CHICAGO, MILWAUKEE AND ST. PAUL RAILWAY.

"St. Paul" as it is known in Street parlance, maintains in almost every notable characteristic a strict parallel with the North Western. The two roads occupy almost identically the same territory, both are among the best managed roads of the country; the securities of both have long been prized by investors. There is this difference, however, that whereas the North Western is distinctly one of the Vanderbilt lines, the St. Paul has maintained a position of exceptional independence. Latterly, however, it has seemed to draw into closer affiliations with the Union Pacific and the interests dominant in the two roads are known to have very close relations.

Recently the St. Paul has come into special prominence through its announced intention to extend its line to the Pacific coast. In spite of the fact that this intention has been officially announced and a considerable part of the extension contracted for, the report of 1906 contained not a word upon the subject.

History.

The old Milwaukee and St. Paul Railroad was organized in war times, when it was an open question as to whether Chicago or Milwaukee would be the chief port of Lake Michigan. The aim of the company was to extend the road into Minnesota and the Dakotas, and to develop these regions, then a wilderness. St. Paul at the time was an obscure hamlet and Minneapolis was unknown. The purchase of the St. Paul and Chicago, effected after the organization, gave the road a through line from Milwaukee to St. Paul, and in 1874 the extension from Milwaukee to Chicago completed a continuous road between Chicago and the Minnesota capital.

Since then the road has been steadily extended through Iowa, Minnesota, and into the Dakotas, according to the original intention. The absorption of the Milwaukee and Northern carried the road into the iron districts of peninsular Michigan, and through other extensions it reaches to Omaha and to Kansas City on the south, to Fargo and other points in North Dakota on the north. The total operated mileage in 1906 was 6,961, almost the entire length of which was owned by the company outright. The extensions of the line westward from Chamberlain, South Dakota, now under way will carry the line to Rapid City in the Black Hills; and the 800 miles of the Pacific Coast extension on which construction was begun from Evarts, on the Missouri River, would reach into Montana. The company is said to own valuable terminals in Tacoma and Seattle, on Puget Sound.

Ownership.

The St. Paul had never, until latterly, been under the domination of any single interest, and the stock is widely held. In 1905, the company reported 5,832 stockholders. It is evident, however, that by 1906 Standard Oil interests had obtained practical control; it is certain that in conjunction with representatives of the George Smith Estate, this control is absolute.

In the directorate, Standard Oil interests are directly represented by William Rockefeller, Henry H. Rogers and Charles W. Harkness. Peter Geddes and Herman Le Roy represent their own holdings and those of the Smith estate. In 1906, Mr. Smith's place on the board was taken by his business representative, Herman S. Le Roy, a New York attorney. The other directors were Roswell Miller, chairman of the board; A. J. Earling, president; Frank S. Bond, former vice president; John A. Stewart; Joseph Milbank, of New York; J. Ogden Armour, Chicago; Frederick Layton, Milwaukee; Messrs. Rogers and Earling are also in the directorate of the Union Pacific, and in close affiliation with them is William G. Rockefeller, also a director, and son of William Rockefeller. William Rockefeller is well-known as a prominent director in the New York Central system, the Delaware and Lackawanna and other roads. John A. Stewart is chairman of the Board of Directors of the United States Trust Company, in which Standard Oil interests are prominently represented. Joseph Milbank is a capitalist, and legatee of the Milbank estate. J. Ogden Armour is the present head of the extensive Armour interests of Chicago, and Frederick Layton is a prominent capitalist of Milwaukee.

In the executive committee Standard Oil interests predominate.

Beyond its close connection with the Union Pacific, the St. Paul has no especial affiliations, and it is not a holding company, having practically no interests in other roads.

Capitalization.

On June 30th, 1906, the capital account stood as follows:

Common stock	$58,183,900
Preferred stock	49,654,400
Total stock	$107,838,300
Funded debt	121,849,500
Nominal capital	$229,687,800
Rentals capit. at 4%	10,525,000
Approximate gross capitalization	$240,212,800
Unsold bonds in treasury	4,077,000
Approx. net capitalization	$236,135,800
Approx. net capital per mile	$33,922
Average miles operated	6,961
Net earnings on net capitaliation	9.7%
Stock on net capitalization	45%
Fixed Charges on Total Net Income	32%
Factor of Safety	68%

The rentals paid are small, adding but little to the estimated capitalization of the company. On the other hand the company has no securities of other roads, and the gross capitalization is to be reduced only by the amount of unsold bonds held in the treasury.

