

# Walston & Co.

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## TABELL'S MARKET LETTER

April 1, 1966

With heaviness at the beginning of the week and a sharp rally on the last two days, the Dow-Jones Industrial Average ended last week at about the same level it began it. It is now fourteen trading days since the Index attained an intra-day low of 905.40, and twenty-three days have elapsed during which time it has held in an area bounded by that low on the downside and an intra-day peak of 943.31. It certainly is not unlikely that this area may constitute a base formation from which a new advance will commence. Currently, the upside objective of this base would be 962-970 if 940 could be reached. However, further backing and filling within this trading range, such as was seen last week, could broaden the potential base pattern further.

### UNION BAG-CAMP PAPER CORPORATION

Current Price	48
Current Dividend	\$1.72
Current Yield	3.6%
Long Term Debt	\$73,086,465
Common Stock	7,609,975 shs.
Sales - 1965	\$283,600,000
Earn. Per Sh. 1965	\$3.16
Current Range - 1966-63	55 1/4 - 31 1/4

Some six weeks ago this letter discussed at some length what we conceived to be some of the attractive investment characteristics of the paper industry. In line with the thoughts contained in that letter we subsequently suggested that Union Bag-Camp Paper Corporation (which will be changing its name to Union-Camp Corporation shortly) would be added to the Quality and Long Term Growth sector of our Recommended List if its support level of 47 was reached. This took place some two weeks ago.

As we noted in February, the history of the past decade in the paper industry has hardly been an exciting one. Ten years ago, in 1956, impelled by sharply increased demand, the industry embarked on an expansion spree which vastly increased available capacity -- well beyond then-current-needs. Thereafter, although sales increased sharply, heavy pressure was felt on product prices due to relatively low operating rates in the industry. Thus, after a decade of increased sales, 1965 earnings for most stocks barely topped their 1956 levels for the first time.

However, there are a number of grounds for optimism in last year's statistics. In 1965, for the first time, the percentage gain in sales was greater than the gain in physical production. In other words, after ten years the industry has now again reached the point where demand is pushing on available capacity and price structure is again firming. This can be documented by price increases effected during 1965 in a wide range of paper products.

With this new pressure on industry capacity, considerable expansion is scheduled for the 1966-1968 period. There are those analysts who profess to see in this a repetition of the 1956 debacle. This letter does not believe this to be the case. The 1966 expansion is, we believe, starting from a much firmer base than the one of a decade ago and we believe that growth in paper usage will be at a faster rate than the experience of the past ten years. We look, therefore, for continued firmness in product prices and feel that higher sales, plus more efficient capacity, can lead to widening profit margins and worthwhile earnings gains.

All this should apply with redoubled force to Union Bag-Camp which is historically one of the lowest cost producers in the industry and which has scheduled one of the more ambitious expansion programs calling for an outlay of some \$106 million over the 1965-1967 period. The company is a leading integrated producer of kraft paper and board, shipping containers and multiwall bags. Along with most companies in the industry, a good earnings gain was shown in 1965 with per share results reaching the \$3.16 level, a 23% gain vs. a 10% increase in sales. 1966 results could well show increases of a similar magnitude and for the long term the expansion program, which is expected to add \$100 million to sales by 1970, holds a promise of further dramatic earnings increases if margins, as we think will be the case, can be maintained or increased.

From a technical point of view the stock recently broke out on the upside of a long trading range between 30 and 42, in which it had held from 1960 to 1965. The minimum upside objective of this base appears to be close to 100 and recent market weakness has brought the stock back to strong support and also to the downside objective of the short term top formed. The stock is recommended for purchase in accounts seeking long term growth.

Dow-Jones Ind. - 931.29

Dow-Jones Rails - 251.66

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