on the same graphs. The market, subject to minor technical corrections, indicates higher levels for at least the intermediate term.

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DIAMOND NATIONAL CORPORATION

Current Price	35 1/2
Current Dividend	$1.60
Current Yield	4.5%
Long Term Debt	$35,268,000
$1.50 Cum. Pfd. Stk.	450,000 shs.
Common Stock	4,474,294 shs.
Sales, 1960-E	$245,000,000
Earnings per Share-1960 (1)	$3.10
Mkt. Range 1960-1955	44 7/8-25 1/8

(1) Estimated. Includes equity in unconsolidated subsidiaries.

In 1953, Diamond Match Company was a relatively small lumbering operation selling wholesale and retail lumber, together with matches and woodenware. In the following year, the company embarked on an aggressive program of expansion through merger. Acquisitions have included two small lumber companies, the General Package Corporation, a major producer of paperboard and molded pulp egg cartons, the Gardner Board & Carton Company, a paperboard and molded carton manufacturer; a 50% stake in Dairypak Butler, producing milk containers and other wax-coated containers, and, in 1959, the U.S. Printing & Lithograph Company, one of America's largest color printers.

These additions produced a number of favorable results. (1) Diamond National (the name was changed last year) is now a vertically-integrated packaging operation. (2) From 1953 to 1959, sales rose from $97 million to $229 million. (3) In the same period, net income has increased from $4.3 million to $10.3 million.

Until now, however, the company's tremendous increase in size has failed to produce any increase in net income per common share. In order to expand, Diamond was forced to increase common shares outstanding from just over one million to 4 1/2 million. Thus, the increase in per-share earnings has been negligible. Moreover, profit margins have declined from 6.5% after taxes in 1955, to 4.5% last year.

Now that Diamond National has completed its program of expansion and integration, it appears reasonable to expect that the company can devote its resources to bringing about the improvements in operating efficiency which could be expected to result from a fully-integrated operation. Some progress has already been made in this direction. Despite a low rate of residential construction, and resultant sluggish lumber sales, Diamond National's earnings for the six months ended June 1960 were $1.45, contrasted with 98¢ in the comparable 1959 period. Post-tax profit margin improved from 4.2% in 1959 to 5.8% in 1960. It is estimated that, for the full year, earnings should be in the neighborhood of $2.85 per common share, in addition to some 25¢ per share equity in the earnings of unconsolidated subsidiaries.

The process of improving profit margins has just begun, however. In this regard, the company is fortunate in having the services of a number of able executives brought in from U.S. Printing & Lithograph Co. last year, including the new president of Diamond National, Mr. William H. Walters. It is worthy of note that each 1% improvement in profit margins at the current sales level can result in an increase of about 55¢ in annual per-share earnings. Sales are not expected to remain static, however. The dynamic consumer packaging field now accounts for more than 60% of sales and the company is able to offer a complete line of packages and labels designed, printed, and produced by Diamond. The lumber business can also be expected to recover from depressed 1960 levels. From a technical point of view, the stock has held in the 26-41 area since 1956 and an eventual ability to break out of this range on the upside would indicate a possible 65. The stock, whose recently-raised $1.60 dividend provides a 4.5% yield, is being added to our recommended list.

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Dow-Jones Indus 645 - 639.92

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