

A Timely Article

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SAN MAURICIO MINING COMPANY

The recent report released by the board of Directors of San Mauricio, coupled with the substantial advance in market price of this issue, makes necessary at this time a reappraisal of this company's earning power, financial condition and future possibilities. (This analysis was prepared for the clients of Hess and Zeiltn early in November and is being now made public for the first time).

ORE RESERVES: One of the most important things to consider about any mining security is, of course, its ore reserves. At the end of 1937 the reported ore reserves at San Mauricio were extremely limited. At that time it was estimated that ore reserves totalled 143,198 tons with an average value of P24.29, giving a total contained value of P3,477,422. In other words, the company had at that time only a sufficient amount of ore to supply its 300-ton mill for a period of 16 months, and a gross value of only P24.29 per ton.

In the report referred to above, it was stated: "Ore reserves are being greatly increased each month, both in positive tonnage and average value. Although final totals will not be available until the end of the year, it is definite that the January 1st, 1939 figures will approximate an average value of P50.00 per ton, and tonnage in excess of three years' operations." This indicates that there will be approximately 325,000 tons of ore which, at an approximate value of P50.00 per ton, would mean a gross contained value of better than P16,000,000, a substantial increase in ore reserves for a period of one year of development work and development work ahead of actual production.

As development work on the various vein systems have proved up the existence of sizeable blocks of ore which will average considerably in excess of the above estimates of P50.00 per ton, it would appear reasonable to presume that at least some months will show a production which will average considerably more than P50.00 per ton.

FINANCIAL CONDITION: On October 31st, last, current assets amounted to P855,809 of which P663,267 was in cash or its equivalent. Current liabilities, on the other hand, amounted to P625,911 of which P64,735 represented accrued income taxes. Therefore, on October 31st, current assets exceeded current liabilities by P209,899 while cash and its equivalent exceeded current liabilities by P37,358.

At the end of 1937 current assets amounted to only P592,755 while current liabilities were P1,372,644. Current liabilities at that time exceeded current assets by P779,889.

The bulk of improvement in current position was accomplished during the past five months as, on May 31st of this year, current liabilities still exceeded current assets by P797,027.

Although almost all of the improvement in current position was accomplished out of earnings, the company has received P150,000 from Marsman & Company in payment for 1,500,000 shares. It also received P110,088.80 from stockholders who had been given the right to purchase additional stock at 40 centavos. From this latter source San Mauricio will receive another P89,911.20 sometime this month.

CAPITALIZATION: By the end of this month, when stockholders have subscribed to their share of new stocks at 40 centavos, San Mauricio will have an author-

ized capital of P1,000,000, divided into 10,000,000 shares of 10 centavos par value common stock, all of which will be outstanding.

MANAGEMENT AGREEMENT: By virtue of a management agreement with Marsman & Company, entered into in February 1934, Marsman & Company receives a monthly fee of P4,000 per month plus 10% of the profits (net profits is not defined in the contract but in actual practice the 10% is deducted after all charges including a depreciation charge) which exceed 50% of the capital subscribed when the first dividend was declared. When the first dividend was paid, the company's capital was P800,000. In other words, should the company's net divisible profits in any one fiscal year be P400,000 or less Marsman & Company would only receive the regular P4,000 monthly management fee as compensation. However, should the net divisible profits amount to P800,000 Marsman & Company would receive, in addition to their monthly fee, 10% of the difference between P400,000 and P800,000 or P40,000.

EARNINGS: It has been often said by those who are not familiar with the facts, that costs at San Mauricio are high in comparison to other mining companies in the Islands. In the letter to stockholders of November 14 it was clearly shown that "controllable" costs at San Mauricio compare very favorably with any other mines in the Islands. Controllable costs such as mining, milling and mine general during the month of October amounted to only P8.26 per ton.

The very complex nature of San Mauricio ore, however, is of such character that the bulk of the values must be recovered in the form of concentrates and then further processed by smelting with final recovery of values in United States smelter. This obviously results in a larger marketing expense than in the less costly free milling or straight cyanidation of ores by which most of the values in the Philippines are recovered. For October, this cost was P6.04 per ton, but this figure, as noted in the cost statement, includes a charge of P2.33 per ton for slag and dust losses, which is actually a smelter deduction for unrecoverable value similar to a tailing loss in milling plants. This item, as has been pointed out, is "uncontrollable."

Another uncontrollable item is taxes. Because of the high production plus its large profits San Mauricio is forced to pay a comparatively large percentage for taxation. Estimated production tax and income tax for October was an amount equal to P3.79 per ton of ore milled.

San Mauricio follows a conservative policy in depreciation accounting. It has charged against earnings an amount per ton which is among the highest in the Islands—P2.08. Miscellaneous general expenses such as various fees and incidental expenses amounted to only 76 centavos per ton. Marsman & Company's P4,000 a month fee (the profit participation has been waived temporarily, it is understood until December 1st) amounted to only 46 centavos per ton. The total cost, therefore, of both controllable and uncontrollable items for the month of October amounted to P21.39 (before Marsman & Company's profit participation).