It will be seen that the average capitalization per mile is very low, and as far back as 1901, President Miller stated in his annual report that the road could not be duplicated for its then existing capitalization, which was about the same per mile as now. Its $33,922 of capital per mile compares with $30,252, for the Chicago and North Western. The capitalization of the road as determined by earnings is about the same, the 9.7% for the St. Paul comparing with 10.5% for the Northwestern.

On June 30, 1906, the stock of the road represented 45% of the estimated net capitalization, as compared with 43% for the North Western. The Fixed Charges consumed 32% of the Total Net Income, as compared with 39% for the North Western. The Factor of Safety on its securities for the St. Paul therefore was slightly higher than that of its chief rival.

As already stated, the St. Paul has no equities in other companies.

Increase of Capitalization.

In the six years from 1900, the capital and earnings of the S. Paul increased as follows:

Year	Common Stock	Preferred Stock	Funded Debt	Total	Gross Earnings
1899–00	$47,146,600	$40,454,900	$122,256,000	$209,857,500	$41,884,692
1905–06	58,183,900	49,654,400	121,849,500	229,687,800	55,423,052

Net increase over six years: Nominal capital, 10%; gross earnings, 32%.

In 1906, $24,802,809 of new common stock was sold to shareholders at par, to the extent of 23% of their holdings, the resulting rights therefrom averaging from $15 to $18 per share. Again towards the close of the year $33,164,300 new common stock and $66,328,600 new preferred were offered to the shareholders at par, to the extent of 25 and 50%, respectively, of their total holdings, accruing rights on this issue selling at from $31 to $35 per share.

The result of these issues was to increase the amount of common stock from $58,000,000 to $115,000,000, and the preferred from a little under $50,000,000 to the same as the common. Payments, however, on the latter issue were distributed over a period of two years and more so that while interest would be paid on the amount of the subscriptions, the road would not meet full dividends on this new stock until 1909.

Character of Traffic.

The St. Paul is one of the great "grangers," and farm products make up the chief items of its tonnage. Products of the latter in 1906 represented 23%, and of animals, 6.3%, or a total of nearly 30%. Products of mines made up 28.5%, of which the chief item was bituminous coal. Lumber made up 14%, manufactures and miscellaneous the balance. This is a wide and very even distribution of traffic, and means that the prosperity of the road is dependent simply on the general prosperity of its territory, and not upon any single industry. It is evident, however, that its territory is distinctly a farming section, and that the earnings of the road are, at bottom, dependent upon the yield of the fields.

Passenger earnings represented 20% of the gross earnings of the company in 1906.

Stability of Earnings.

The mileage operated has not increased in ten years as rapidly as might have been expected, but a very considerable increase will take place in case the Pacific extension is carried out.

The gross earnings per mile have risen from $5,281 in 1895-6, to $7,961 in 1905-6, an increase of very closely 50%. This increase has been very steady, showing practically no setbacks, but it was especially large in the year of 1906. The full table follows:

Year	Miles Operated	Gross Earnings	Per Mile
1895–6........	6,188	$32,681,829	$5,281
1896–7........	6,191	30,486,768	4,923
1897–8........	6,191	34,189,664	5,522
1898–9........	6,191	38,310,632	6,187
1899–0........	6,347	41,884,692	6,851
1900–1........	6,512	42,369,013	6,506
1901–2........	6,605	45,613,125	6,906
1902–3........	6,647	47,662,738	7,171
1903–4........	6,829	48,330,335	7,077
1904–5........	6,908	49,884,114	7,221
1905–6........	6,961	55,423,052	7,961

The steady increase in the earnings has been accomplished in the face of a steady reduction in the average rate per ton mile received from freight, the average of the road being:

1877	2.08 cents.
1887	1.09
1897	1.00
1906	.86

Maintenance.

