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TABELL'S MARKET LETTER May 26, 1961

Despite a recovery late Friday, the Industrial average closed some 9 points lower on the week after reaching a new all-time intra-day high of 714.69 on Monday. The decline in the averages was accentuated by the dip in American Telephone, duPont and General Motors. Probably at this stage of the market, the averages have even less meaning than usual. Market leadership is changing as the business pattern improves and, after some further churning back and forth over the next month, we expect the market to move higher with the more basic companies in the front line.

Shortly before the first of the year this letter was fortunate enough to suggest the purchase of INTERNATIONAL MINERALS & CHEMICAL for long term capital gains. At that time the stock was selling for around 32. It has since moved up to a 1961 high of 50 1/4 and has been consolidating in the 45-50 range. Despite the advance in price, the stock still appears extremely attractive.

At the time of the original recommendation, a number of factors were noted. It was suggested that rising costs, which had prevented any substantial increase in per-share earnings over the past ten years, were about to level off, and that further growth in sales could, in all probability, be brought down to net income. The growth in world demand for fertilizer was pointed out, and it was suggested that the company's consumer products division, which markets monosodium glutamate under the trade name of "Ac'cent" could well make a substantially increased contribution to both sales and net. The potentialities inherent in the company's new potash development at Esterhazy, Saskatchewan, were also noted. Recent developments make our original projection in regard to this mine appear quite conservative.

Mr. Claude O. Stephens, President of the Texas Gulf Sulphur Company, recently estimated that that company's potash project near Moab, Utah, could produce $5 million annual net income. "This estimate" he added, "is a conservative one". Since Texas Gulf has only a 75% net profit interest in the Moab project, an extension of Mr. Stephens' estimate would indicate that it is expected to earn some $6 1/2 million after taxes. Assuming a 45% tax rate to allow for depletion allowance, the mine would then be earning some $11.8 million before taxes and depletion, or slightly more than $10 per ton based on anticipated production of 1.1 million tons.

IGL expects to have its Esterhazy mine in production by mid-1962 with an initial 450,000-ton capacity, shortly thereafter to be increased to a million tons. Further increases are possible later. However, assuming the mine's profitability is the same as the Texas Gulf operation, it could be producing $1.60 per share based on 450,000 tons production and $3.50 per share based on a million tons before taxes and depletion. This would be in addition to the normal growth in earning power which should take place over the next three to four years from the company's present operations.

Regarding the Esterhazy mine, the following factors should be noted: (1) The ore body is believed to be somewhat richer than the Texas Gulf mine and profitability could, therefore, be even greater, (2) Canadian tax laws make it probable that earnings will be largely or completely sheltered from income tax in the initial years of operation, (3) IGL, currently a major producer of fertilizers, has already-established outlets for potash. (4) The Saskatchewan mine has a number of obvious advantages in regard to shipping to mid-western fertilizer markets.

There appears, moreover, to be little doubt about the company's ability to market their product. World demand for potash is growing at a rate of 600,000 tons annually, and long-term projections indicate demand should outrun current foreseeable supply in every year to 1970, with the exception of the 1962-65 period. Even in this period over-capacity will be slight.

Based on the above factors, it does not appear at all optimistic to suggest that IGL could double its current earning power($3.15 per share is estimated for the year ending this June) by 1964-65. Indeed, it is quite possible that the increase in earning power may be substantially greater. Dividend payout has historically been relatively liberal and there is every expectation that, as earnings increase, the current $1.60 annual dividend rate could also be moved upward.

From a technical point of view, the stock continues to have a minimum upside objective of 75 with a possible reading of even higher levels. Purchase is again suggested for capital appreciation.