For the past several months, San Mauricio has averaged approximately 9,500 tons per month. It can therefore be estimated that San Mauricio's cost per month will total approximately P205,000 after all charges but be-

for the profit participation.

As was made public sometime ago, the net profit for San Mauricio during the first six months amounted to P388,616, after a depreciation charge of P152,214 and after payment of P95,501 for the now cancelled financing agreement.

Although no official figures have been released relative to earnings for the third quarter it can be estimated, based on an analysis of the first six months operations, that during that quarter the net profit, after all charges, amounted to approximately P450,000 or a net profit for the nine months of approximately P850,000.

According to the above breakdown of October earnings and a knowledge of actual production for that month of P437,383, it

can be estimated that the net profit for October was approximately P240,000.

This brings the profit for the 10 months to approximately P1,075,000 after all charges and P1,275,000 after all charges but before depreciation. According to the letter referred to above, November production is estimated at around P500,000 (actual was P501,000) and a production of approximately this amount is expected to continue for sometime to come. Basing an analysis of potential earnings on a production of P500,000 on the above breakdown of October's costs a monthly profit of P295,000 can be expected for November and December.

In other words, the net profit of this year can be estimated at approximately P1,650,-

000, an amount equal to approximately 16.5 centavos per share. The comparable profit before depreciation can be estimated at about P1,900,000 or nearly 19 centavos a share.

This, however, is only a portion of the future possibilities for this company. If San Mauricio can maintain a production of P500,000 a month, it can be estimated that the net profit, after depreciation, for a twelve month period, or one year, will be P3,540,000 before the Marsman & Company profit participation, and P3,236,000 after the Marsman & Company profit participation. The comparable net profit before depreciation and after the profit participation would amount to P3,175,000.

The per share net profit then, before depreciation, but after the profit participation would be equal to 34.75 centavos per share and 32.36 centavos per share after all charges.

DEVELOPMENT: San Mauricio's extensive expansion program was virtually completed in the first five months of this year. Since that time capitalized expenditures for capital development and additions and improvements to mill and equipment has been averaging about P25,000 a month. With the continuation of this figure approximately P300,000 a year, an amount almost equal to the depreciation charge can be expected to be spent on capital improvements. Therefore, it can be estimated that a bulk of the net profits, after all charges, as described above, can be utilized for improving the current position.

DIVIDENDS: Up to the present time San Mauricio has only paid one dividend—4 centavos a share at the end of 1936. Although no dividend action has been taken as yet, it would appear reasonable to presume that a resumption and a continuation of dividend payments can be expected in the very near future.

As was pointed out above, San Mauricio's current assets on October 31st exceeded current liabilities by approximately P210,000. As a result of estimated profits for November and December, this amount should be improved by approximately P580,000, bringing the net current position on November 31st to P790,000. To this must be added the P89,000 receivable this month from stockholders.

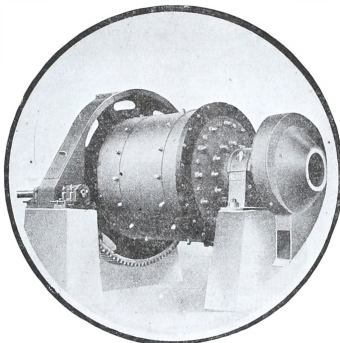
With a net current asset position of approximately P879,000 it would seem reasonable to presume that, should the Board so desire, a dividend of 5 centavos or P500,000 should be paid at that time. (Since this was written a 5-centavo dividend was declared). If the estimate for a 12-month period earning power holds true next year, the company could pay as high as 30 centavos a share in dividends, but it would seem safer to presume that the Board will take a more conservative attitude and pay out a smaller portion of the net profits.

COMMENT: The above analysis of San Mauricio has been prepared, using as its basis, information which, to the best of our

(Please turn to page 22)