The maintenance charges for the St. Paul, compared with eastern roads look small. They average only a little over $900 for way, and a little over $600 for the equipment. They are considerably smaller, for example, than the Chicago and North Western, where the average for way is $991 and for equipment $858. The items for six years are as follows:

Year	Traffic Density	Maintenance per Mile Way	Maintenance per Mile Equipment	Total
1900–1	558,965	$999	$464	$1,463
1901–2	604,095	1,092	509	1,601
1902–3	605,048	1,105	585	1,690
1903–4	576,717	750	681	1,431
1904–5	590,824	773	750	1,523
1905–6	670,373	857	804	1,661
Average	601,003	$929	$632	$1 561

	Traffic Density	Maintenance per Mile Way	Maintenance per Mile Equipment	Total
C. & N. W...	640,983	$ 991	$ 858	$1,849
C., B. & Q...	580,024	1,104	1,032	2,136
Rock Island..	462,106	1,022	759	1,787

On a traffic density of 600,000 ton-miles per mile of road operated, a total maintenance of from $1,500 to $1,600 per mile does not seem very liberal. Had the figure been equal to that of the North Western for 1906, this would have added $500 per mile to the St. Paul's maintenance charges for that year, which on a total of nearly 7,000 miles would have entailed an additional expenditure of $3,500,000. It is evident that on such a scale of expenditure, the surplus shown would have been much smaller than it was.

In the report for 1906, the average of cost for repairs was stated at $1,438 per locomotive; $667 per passenger car; and $46 for freight cars.

Merely as an instance of the wear and tear losses to which a large railway is subjected, the company's report for 1906 states that during the year, 444 cars belonging to the company were destroyed by wreck or fire on its own and other roads, and that 3,662 old freight cars unfit for economical service, and 30 small locomotives were dropped from the inventory of equipment. In addition to this, the inventory at the close of 1905 showed a shortage of 384 cars and a sum sufficient to replace them was charged to operating expenses. At the close of 1906 there was a shortage of 246 cars, and one locomotive.

Improvements.

The maintenance charges of the St. Paul have been considerably below those of the North Western; likewise the sums set aside from surplus earnings have been considerably less, the items for improvements for seven years being as follows:

Year.	Renewal and Improvement Fund.	Addition to Property.
1899-0	$3,025,305	
1900-1	2,296,256	
1901-2	2,245,000	
1902-3	1,105,000	
1903-4		$707,575
1904-5		619,960
1905-6	1,511,758	712,331
Total	$12,223,185	

This sum compares with $33,002,000 set aside by the North Western within the same period.

In addition to the above sums the report for 1906 shows a net of $2,540,466 set aside for the replacement of freight cars, dropped from the inventory. This amount would bring the total set aside from the surplus earnings for the year up to $4,765,000, and this sum added to the charges for regular maintenance, would bring the total maintenance up to $15,283,000, or $2,195 per mile, that is to say it would increase the nominal sum devoted to maintenance by 50%.

Surplus Earnings.

The surplus earnings shown below are the total sums available for dividends and improvements after payment of Fixed Charges, and before the sums set aside as in the table above, have been deducted.

For example, from the nominal surplus shown for 1906, the amount of $4,765,000 should be deducted to show the net surplus available for dividends. This would reduce the percentage shown as earned on common by one-third. The table for a series of years follows:

Year	Surplus	Dividends Paid on Preferred	Per cent. Earned on Common	Dividends Paid on Common	Average Price
1900–1	$10,476,414	7	13.1	6	139
1901–2	12,115,458	7	15.2	7	165
1902–3	11,578,260	7	14.2	7	175
1903–4	11,425,976	7	13.8	7	152
1904–5	12,478,788	7	15.5	7	151
1905–6	14,905,318	7	19.7	7	191

The column of "Per cent. earned on Common," does not represent the amount actually available for dividends on the common stock, since after 7% has been paid on both the common and preferred, the two issues share alike. So for example, after seven per cent. was paid on both stocks the balance of surplus would have been equivalent, for 1906, to very nearly 7% more, on both the common and preferred (6.9), but if from this balance of surplus, were deducted $4,765,000 devoted to improvements, the remainder would be equal to only about 2½% on the two classes of stock.

Presuming that these appropriations would not have been made if they had not been needed, this latter figure is of interest as indicating the margin nominally available for an increase of dividends on either class of stock.

Dividend Record.

As a dividend earner, the St. Paul has a record surpassed by no western railway. With the single exception of the year of 1875, for 35 years the dividend has been paid upon the preferred stock continuously, though in the early days, in one or two years, these dividends were paid in bonds.

