

SHIPPING AND ALLIED FINANCE

Chicago-Milwaukee & St. Paul & Puget Sound Ry.—Deficit and Reduction of Dividend.

THE subjoined article, abstracted from the New York Evening Post, is self explanatory and confirms an earlier financial review, herein, written by me from London.

I agree with the compiler of this article, from which I quote, that the "St. Paul" extension to the Pacific Coast will eventually be fully justified. However, the "St. Paul" has not been financed with the same simplicity, prudence and skill that has characterized the Great Northern and Northern Pacific Railways, and its executives could learn much in sound and skillful railway finance from Mr. James J. Hill, into whose hands, if he were a young man, I should expect the "St. Paul" to pass. H. B. J.

"During the twelve months covered in the annual report published by St. Paul this week, one dividend at the old rate of 7 per cent was paid on the common stock, and then because of smaller earnings the annual rate was reduced to 5 per cent. As the statement at hand shows that only 1½ per cent was earned on the \$116,348,000 last year, a serious question arises as to whether even the smaller dividend rate can be maintained. However, despite the \$5,141,000 deficit reported for 1912, while seasoned dividend-paying stocks, like Union Pacific, Atchison and Northern Pacific are selling at a price offering from 5 to 6 per cent on the investment, St. Paul offers only 4½ per cent.

St. Paul is selling on a higher basis than Union Pacific, Atchison and Northern Pacific, simply because the shareholders of the company believe that the reduction in the dividend rate is temporary. Because of St. Paul's long-established policy to let its shareholders know what is going on, no secret was made of why the Pacific Coast extension was built, or how it has been financed. Up to 1906 St. Paul was creating an enormous volume of local business and turning it over to connecting roads. Naturally the directors wanted to get the longest haul possible on that business, so they started in to build the Pacific Coast extension, knowing that the venture would call for from \$150,000,000 to \$200,000,000, or even more.

When the New Line was Opened

On August 1, 1909, the main line of 1,400 miles was completed, and since then over 500 miles of branch lines have been built. About the time St. Paul hoped to reap the benefit from its venture, trade reaction set in, followed by what President Earling refers to in his annual report as "the worst crop failure that ever occurred in Western Minnesota, South Dakota and Southern North Dakota." The decrease in the grain tonnage last year amounted to 762,193 tons, while freight earnings were smaller by \$1,961,000. In the meantime St. Paul was paying the carrying charges on \$211,000,000 new capital, \$100,000,000 raised in 1906, \$28,000,000 in 1909, \$48,176,000 in 1910, and \$34,893,000 in 1912. Just what effect those charges had on the company's income account is shown in the following table, comparing the figures for 1912 with those for 1906:

	1912.	1906.
Gross	\$63,122,743	\$55,423,053
Op. exp. and tax	50,590,399	36,444,331
Net	\$12,532,344	\$18,978,722
Other income	7,591,948	258,359
Net income	\$20,124,292	\$19,237,081
Fixed charges	10,193,846	8,454,317
Surplus for dividends	\$ 9,930,446	\$10,782,764
Preferred dividend	8,115,232	3,472,868
Surplus for dividends	\$ 1,815,214	\$ 7,309,898
Common dividend	6,956,760	4,072,872
Deficit	\$ 5,141,546	*\$3,237,026

*Surplus.

What the Figures Mean

To the outsider, it would seem that the Pacific Coast extension was a mistake, because St. Paul was forced last year to reduce its dividend to 5 per cent, and even then reported a deficit of \$5,141,000, whereas in 1906 a surplus of

\$3,237,000 was earned over the 7 per cent dividend. That, however, is not the way the average St. Paul shareholder looks at the matter. He figures that while the Pacific Coast extension paid no dividends last year it did pay 2.3 per cent on its \$100,000,000 stock in 1911, and 2.7 per cent in 1910. For a new road that is a most unusual record. He knows that all of that stock is owned by the St. Paul, and that larger dividends than were paid in 1910 and 1911 will be earned by the Pacific Coast extension as soon as business picks up. But what the St. Paul shareholder lays the greatest stress upon is the way the company has managed to distribute the carrying charges on the \$211,000,000 new capital raised.

According to the foregoing table, gross earnings for 1912, which was an off year, increased \$7,699,000, compared with 1906, whereas fixed charges increased only \$2,739,000, and a large percentage of that increase is in bonds, which eventually will be converted into stock. In other words, the St. Paul shareholder knows that only 35 per cent of the \$211,000,000 raised to build and equip the Pacific Coast extension bears a fixed charge, and that the balance was secured either by the sale of stock or convertible bonds. Last year, with 2,197 miles of new track, operating expenses ran as high as 80 per cent of gross, compared with 65 per cent in 1906. Until business resumes normal proportions and until the many creases which always go with new mileage are ironed out, St. Paul's dividend disbursements will be uncertain, but it is one thing to be uncertain about dividend obligations and quite another to fail to earn fixed interest charges. A safe feeling goes with the knowledge that a temporary reduction in the dividend is the worst that can happen.

The Outlook for 1913

Regarding the future, in his remarks to shareholders, President Earling said that "the 1912 crops of small grains in the territory tributary to the company's lines are excellent, and the yield will be considerably above the average. Since the close of the fiscal year, ended June 30, 1912, there has been a general revival of business in all lines, and the outlook is that there will be a substantial increase in the earnings of the current fiscal year." In the meantime the company has \$76,096,000 working assets, including \$22,183,000 cash and only \$8,313,000 current liabilities, \$48,785,000 due from the Pacific Coast extension for advances, and a profit and loss surplus of \$42,931,524.

On July 13, just before the last dividend was declared, St. Paul sold at 99½, which, with the exception of the panic year, was the lowest level touched in fourteen years. St. Paul crossed par for the first time in 1897, and afterwards sold up to 199½; it may be some years before that level is again reached in the stock market, but as a business proposition St. Paul will enjoy more real prosperity in the future than it ever has in the past. That prosperity will be a natural outgrowth of the Pacific Coast extension, which was well built and conservatively financed."

IMPROVEMENTS SUGGESTED FOR PORTS OF VICTORIA AND VANCOUVER

Mr. Thos. Harling, a well known steamship and freight broker of Montreal, recently visited Vancouver, B. C., where he inspected the harbor terminal facilities. In his opinion the most important question is the establishment of large terminal facilities at British Columbia coast ports, which should be undertaken by the Canadian government on the same lines as at Montreal, Quebec, St. John and Halifax, N. S.

He states that since the establishment of a small commission at the port of Montreal matters have advanced rapidly, the necessary capital being provided by the government at a low rate of interest, which is protected by the harbor dues of the port.

Mr. Harling further states that a similar strong local board could do much to advance the interests of Vancouver and Victoria, besides being of very great assistance to the development of traffic which should find its outlet by Pacific ports.