

# Walston & Co. Inc

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## TABELL'S MARKET LETTER

September 23, 1966

### AIR REDUCTION COMPANY, INC.

Current Price	56
Current Dividend	\$2.50
Current Yield	4.5%
Long Term Debt	\$124,611,393
Common Stock	5,162,183 shs.
Sales- 1966-E	\$420,000,000
Sales- 1965	\$376,800,000
Earn. Per Sh. 1966-E	\$5.75
Earn. Per Sh. 1965	\$5.01
Mkt. Range 1966-1957	91 1/2-45 1/8

After reaching a 1962 low of 45 1/2, Air Reduction Company, Inc., common stock held in a relatively narrow trading range, bounded by 48 on the downside and 60 on the upside through 1963 and 1964. The upside potential of the base formed during this period was 110. In early 1965, the stock broke out of this base on the upside and reached a high of 78 1/2 earlier this year. The technical breakout coincided with a sharp turn in the fortunes of the company. Per share earnings, which had been essentially flat for the eight years 1958-1964, rose sharply in 1965, reaching \$5.01 vs. \$3.68 in the previous year. Further growth

has been experienced in 1966. Yet despite the sharp earnings improvement, the stock formed a short-term top in the 78-70 area, and, under pressure of the general market weakness, broke out of this top on the downside, reaching a low of 52 1/4 a few weeks ago. Not only was this low the downside objective of the top mentioned above, but it also coincided with strong support present from the original base. It almost appears as if investors have been offered a "second chance" to purchase the shares of this company whose earnings appear to be just embarking on a new phase of expansion.

As suggested above, Air Reduction's earnings have continued to grow in 1966. Results for the first half show \$2.75 earned per share vs. \$2.47 in 1965, and for the full year we are estimating results in the \$5.75 area vs. \$5.01 last year. Air Reduction common is thus available at less than ten times estimated 1966 earnings, the lowest P/E ratio accorded the stock in the past ten years. It is, indeed, necessary to go back to the early 1950's to find a time when the market place has placed a more conservative valuation on the stock. All this comes at a time when substantial growth is anticipated over the next few years.

Airco's largest single product category is industrial gases, i. e. oxygen and nitrogen, and demand for these gases is expected to increase rapidly from here into 1970. For oxygen, the biggest single customer is the steel industry which is undertaking major conversions to basic oxygen production due to substantial cost savings. Between now and 1970, the steel industry's demand for oxygen is expected to grow at the rate of 20% a year, and insulation is provided from a downturn in steel production since the more efficient oxygen furnaces will be the last to be shut down. In addition to steel, the chemical industry is also becoming an important oxygen user.

The other major industrial gas, nitrogen, is perhaps even more interesting. Virtually a waste product as short a time as 6-7 years ago, this gas has been the subject of a growing demand in the aerospace, food processing and chemical industries. The long range potential in the food freezing field is especially interesting.

Air Reduction's other products should also be subject to increased demand. Ferro-alloys produced by the Pittsburgh Metallurgical Division have been growing, as have carbon and graphite products produced by the Spear Carbon subsidiary. The company is also active in plastics, chemicals and medical gases, equipment and pharmaceuticals.

Air Reduction was late in modernizing capacity, but a sizable capital investment program with \$100 million spent in 1964-65, has sharply increased capacity, especially in the fast growing cryogenic areas. Further expansion is scheduled for 1966 and 1967, with a number of plants slated to come on stream next year, thus giving the company the ability to keep up with the rapid growth in demand. This being the case, we anticipate further earnings gains in 1967.

Conversion of some \$45 million debentures (convertible somewhat above the current market) would increase common shares by some 17%. The \$2.50 dividend, which has been paid since 1958, and which constitutes only 43% of estimated 1966 earnings, provides a 4.5% yield. The stock has been on our Recommended List since last April, and we continue to consider it attractive for purchase in investment accounts.

Dow-Jones Ind. 790.97  
Dow-Jones Rails 196.78

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AWT:emb

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