There is a provision as to the preferred stock that its dividends are cumulative to the extent that they are earned, and not otherwise. This accounts for the peculiarities of some of the earlier dividend payments.

The road suffered in the years from 1889 to 1891, and in these three years, the dividend on the common was suspended. Since 1892 a dividend has been paid continuously. The full record is as follows:

Years	Preferred	Common
1870	7 % cash and 3% scrip	3% cash and 7% scrip
1871	7 % "	7% "
1872–3	7 % "	
1874	7 % bonds	
1875		
1876	3½% cash and 14% bonds	
1877	3½% "	
1878	10½% "	
1879	7% cash	2½% cash
1880–4	7% "	7% "
1885	7% "	4% "
1886–7	7% "	5% "
1888	6% "	2½% "
1889	7% "	
1890–1	7% "	
1892	7% "	2% "
1893–4	7% "	4% "
1895	7% "	2% "
1896	7% "	4% "
1897–00	7% "	5% "
1901	7% "	6% "
1902–6	7% "	7% "

The Balance Sheet.

The balance sheet at the end of June, 1906, showed that the company was quite decidedly in need of working capital. The current assets amounted to $9,566,797; the current liabilities to $16,440,706.

This left an adverse balance of $6,873,989. Of the current liabilities, however, $2,719,962 was interest accrued and not yet payable. The chief item was bills payable, $6,850,000.

The item of cash showed $5,276,888. The company's need of cash capital was later supplied by the sale of stock, as noted above.

The credit to profit and loss, itemized as Income Account in the report, was $33,789,997.

The St. Paul Extension.

The most important event in the history of the St. Paul for many years was the determination of its directors to extend the line to the Pacific coast. The route chosen is to the outside view quite inexplicable. Between the Union Pacific and the Northern Pacific lines there is a wide belt of territory, from two to three hundred miles broad, which is crossed by no east or west road, unless the diagonal path of the Oregon Shortline be considered.

A road pursuing something of a middle course through this belt would tap a country rich in coal, oil and minerals, and have a wide field to itself. Instead of building through this belt, the St. Paul is extending westward from its most northerly western terminal, at Evarts on the Missouri river. It strikes directly for the Yellowstone River, near Miles City, and from this point to the coast to all intents it doubles the route of the Northern Pacific, crossing and recrossing the tracks of that road, the two lines rarely lying more than 40 or 50 miles apart and for long stretches side by side.

The St. Paul's extension will be an expensive piece of road to build; its cost is estimated by the St. Paul officials as something like $50,000 per mile and it seems likely to be more, rather than less than this. It is being built at a time when labor and material are at the highest point in 15 years, its line will be slightly longer than the Great Northern route from Chicago to the Pacific and longer, too, than the Northern Pacific's route, when the Helena cut-off is completed; it will cross four mountain ranges as against two for the Great Northern, and two for the Northern Pacific when a cut out on that road in the Rockies is completed.

In brief, neither as to grades, length of line nor cost does it present any advantages over its rivals; rather the reverse. When the Great Northern's water grade line from Spokane to Portland is built, that road will be able to carry freight at a lower rate than any other transcontinental line, this construction being a part of the scheme outlined in President Hill's boast that before the Panama Canal is completed, he would have a line from the Great Lakes to the Pacific able to carry freight at such rates that lily pads would be growing in the canal. This is the sort of competition that the St. Paul extension must meet and which to the outside view, it will be in no position to meet.

It is true that the St. Paul's capitalization is very low; and even with the addition of 1,500 miles of road costing $50,000, or $60,000 per mile, it will be relatively low. It will be lower than the Union Pacific or the Northern Pacific, but on the other hand, it will be met by the almost equally low capitalization of the Great Northern, with apparently higher haulage costs. It is true that the earnings of the Great Northern and of the Northern Pacific have been enormous. Likewise that there is an immense and growing business from the Puget Sound ports, eastward. But the Northern Pacific, and especially the Great Northern have been for a number of years endeavoring to put themselves in the best possible shape to take care of this business, and the Union Pacific is now entering the same field and will soon be ready, bidding for its share of this traffic. It is equally true that the same interests which now control the St. Paul practically dominate the copper industry which enters in Montana and that a large and growing traffic can probably be turned to the St. Paul when it reaches these fields.

