A Timely Article

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The question often arises as to which of the two issues, Benguet or Balatoc, is the better buy. This, naturally, is rather a difficult question, but a consideration of certain pertinent facts and a brief comparison of the two issues will, it is believed, give a good answer.

In 1937, Balatoc reported a net profit, after all charges including depreciation of ₱1.09 per share, the amount per share before deducting depreciation being ₱1.19. This profit was reported from an average monthly production of 37,000 tons of an average value of ₱29.26.

During the first 6 months of 1938 Balatoc produced a monthly average of 36,646 tons of an average value of ₱29.13 per ton. After deducting all costs, including depreciation and depletion, the net profit for the period was ₱3,489,234, an amount equal to ₱0.58 per share. This is equal to ₱1.16 a share on an annual basis or slightly more per share than the 1937 actual results.

Based on the present capital of 6,000,000 shares, Balatoc paid dividends amounting to ₱1.00 per share in 1937. In March and again in June of this year, a dividend of ₱0.30 per share was paid. This would indicate that Balatoc might pay ₱1.20 per share for the full year 1938. The first six month earnings, however, indicate that Balatoc would have to extend itself somewhat in order to pay that amount. It must be remembered that Balatoc cannot pay much more than it earns because there is practically no accumulated surplus from which to draw. (On June 30 earned surplus totalled ₱14,280.)

Indicated ore reserves at Balatoc give rise to the belief that the life of this property will be exceptionally long. The milling capacity, which will be gradually increased until it reaches a daily average of 2,000 tons, will make available a larger amount of what is now termed marginal ground. Although it is not expected that the increase in milling capacity will have much effect on earnings, it will undoubtedly prolong greatly the life of the mine.

Therefore, taking earnings, dividends and the possible life of the property into consideration and giving consideration also to its management and financial backing, it would seem reasonable to assume that this stock could sell at approximately ₱10.00 a share or ten times actual dividend and about ten times earnings. At any higher level it would appear that this stock was selling more on a speculative basis than as an investment.

Assuming, as has been pointed out, that Balatoc is worth ₱10.00 a share—what is Benguet worth?

For each share of Benguet the holder has an indirect ownership of approximately two-thirds of a share of Balatoc. With Balatoc worth ₱10.00 per share, it would mean an indirect ownership through a share of Benguet of ₱6.65. The next question to consider is what the Benguet direct interest is worth, not counting the interest in the Balatoc stock.

In 1937 Benguet reported a profit, *from its own operations*, of ₱5,170,624, an amount equal to ₱0.86 per share on the 6,000,000 shares of Benguet outstanding. This profit was reported from an average monthly production of 32,010 tons of an average value of ₱920,440.

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During the first 6 months of 1938 Benguet produced an average of 35,809 tons of an average value of ₱28.27 per ton. From this production Benguet reported a net profit, *from its own operations*, of ₱2,728,808, equal to ₱0.45½ per share. This is an amount equal to ₱0.91 per share on an annual basis. In analyzing Benguet's 1937 income account it appears that of Benguet's earnings about 95% comes from the operation of its own property and that of its wholly owned subsidiary, Cal Horr. Income from secondary operations by virtue of management contracts, etc. amounted to only ₱109,484. During the first 6 months of this year, instead of having an income from secondary operations Benguet actually suffered a loss.

Although it is expected that the increase in Benguet's milling capacity will be reflected in a larger tonnage, it is not thought that it will exercise any influence in the per share earnings; however, as in the case of Balatoc, it is expected that the life of the property will be prolonged. Therefore, using the same yardstick for Benguet as was used for Balatoc, or ten times earnings, it can be estimated that a share of Benguet alone should be worth about ₱8.60.

In addition to the earnings and the life of the property, the dividends paid should be given some consideration. Based on 6,000,000 shares, Benguet, in 1937, paid dividends equivalent to ₱1.00 per share. In March and again in June a dividend of ₱0.30 per share was paid. It would appear reasonable to assume that dividends of an equal amount if not more will be declared and paid in September and again in December.

As has been seen, through a direct ownership of one share of Benguet, the holder has an indirect ownership of two-thirds of a share of Balatoc, which amounts to ₱6.65. Also, that through *direct* ownership, the share of Benguet is worth ₱8.60. Together, through direct and indirect ownership, a share of Benguet should be worth ₱5.26 more than a share of Balatoc.

It must be remembered that the above hypotheses are theoretical and based entirely on a ten times earnings and dividend ratio, but they are given in an attempt to answer the prevailing question as to the theoretical comparative value of the two issues.

The Stock . . .

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sagged lower. Trading was extremely thin. News dispatches regarding the Russo-Japanese border combat undoubtedly contributed to pessimism, although other security marts were little affected, and obviously interpreted the affair from the beginning as a mere border clash which was unlikely to develop into war. The New York market moved higher, and higher prices prevailed for most commodities. Large purchases of gold bars featured the London gold market, at successively higher prices.

The purely selective character of this market became clearly apparent during the last week. Averages moved up due to higher offerings for blue-ribbon issues. However, although the averages went to 80.01 (the first time they had broken

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