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Underwriters and Distributors of Investment Securities
Brokers in Securities and Commodities

STOCK COMMENTS

No. 222 **CHANGES IN SECURITY & INDUSTRY SURVEY RATINGS** June 14, 1945
**Current Share Appraisal of Public Utility Holding Companies Changed
from "AVERAGE TO FAVORABLE" to "AVERAGE"**

For the convenience of our offices, we are repeating Wire Flash No. 189, dated June 12, 1945.

The majority of public utility holding company common and preferred stocks continue to sell below indicated ultimate liquidating values but the discounts have narrowed in recent months. Since, in most instances, final liquidation will be considerably delayed, full reflection of these ultimate liquidating values does not appear in early prospect. Furthermore, now that the United States Supreme Court has agreed to review the requirements of the Holding Company Act next fall, there may be some uncertainty felt toward liquidating situations. Under the circumstances, it seems questionable whether holding company stocks as a group will act materially better than the market generally over the next few months, and our current share appraisal has been changed accordingly. Under "Appreciation: Speculative", we are adding asterisks (relatively most attractive) to (1) Electric Power & Light \$7 first preferred, because a recapitalization plan with favorable implications for this stock may be filed fairly soon; (2) International Telephone & Telegraph because of its impressive post-war earnings potentialities; and (3) National Power & Light because final consummation of its liquidation plan appears fairly near (within a year or less) at considerably better than going prices.

No. 223 **Current Share Appraisal of Air Transportation Shares Raised from
"AVERAGE TO UNFAVORABLE" to "AVERAGE"**

For the convenience of our offices, we are repeating Wire Flash No. 202, dated June 14, 1945.

Popular enthusiasm for airline shares, based on the companies widely recognized prospects for vigorous peacetime expansion, is obviously counting far more heavily in the current market than are considerations of a restrictive nature. The latter include the pending mail rate cases of the Big Four domestic systems (with implications that the Civil Aeronautics Board may later revise mail pay of other air carriers); the effects of recent sharp cuts in passenger fares; and the possibility that some lines, so far sheltered from excess profits taxes, may be subject to EPT before long. These factors are being largely ignored in the current market.

Such problems, plus the profit margin-narrowing tendencies of prospective lower load factors with the availability of additional equipment, may yet check the rising price trend in this group. However, speculative psychology is frequently the dominant factor in the market for airline equities and could carry them still higher before the current move is halted. With most of the companies having a moderate capitalization, there is a certain "scarcity value" under current conditions. This is emphasized by the apparent willingness of many holders to carry commitments through intermediate fluctuations, to assure participation in long range growth trends. The line of least resistance still appears to be upward - for how long is impossible to predict - and accordingly, we are revising the share appraisal to "AVERAGE". The former "Average to Unfavorable" designation, which was adopted chiefly because of the uncertain rate situation, has proved much too conservative in the light of existing market psychology.

Among the early steps in prospect is a decision on allocation of post-war routes in the foreign field. Latest indications point more definitely to the likelihood that some of the "domestic" operators will receive authorization to add such services, with reports from Washington that the Civil Aeronautics Board may rule on the North Atlantic (and possibly, Latin American) cases very soon. Recent action of the Senate Aviation subcommittee, in ordering a revision of the McCarran bill to be completed by June 21, is another sign of this trend. The original McCarran bill, calling for an All American Flag Line, would have set up a "chosen instrument", but the Administration and many members of Congress have favored "regulated competition".

American Airlines (through the proposed control of American Export Airlines); Transcontinental & Western Air, and Eastern Air Lines are leading candidates for transoceanic routes or for Latin American services. The favorable position of these systems in the domestic field, plus their foreign expansion possibilities, give their stocks speculative long range appeal. Northwest Airlines and Pennsylvania-Central Airlines are also promisingly situated. Pan American Airways and United Air Lines, though expected to share actively in the industry's growth, are believed to have relatively greater problems of a near to intermediate term nature, because of competitive questions and/or mail rate uncertainties.

RESEARCH DEPARTMENT