MERRILL LYNCH, PIERCE, FENNER & BEANE

Underwriters and Distributors of Investment Securities
Brokers in Securities and Commodities

STOCK COMMENTS

February 14, 1947

No.
78 **AIRLINES PROSPECTS MAY BE AIDED BY MAIL RATE INCREASES AND OTHER BENEFITS**

(Repeating Wire Flash No. 342, 2/14/47)

Indications are that the Civil Aeronautics Board is getting ready to give prompt consideration to requests for higher mail pay on the part of certain airlines in serious need of an income stimulus to offset recent traffic declines and expanded costs. In view of the urgent nature of several such petitions, it would not be surprising if the CAB decides one or more of the "emergency" cases favorably within the immediate future. Any such action, however, is expected to be geared to the individual carrier's requirements and not an across-the-board increase in rates for all air mail carriers. At the present time, compensation for mail service is made on the basis of varying scales, with some of the smaller companies receiving substantially more per unit of service than the 45 cents a ton-mile paid to the domestic Big Four or the 60-cent rate paid to several of the medium-size systems. CAB action of this sort could be taken under the provisions of the 1938 Act calling for mail revenues sufficient, under stated conditions, to permit the certificated airlines to render service adequate for the requirements of the national defense, postal service and the commerce of the country.

Numerous Rate Applications on File

Among the airlines asserting the need of immediate aid through higher mail income are Chicago & Southern, Northeast Airlines and Pennsylvania-Central Airlines, each of which has been sustaining large losses on operations which, together with outlays for expansion purposes, have severely curtailed their working capital positions. Another petitioner for increased mail pay is Braniff Airways; however, this company has not suffered the drastic operating losses of those named above, and its financial status seems relatively much better than the other three (in fact, Braniff only recently has arranged a new $10 million bank credit which should facilitate its equipment purchase program in the next year or so). Western Air Lines has recently amended a long-standing application to request a temporary mail rate of 25 cents a plane mile, and there are other petitions - mostly by smaller operators - awaiting CAB decision.

A point to be emphasized is that several of these applications have been for retroactive mail adjustments and if the CAB should grant increases on this basis, back mail pay could represent a substantial sum. As one precedent, Northeast Airlines late in 1946 received a mail pay rise retroactive to May, 1945. In the Pennsylvania-Central Airlines case, the company seeks a pay change starting as of June 1, 1942, and estimates that this would involve some $5 million if its petition were met in full.

New Planes, Higher Fares Should Aid Earnings Later On

Higher domestic passenger fares may also help to overcome the earnings slump but competitive factors may delay general application of this aid. For example, National Airlines' raise to a 5 cents a mile basis on February 1st (about 10% above former levels) has not been followed by Eastern Air Lines or others in the same territory, and it remains to be demonstrated whether traffic diversion will offset the higher rate per passenger mile. However, when the new Douglas DC-6 and Lockheed Constellation planes are placed in domestic service by several systems in the months ahead, an excess fare about one cent higher than the existing 4½ cent rate for DC-3 and DC-4 planes is expected to be charged. Along with savings recently made effective and the expected greater efficiency of the new equipment, such fare boosts could permit operators to break even at load factors well under the 80% or so estimated as needed to avoid losses under recent conditions.

Although accidents (many of which have been on foreign airlines or in non-scheduled services) and poor weather conditions have been reflected in a sharp drop in traffic in recent months, it is believed by a number of industry officials that total 1947 volume will show at least a fair gain over the 1946 record. Gradual installation of landing and navigation aids plus the new planes now on order should permit the industry to resume the underlying growth trend in the months ahead. Although passenger traffic is by far the

- Continued -

No.
78 **AIRLINES PROSPECTS - Continued**

largest single element in operating revenues, the uptrend of mail tonnage and commercial cargo loads in the past few months is not an insignificant factor earningswise; given improved passenger load factors in later 1947 months, these other revenue items could be marginally important profits sources and especially so in cases where higher mail rates were effective.

Position of Individual Operators Differs Substantially

The widely variable conditions of individual operators can be illustrated on the favorable side by Eastern Air Lines, whose 1946 results continued substantially profitable (in fact, set a new high earnings level, aided by the lapse of excess profits taxes after December, 1945). Eastern is believed to have realized net income not far under $1.75 a share last year, or nearly 10% (after deducting taxes) on operating revenues. This was the best profit experience among the domestic systems, although some others also were able to remain on the black side of the ledger, in spite of higher costs and lower rates. Thus, although a number of airline companies are beset by serious operating and financial problems, at least some of their difficulties may be on the way to improvement before long, while in the case of the more strongly situated systems, current depressed market prices are making little allowance for the favorable possibilities in the growth years still ahead.

No.
79 **UNITED AIR LINES RIGHTS**

(Repeating Wire Flash No. 344, 2/14/47)

As part of an extensive financing program, United Air Lines is offering to its common stockholders of record February 11, 1947, rights to subscribe to a new issue of 94,773 shares of $100 par cumulative convertible preferred stock. The rights expire at 3:00 P.M. Eastern Standard Time on February 25. They carry the privilege of subscribing at par to one preferred share for each 19½ common shares held. These rights are traded on the New York Stock Exchange and should be either exercised or sold before the expiration date February 25th.

The new preferred has a 4½% dividend rate (cumulative from March 1, 1947) and is convertible at the rate of one preferred share into four common shares (equivalent to $25 per common share) at any time prior to January 1, 1957. The offering is being underwritten and any unsubscribed preferred shares are to be offered publicly by the underwriters. The call price of the new stock is $105 a share through January 1, 1955 and $102.50 thereafter.

Besides the preferred stock sale, the company is also carrying on additional financing in the form of bank loans up to a total of $28 million and 3½% debentures with a par value of $12 million (latter being sold to insurance companies). These funds are being raised in connection with the expansion program involving proposed expenditures of $85,165,000, of which $15,212,000 was spent to November 30, 1946.

It may be noted that United Air Lines common stock is included in our February, 1947 Security & Industry Survey on the Air Transportation page, under the "Appreciation: Speculative" classification and the common stock is designated with an asterisk(*) to indicate that it is regarded as among the Relatively Most Attractive situations in the industry. For additional background on United Air Lines, please refer to the Basic Analysis of that company dated September, 1946. United Air Lines common has ranged between 54¼ and 19½ during 1946-47. Recent prices Common Stock 22⅛; Rights 11/32.

(NOTE: The foregoing is not to be construed as an offering of the preferred shares of United Air Lines, Inc. The offering is made only by the prospectus.)