But with all these considerations, when the new route of the St. Paul is followed upon the map it bears resemblance to nothing so much as the West Shore-Nickel Plate paralleling of the Vanderbilt lines from New York to Chicago in the eighties. It is well known that the controlling interests of the St. Paul are now closely associated with the controlling interests of the Union Pacific, and the latter are engaged in lively rivalry with the Hill lines. It is impossible to suppose that so shrewd and conservative a management as that of the St. Paul should have entered upon this enterprise without being fully convinced of its soundness, and yet to the outside view it bears much more the appearance of a weapon or a club than a business enterprise standing on its own feet.

It would be absurd, however, to suppose that this extension could seriously cripple so rich and prosperous a road as the St. Paul. The new line is being built by stock issues rather than by bonds and undoubtedly a large traffic can be turned through it which would be impossible if it were an independent line. The percentage of net income consumed by fixed charges on the St. Paul is exceptionally low, so that even if the extension were to justify the most pessimistic criticisms it would still in no wise affect the value of the funded securities.

Investment Value.

But undoubtedly the St. Paul's extension has a very material bearing upon the future of the stock values of the road and should the work of construction be pressed, the new stock issues required for this work will weigh rather heavily on the market price. Probably there are many who would be in no wise surprised if the extension were to stop in Montana and not be carried forward for at least some years to come.

Meanwhile the significant fact which the investor in St. Paul must consider is that the capital stock in a single year has been increased from 107 to about 230 million dollars; that is, it has been more than doubled. As already noted, in the issuance of this stock, rights have accrued to the shareholders amounting to from $45 to $50 per share, and in considering the value of St. Paul, common and preferred, this amount is more or less to be added to the market price.

Following this heavy issue of new stock, in the general recession of prices in the spring of 1907, St. Paul preferred sold down to $145 per share and the common to $122 per share. This was equivalent, rights included, to about $190 and $167 on these stocks, which compares with a quotation of $160 per share for the preferred and $147 for the common in the very moderate slump in the spring of 1906. It is evident that on a prolonged recession of prices these stocks might sell very much lower. At the low level of 1903-4, the preferred sold down to $168 and the common to $133. But how heavily the new issues will weight the stock would be only the merest guess. Obviously the pivotal question is as to whether, if the St. Paul goes on with this new work of construction, it can continue comfortably paying its 7% dividends.

It has already been pointed out that even in the prosperous year of 1906, if St. Paul maintenance had been up to the level of the North Western, to say nothing of the Burlington, the margin remaining over after the payment of the 7% dividends was not large. In the new issue of stock, the amount of preferred was rather heavier than that of the common, $66,000,000 of preferred against $57,000,000 of common. But it is not at all likely that even a very serious business depression would impair the security of the dividend on the preferred. This stock has now received its 7% dividends continuously for eighteen years. With the prospect of an increase in the dividend rate and further "rights" cut out, this stock would tend to sell more to the level of a solid 7% security; that is, at an average around $150 to $170 per share.

St. Paul common, is a much more speculative commodity. As one of the old "market leaders" it has tended to fluctuate rather violently. It is what is known as a "volatile" stock. Obviously after the heavy issues of 1906, with the consequent cash dividends equivalent to about $50 per share, the stock would tend to sell at considerably lower levels than for several years previous; that is, if there were no other considerations. There is such a consideration, however, and this is that the St. Paul is a very valuable property, alike in itself and from a strategic point of view. At least before the new issues, control of St. Paul would readily have sold at very considerably above $200 per share. It is not in the least likely that the present interests in control would ever allow this valuable asset to be slipped from under them, and that is why the floating supply of St. Paul, so long as the present rivalry between the Hill interests and the Union Pacific interests continues, is likely to be relatively small. This means that it would hardly go to as low a level as it otherwise might, even in a general slump, and that on the other hand, being so easily subject to manipulation, it is likely to show much higher prices than its intrinsic value would justify.

There seems no reason why St. Paul on a 7% basis should sell at a higher figure than, let us say, Pennsylvania, and if Pennsylvania, on 1906-7 levels could sell below 120, St. Paul common might readily do the same. Purchased and laid away at such figures as this it might, under the conditions outlined, readily show a large profit to its holder, always provided that its earnings continue to justify the payment of its present dividend.