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TABELL'S MARKET LETTER

March 22, 1965

LING-TEMCO-VOUGHT

Price	24 1/2
Dividend	\$.50
Yield	2.0%
Long Term Debt	\$34,591,553
4 1/2% Pfd.	151,084 shs.
\$3 Pfd.	265,830 shs.
Common	1,849,968 shs.
Sales - 1964	\$322,859,000
Sales - 1965-E	\$300,000,000
Earn. per share-1964	\$2.31
Earn. per share-1965-E	\$2.30
Mkt. Range 1965-62	25 7/8-13 1/2

Note: Debt includes \$10.8 million convertible into common at \$33.74. 4 1/2% pfd. convertible share for share. \$3 pfd. convertible into 1 1/4 shares.

One characteristic of recent markets has been the shift in leadership from blue chip issues to the more speculative secondary stocks. Part of this is, of course, attributable to a certain reawakening of speculative interest, but a portion is also, no doubt, due to the fact that good values and attractive potentials exist in a good many hitherto-neglected lesser equities. Such we believe to be the case with Ling-Temco-Vought. Ling-Temco is, not to mince words, a speculative issue. Its recent earnings record has been erratic. Its capitalization, though much improved, is debt-laden. There is potential equity dilution, the basic business is volatile, and the stock has moved up sharply in recent trading sessions. This all indicates that risk is attached to the purchase of the stock, but the question is whether this risk is compensated for by adequate potential reward. In Ling-Temco, this appears to be the case.

Recent improvements in the Ling-Temco picture fall into two categories - the financial and the fundamental. From the financial point of view the company - the outgrowth of a series of mergers and acquisitions extending over a number of years - has taken a number of steps to improve its balance sheet. Long term debt has been reduced sharply from \$65 million to \$34 million, and short term debt has been halved. The number of common shares has been lowered from 2.78 million to 1.85 million, and the problem of potential dilution has been attacked aggressively through the refinancing of a number of convertible issues. It must be noted that current potential dilution through convertibles and warrants is still 80%, but almost all currently outstanding issues are convertible substantially above the current market so that this problem becomes unimportant as long as the stock sells at current levels.

A recent move by the company in the financial area appears to have some significance. It has recently formed three wholly-owned subsidiaries consisting of 8 of its 11 operating divisions and plans to ask for tenders of its own common in exchange for cash and shares in each of these three subsidiaries. The effects of this move will be: (1) the outstanding common shares will be further decreased, and (2) the establishment of independent market values for the three subsidiaries may lead to a more generous appraisal of the parent company. Ling will still own 83% of these subsidiaries.

From a fundamental point of view a dramatic improvement appears in the offing. The company is well diversified in the aerospace, electronics, and missile fields. A number of projects for which the company is prime contractor appear to hold promise, foremost among these being the development of the A-7A attack aircraft for the Navy. The magnitude of this contract is staggering. \$100 million has been allotted for development of a new production aircraft. It has been estimated that, if proven successful, as many as 1,000 aircraft could ultimately be ordered, giving the contract a value in excess of \$1 billion over a period of years. When compared with Ling's \$300 million sales base, the effects could be dramatic.

Other projects, less definite than the A-7A, include the Lance surface-to-surface missile and the XC-142 verticle take-off transport. If these contracts were to realize their full potential, this, with the A-7A, could well mean a doubling of present earning power by 1967. From a technical point of view the recent upside breakout from a substantial base formation indicates a possible long term potential of 44 followed by possible higher levels. The stock is accordingly being added to our speculative list and purchase is recommended in risk accounts.

Dow-Jones Ind. 895.79
Dow-Jones Rails 213.87

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