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## TABELL'S MARKET LETTER

October 25, 1965 7

The market strength continued last week with new highs in the Dow-Jones Industrial average being reached on four out of the five trading days, culminated by a peak of 959.39 on Friday before light profit-taking set in. This was close to the current upside objective of 960, although the Rails, which reached a peak of 238.70 this week, can be read to a possible long term 255. However, a survey of all listed stocks shows that a great many leaders have reached upside objectives and may be in need of some consolidation. As usual, the best protection which can be afforded against investment risk at these levels is to make sure that portfolios are restricted to issues with a favorable outlook. Such a stock is described below.

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### SUNDSTRAND CORPORATION

Current Price	33 3/4
Current Dividend	\$1.00
Current Yield	2.9%
Long Term Debt	\$15,850,000
Common Stock	1,657,908 shs.
Sales 1965-E	\$90,000,000
Sales 1964	\$82,400,000
Earn. Per Sh. 1965-E	\$2.15
Earn. Per Sh. 1964	\$1.83
Mkt. Range -1965-64	34 3/8-18 7/8

Last week's letter outlined at some length what we conceive to be the exceedingly bright future for the machine tool industry. We discussed in some detail the growing acceptance of numerically controlled or N/C machine tools -- the automatically operated tools which go so far to reduce costs and improve productivity.

One of the most attractive participations in the growth of N/C tools appears to be Sundstrand Corporation, which has been in our recommended list for some time. Sundstrand is not only prominently identified with the machine tool area, which constitutes some 25% of sales currently, but produces other

items which appear to hold promise for earnings over the next few years.

Sundstrand's entry in the numerically-controlled machine tool field is the Omnihil, which currently is estimated to account for roughly 30% of machine tool shipments. Backlog, however, continues to increase and this backlog reflects a considerably higher percentage of N/C machines than do current shipments. It is quite possible that machine tool sales under this stimulus could increase at the rate of 10% to 15% annually between now and 1970, and, as automatic machines represent a higher proportion of total sales, profit margins, which have already shown a gratifying increase since 1963, could continue to widen.

Sundstrand, however, operates in other areas which appear to have growth potential. One of the most promising is the company's aviation division, most of whose sales originate from one item - a constant speed drive which is used to stabilize the flow of power from the engines to the aircraft electrical system. Through technological superiority Sundstrand has managed to achieve the lion's share of the market for these devices. The company is presently selling to every producer of commercial jets, and each jet requires six units -- one for each engine and two spares. The units wear out fairly quickly and replacement volume is sizable and will continue to grow as the number of planes in the air increases. Sales of constant speed devices to the government are also important, but are becoming less so as commercial sales continue to grow.

Still a third Sundstrand product with considerable growth potential is the hydrostatic transmission used in the construction, material handling and agricultural equipment industries. This transmission has the ability to vary speeds with constant engine turnover and with no clutch. Sundstrand has recently moved into a new plant which will produce these transmissions and currently start-up costs are producing a small loss in this area. Break-even should be reached in mid-1966 and, commencing in 1967, hydrostatic sales should add measurably to earnings.

Recent results have undoubtedly reflected the trend in capital expenditures, but also the excellent growth shown by N/C machine tools and aviation products. Per share earnings increased to \$1.83 in 1964 from \$1.21 the previous year and are expected to reach \$2.15 in 1965, possibly approaching \$3.00 for 1966. 1965 sales are estimated at \$90 million vs. \$82.4 million in 1964. The present \$1.00 dividend is conservative in relation to present high cash generation capability.

From a technical point of view the stock has an initial objective of 44 followed by a longer term objective of 70. The recent move upward has been sharp, but any periods of minor weakness should provide an excellent buying opportunity.

Dow-Jones Ind. 952.42  
Dow-Jones Rails 235.61

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