

Walston & Co. Inc

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TABELL'S MARKET LETTER

October 2, 1964

ELECTRIC STORAGE BATTERY COMPANY

Current Price	42
Current Dividend	\$1.60
Current Yield	3.8%
Long Term Debt	\$9,375,000
Common Stock	2,501,547 shs.
Sales - 1964-E	\$182,000,000
Sales - 1963	\$168,500,000
Earn. Per Sh. 1964-E	\$3.50
Earn. Per Sh. 1963	\$2.91
Mkt. Range - 1964-63	44 1/8-33 3/8

The Electric Storage Battery Company is, as its name implies, a producer of a diversified line of batteries ranging from flashlight dry cells to automotive batteries to heavy industrial batteries, and expensive specialized units for use in the missile and space program. It is, however, fond of referring to itself in annual reports and other literature as a "packaged power" producer. To many, this term will seem a euphemism, but it is, perhaps, more descriptive of what the company does and, more importantly, of future areas of growth than the familiar "battery". We tend to think of batteries as things that power flashlights

and automobiles, and these, indeed, are prevalent current uses. Yet, in another sense, a battery is, indeed, portable power, the means of producing electricity from a continuous reaction taking place in a relatively confined space. A moment's thought will reveal many possible future uses for such packaged power once the technological problems involved can be solved.

Missiles and satellites, of course, are one such use, and Electric Storage Battery develops and manufactures a silver-zinc battery for many space vehicles. The fuel cell, which is able to produce a continuous electric current as fuel is fed to it, is a familiar area of promise and the company's research in this field is intensive. One of the most interesting areas of development involves lightweight sealed rechargeable cells to be used as power sources for portable hand tools, thus freeing the user from the tyranny of the electric outlet and the power cord. Formerly, work in this area has centered around highly-expensive nickel-cadmium batteries. ESB is presently working on an inexpensive conventional cell, which could bring the cost of battery-powered tools down sharply.

All of this discussion is not to deny the fact that a major portion of ESB's earnings come from the more mundane and commonplace battery applications. The intensive research on new and exciting products, however, does add attraction to a company which has demonstrated eminently satisfactory progress over recent years and which is statistically cheap on both an earnings and balance sheet basis.

Automotive batteries now account for some one-third of estimated sales with 30% each coming from the Ray-O-Vac division, and from industrial (including missile) batteries. Foreign business, growing at a faster rate than domestic, contributes an important part of the total. Of automotive battery sales, some 75% serve the replacement market, an interesting statistic in light of the substantial number of automobiles sold over the past three years. Ray-O-Vac's sales tend to move in line with consumer disposable income.

Earnings have, as noted, shown satisfactory progress, advancing from \$1.59 in 1958 to \$2.91 last year, with an increase shown in all but one of the intervening years. First-half results were 24% ahead of 1963, and for the full year earnings could reach close to \$3.50, thus placing a modest 12-13 multiple on estimated 1964 earnings. The \$1.60 dividend provides a 3.8% yield. Book value as of the end of 1963 was \$36.00 per share, including net current assets of better than \$25 per share.

In the light of this record, the stock appears attractive on a long term basis, and it is being added to our recommended list. From a technical point of view the stock has strong support just under 40, and an initial objective of 60 followed by possible higher levels. It is quite possible that new products now in the development stage could provide an increasing impetus to earnings growth which would justify such prices.

Dow-Jones Ind. 872.65
Dow-Jones Rails 218.10

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