

CONGRESSIONAL RECORD

by the steady decline which has taken place in demand for heavyweight apparel fabrics since that time. This decline understandably has affected shipments to some extent, and while these were up slightly in January over December, they still were below those of January, 1967. The failure of sales to come up to expectations naturally has restricted the company's ability to raise selling prices in an attempt to offset higher costs. Moreover, as Graniteville's inventories are valued on the Last In, First Out basis (under which sales are assigned the unit costs of the most recently acquired raw material lots) the recent increases in cotton and polyester prices have resulted in a higher cost-of-goods sold figure for the company. This was reflected in its fourth quarter results, which were well below the record levels of 1966. The company presently is sold out through the second quarter, but dollar volume still has not reached a high enough level to offset the cost squeeze referred to above. As a result, Graniteville's first quarter earnings this year will compare unfavorably with the record figure of \$1.06 a share of 1967.

Graniteville's picture, however, is not really as bleak as these statistics make it appear. For example, earnings in both the fourth quarter of 1966 and the first quarter of 1967 helped by a favorable level of inventory prices, while the final quarter of 1966 also included some savings stemming from the investment tax credit. Although January 1968 shipments were below 1967 levels, management believes it sees indications of a pick-up in volume both in heavyweight fabrics and grey goods—the two areas in which Graniteville is strongest. In short, this year probably will be the reverse of last year: A disappointing first half, followed by considerably improved results in the last six months.

All this means our original 1968 earnings estimate of \$4.25 a share was too high: At this juncture, a figure of \$3.75 a share, compared to \$3.38 a share in 1967, is the most that can be looked for, and even this may prove difficult unless things begin to improve sharply in the near future. (Imposition of a surcharge would reduce this to around \$3.56 a share.) Its comparatively unimpressive near term earnings outlook suggests that this issue will not be one of the better performers in the group over the next few months. Commitments made at or near present depressed levels, though, still should work out well over the longer term.

REEVES BROTHERS

(Survey price: 33—Current price: 36)

Reeves, too, has been affected by the lack of demand for heavyweight fabrics which has been in effect for the last year. As we pointed out in the survey, however, this company now is one of the most broadly diversified in the entire textile industry: Thus, the downturn in its heavyweight fabrics business has not had as much of an impact on earnings as it might otherwise have had. Moreover, at least two areas of Reeves' business—the manufacture of automobile upholstery and household fabrics—now are showing greatly improved results over last year. Reeves has still another factor working for it, too: lower plant startup costs. These exerted a significant negative influence on reported earnings in the 1966-1967 fiscal year, during which a total of four new plants were brought on stream. Each of these facilities now is indicated to be operating at or near the break-even point, and all should make a significant contribution to profits in time.

Thus, even though its six month earnings of \$1.32 a share were more than 27% below comparable 1966-1967 figures, Reeves still should show substantially higher sales and earnings for the fiscal year ending June 30, 1968. In retrospect, our original earnings estimate of \$4.25 a share probably was more premature than anything else: Although Reeves' earnings in the year ending June 30th

probably will not be much above \$3.75 a share (\$3.58 with a tax surcharge), the annual rate could be running well over \$4.25 a share by then. Given favorable economic conditions, profits in the 1968-1969 fiscal year could rise into the \$4.50 to \$4.75 range.

Presently selling at less than ten times our current estimate and yielding 4.3% on a well-protected \$1.50 annual dividend, Reeves' stock appears undervalued to us on both a technical and a fundamental basis at this time.

J. P. STEVENS

(Survey price: 56—Current price: 52)

Stevens' outlook is improving almost daily. Conditions in the company's home furnishings business—carpets, sheets, pillowcases, tablecloths, drapes and the like—which accounts for about 25% of annual sales volume—are particularly favorable at present and this business should achieve record sales and profits this year. As is the case with Burlington, these gains have been accomplished without benefit of the higher selling prices which went into effect January 1st. Stevens' hosiery operations also are showing greatly improved results: Whereas at this time last year these were incurring a sizable deficit, today they are at or near the breakeven mark, and they should show a profit for the year.

With the exception of hosiery, recovery in the company's apparel fabrics business—which still is the largest and most important segment of its operations—has been slower than in the household and industrial areas. Here too, though, there is evidence that conditions now are improving markedly. Women's dresses, coats and suit, sportswear and intimate apparel and men's sweaters, permanent press slacks and sport shirts have been especially strong of late, and the recent price increase in apparel nylon posted by DuPont is further evidence that demand is accelerating at a rapid pace. One of the strongest areas is the durable press menswear fabrics, where incoming orders now are running ahead of capacity. This situation has enabled Stevens' new Pamplico, South Carolina plant—which turns out these fabrics—to achieve a profitable basis sooner than anticipated.