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MINE	Started Milling	Auth. Cap.	Par. Value	Capital Paid to Date	Daily Capacity	Tons Milled Nov. 1938	Nov. 1938 Gold Production	Average value per ton	1938 Production to date	Surplus or Reserve	Last Dividend	Total 1938 Dividend to-date	Total Dividend 1937
Antamok	1932	75,000 0.10	P2,750,000		900	24,103	P 353,923.29	14.64	P 4,200,156	1,320,550	Oct. 15, '38	P9.02	P9.06
Baguio Gold	1930	2,000 0.10	1,300,000		250	8,391	158,486.66	18.88	1,564,027	117,222	Dec. 29, '38	0.915	0.935
Balabot	1927	6,000 1.00	6,000,000		1,200	39,256	1,082,966.28	28.06	11,685,801	2,192,410	Sept. 30, '38	0.30	0.90
Benguet Cons.	1913	6,000 1.00	6,000,000		1,000	32,962	947,850.04	29.56	10,265,194	4,965,354	Sept. 30, '38	0.30	0.90
Benguet Expl.	1931	1,500 0.10	500,000		100	3,393	22,293.60	6.57	237,865	7,963			
Big Wedge	1936	2,000 0.10	777,892		150	6,296	170,337.42	27.05	1,764,667	247,133	Oct. 5, '38	0.91	0.92
Cal Herr	1935	1,500 0.10	1,500,000		200	7,158	121,938.86	17.03	1,214,440				
Coco Grove	1932	1,500 0.10	1,500,000	Placer		335,965 yds.	105,000.83	0.31	2,088,840				
Demonstration	1934	1,000 0.10	1,000,000		250	9,746	141,184.00	14.48	1,638,365	249,558	Dec. 20, '38	0.01	0.01
East Mindanao	1936	1,000 0.10	1,000,000		100	3,384	79,967.24	23.63	523,310	6,672			
Insu Gold	1934	1,000 0.10	799,794		200	6,564	105,593.81	16.07	881,251	28,256	Aug. 29, '38	0.005	0.011
Ilogon	1925	2,000 0.10	2,000,000		1,000	30,656	332,274.33	10.83	3,717,688	929,433	Jul. 15, '38	0.6075	0.615
IXL Mining	1931	1,500 0.10	1,500,000		350	11,400	258,375.52	22.66	2,845,274	443,560	Oct. 15, '38	0.02	0.09
Maabate Cons.	1935	5,000 0.10	5,000,000		3,000	66,406	372,057.74	5.60	3,831,670	810,330			
Macabete Gold	1938	1,500 0.10	1,350,000						74,733				
Napaso Goldfields	1938	1,500 0.10	1,100,000	No. Mills		259.06	5,165.21	12.21	36,537				
Mindanao Mining	1938	1,000 0.10	596,935			37,500 yds.	13,600	0.36	94,589				
Mindanao M. Leds	1937	2,000 0.10	2,000,000		200	3,945	140,891.60	35.71	1,209,039				
Nabugo Gold & Sil.	1938	600 0.10	30,000			56.51	619.65	10.96	20,307				
North Mindanao	1937	800 0.10	355,220	Placer					145,151				
Northern Mining	1927	1,000 0.10	789,220						36,537				
Paracale Gumaus	1938	500 0.10	500,000		125	3,029	54,047.22	17.84	326,373				
Royal Paracale	1936	1,500 0.10	370,125		100	2,615	17,618.44	6.73	197,637				
San Maurice	1936	800 0.10	800,000		300	9,166	501,732.47	54.74	3,541,191	740,231	Dec. 19, '36	0.01	
Santa Rosa	1938	1,500 0.10	1,000,000		200	5,910	94,235.55	15.94	802,309				
Surgao Cons.	1938	1,200 0.10	1,000,000		200	3,855.32	86,389.23	9.44	525,498				
Suyoc Cons.	1934	1,250 0.10	1,250,000		200	6,096	148,526.10	24.36	1,536,471	364,765	Jul. 20, '38	0.01	0.02
Tambisa Gold	1929	4,000 0.10	339,944	Placer					137,928				
Tinago Cons.	1938	1,000 0.10	1,000,000		75				46,034				
Twin Rivers	1938	1,000 0.10	500,000			36,998	27,289.23	0.73	389,283				
United Paracale	1935	1,100 0.10	1,100,000		300	9,467	223,006.37	23.66	2,357,591	388,807	Sept. 15, '38	0.02	0.03
Total							P5,405,488.69		P57,990,938				
Gold Production for October 1938 — P5,505,847.17						Gold Production for November 1937 — P4,618,183.87							

market has declined, hovering perilously close to new low ground.

Technically, the New York market appears to be gathering strength, and ominous news dispatches from abroad have so far failed to shake

out any appreciable amount of stock. Seasonally, a rise can ordinarily be anticipated during the early months of the year and present market action justifies the belief, barring unexpected adverse developments abroad, that higher prices may be seen within the reasonably near future. Overlooking, therefore, a further period of indecision and irregularity during coming weeks, the longer term outlook currently is for a continuation of the recovery cycle.

A Timely . . .

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knowledge, reflects to a great extent conditions as they now exist at the mine. We realize that mining at best is a hazardous venture and these estimates may prove extremely optimistic as present future prospects become history. On the other hand, we believe that there is sufficient reason to presume that instead of these estimates proving exceedingly optimistic they may very well exceedingly conservative. For this reason, the progress of San Maurice over the next few months should be watched closely in order to fully participate in any change in market price, which will only be reflection of actual operations and conditions as they exist at the mine.

The Stock . . .

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moment no reason why any particular weakness should develop providing world conditions remain about unchanged. In assessing the possibility of a reaction it is well to bear in mind that although the averages have staged a considerable percentage advance this has been largely accounted for by wide gains in only a few individual issues. As these are apparently fully justified, in almost all cases, the market may not be in as vulnerable a position as might be expected after such a sustained upward movement.

The likelihood of any runaway rise appears to be equally slim. Local and world conditions are not ripe for such a movement, however, it would appear that the present healthy condition of the majority of the producers, and near producers, coupled with the increasing dividend disbursements, would bring confidence and money enough to support a price structure irregularly higher than that to which we are now becoming accustomed and could lead to a somewhat more active market early next year.

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