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TABELL'S MARKET LETTER

August 25, 1961

KERR-McGEE OIL INDUSTRIES., INC.

Current Price	45
Current Dividend	\$.80
Current Yield	1.8%
Long-Term Debt	\$65,000,000
Common Stock	6,270,000 shs.
Gross Oper. Inc. 1960-1 (E)	\$175,000,000
Gross Oper. Inc. 1959-60	\$156,310,000
Earned Per Sh. 1960-1 (E)	\$2.70
Earned Per Sh. 1959-60	\$1.36
Mkt. Range 1961-57	60 - 18 3/8

Note: Fiscal year ends June 30th.

After reaching a high of 60 last April vs. a 1960 low of under 20 (adjusted) Kerr-McGee Oil Industries, Inc. reacted to a recent low of 40 5/8. From a technical point of view, the stock appears to be forming a base around present levels before resuming an advance to the long-term objective of 100 indicated by the original base formed in 1957-60. It is quite possible that substantial cash generation over the next five years, properly utilized and reinvested by an astute management, could make such a price attainable.

Kerr-McGee derives its income from four major sources. These are: (1) Uranium

mining and milling under Government contracts running to 1966, (2) Oil and gas production in offshore Louisiana and California, in the Mid-Continent area and in Venezuela, (3) Contract drilling with some twenty-six drilling rigs in operation, and (4) Oil refining and marketing under the "Deep Rock" brand in the Mid-West. Oil and gas operations and Kermac Nuclear Fuels, the largest uranium producing subsidiary, each accounted for some 37% of fiscal 1961 earnings, with other income, largely from contract drilling and other uranium operations, making up the remainder.

Earnings so far reported for the year ended June 30, 1961 show a dramatic increase over last year's results with \$2.18 having been earned in the first nine months on a greatly increased number of shares, vs. \$1.00 in the comparable 1959-60 period. Full-year net will approximate \$2.70 per share on 6.3 million shares outstanding compared with \$1.36 per share on 4.8 million shares in fiscal 1959-60. The gain largely reflects the impact of full-year's output from the company's Ambrosia, New Mexico, uranium mines and mill for the first time. A number of facilities which are now part of Kerr-McGee's operation did not contribute fully to earnings in fiscal 1960-61, and the basic earning power of the company as presently constituted is probably well in excess of \$3.00 per share.

Admittedly, it is hazardous to project uranium earnings into the future, especially since ore and concentrates are being sold to the Government under contracts expiring in 1966. However, as the largest and lowest-cost factor in the industry, Kerr-McGee is in a strong position to participate in even a materially smaller ultimate market. It is also true that Kerr-McGee faces intense competition in the oil refining end of its business. However, projections over the next five years, especially cash flow projections, appear to outweigh these shortcomings. Cash flow for the first nine months of fiscal 1961 was \$25 million and should probably run at a rate of \$42 million a year for as long as the uranium contracts continue. Thus, expected cash throwoff in the period June 1960-64 could be in the neighborhood of \$150 million. When it is considered that Kerr McGee's gross plant account in June 1960 was \$170 million and that the company at that time had an approximate potential of \$3.00 per share earning power, the magnitude of earnings that could be generated from effective employment of new funds becomes substantial. In this connection, it can be noted that the Kerr-McGee management has one of the strongest reputations for mineral discovery and development in the country.

Several efforts toward expansion have already been made. The company will begin to operate the only commercial helium plant in the United States some time in November and has become, as a by-product of its uranium operation, America's third largest producer of vanadium. It owns an interest in a large potash property in New Mexico which could eventually become a major U.S. source of this mineral. In addition, the contract drilling operation will be expanded by the construction of what will be the world's largest offshore drilling rig. Costing \$7 million, the rig is capable of operating in 175 feet of water vs. present limitations of 125 feet and it is expected to rent for about \$8,000 a day.

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WALSTON & CO., INC.

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