Stevens' unfilled order backlog currently averages around 11-12 weeks in most lines. This compares to a figure of 8 weeks at this time last year and the record level of 15 weeks in 1966. Management is pleased with this situation, as it enables them to operate a 6-day work week in most of their plants.

The company's raw material situation is a favorable one. The cost of polyester fiber is higher than it was last year, but selling prices also have moved up in recent weeks. Stevens' cotton requirements are pretty well taken care of for this year, and at prices substantially below current levels—while the recent decline in wool prices has benefitted the company more than most of its competitors, as 20% of its sales still are derived from this area.

Stevens' first quarter results—which have just been released—provide impressive evidence of the rapid improvement now taking place here. Sales for the first three months of the company's fiscal year rose by some 15.5% to a new all-time record for the period of \$201.8 million, while net income and share earnings were 23% ahead of the same period last year: The elimination of the losses at the company's Pamplico plant and in its Hosiery Division were responsible for a large part of this improvement. With generally higher selling prices prevailing in many lines and unit volume continuing to rise, Stevens' second quarter should produce even wider gains over 1967 than those recorded in the first three months. Quarterly comparisons in the last half of the year may not be quite as impressive, as the company's performance in the second half of 1967 was considerably ahead of its first half showing. Nevertheless, Stevens should be able to record full year sales of around \$900 million, almost 15%

ahead of 1967, and the various constructive trends now under way should enable the company to realize a pre-tax profit margin of at least 6% on this volume. After taxes at around 44% (compared to 38% last year) net income may amount to \$30 million or so, equal to earnings of \$5.50 a share, and some 33% ahead of the \$4.14 a share of 1967: Imposition of a 6% tax surcharge would reduce this figure to around \$5.25 a share. After adjusting for lower interest requirements, full conversion of the 4% debentures of 1990 would result in net dilution of about 6%. The possibility of large scale conversions in the near future appears remote, however, in view of the narrow spread between the market value of these bonds and their converted equity value.

Stevens recently disclosed plans to move into the production of elastic fabrics through the acquisition of United Elastic Corporation. Under the terms of the proposal—which still is subject to final approval—United's stockholders will receive 0.495 shares of Stevens stock for each share of United. With 1,478,222 United shares outstanding, this would involve the issuance of 731,720 shares of Stevens, representing an additional \$1,662,999 in annual dividend requirements. If approved, this acquisition will provide Stevens with a well-established hold in an important segment of the apparel industry. United already is the largest manufacturer of elastic fabrics in the country: Its facilities are modern and efficient, and its sales and marketing staffs have been greatly expanded in recent years. This move is further evidence of Stevens' determination to broaden its sales base and enhance its earning power, and we believe it is constructive.

Even without this proposed acquisition, though, it is evident that Stevens' stock is benefitting from renewed investor enthusiasm. Technically attractive and with its fundamental outlook improving steadily, this issue is our choice as the single most attractive investment in the field at the present time.

UNITED MERCHANTS & MANUFACTURERS

(Survey price: 29—Current price: 28)

United Merchants' showing in the second quarter of its current fiscal year (which ends June 30th) emphasized the extent of this company's recovery from its disappointing performance in 1966-1967. Profits for the period rose more than 40% and enabled United to show an earnings gain of better than 20% for the first half. Ironically, when the year began, United's management believed the sharpest improvement would come from its foreign operations, which showed a decline of almost \$4 million in profits last year because of currency devaluations in South America: Comparatively modest gains were looked for in United's domestic textile operations and its Robert Hall retail subsidiary. It now appears that the current year will produce larger than anticipated earnings gains in this country, but that the recent action of Uruguay devaluing its currency following the devaluation of the British pound will retard the anticipated gain in foreign profits to some extent. Even so, United still should show a considerably larger profit abroad than was the case last year, when earnings amounted to only \$241,452: At this point, management expects foreign profits to exceed \$2 million. Foreign net income in the first half totalled \$1.4 million, two and one half times what it was in that period last year.

Although it never has commanded a particularly high multiple, we feel United Merchants' stock is considerably undervalued here on a fundamental basis. A market price almost 20% below book value and a multiple of only 8 times estimated earnings appears much too conservative for an issue of this quality.

T. N. TROXELL, Jr.,
Investment Research Department.

U. S. GOVERNMENT PRINTING OFFICE: 1966