ST. PAUL, ITS POTENTIALITIES AND OUTLOOK

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No wider difference of opinion concerning the future of any great railroad exists among investors than that concerning the future of the St. Paul. Only a few years ago the St. Paul was very generally regarded as one of the greatest railroad properties in the country. To-day there are lots of people who claim that the road can't go on paying even five per cent. The following analysis sheds a good deal of light on what has actually happened and on how the future of the property has been affected thereby. [ED.]

FOR several months preceding the reduction in the common dividend from a seven per cent. to a five per cent. annual basis, in January last, St. Paul's common shares were heavily liquidated. To ascertain the reasons for this liquidation it is necessary to go back to 1906. To briefly state the situation as it existed at that time, the St. Paul was a highly developed road, operating in big traffic producing territory and earning from fourteen per cent. to fifteen per cent. on its common stock after paying seven per cent. dividends on the preferred. In fact, from the standpoint of earnings available for dividends the 1906 year was, with the exception of 1909, the most successful St. Paul has ever experienced.

Pacific Coast Extension.

But in the summer of 1906 the management decided to build an extension to the Pacific Coast. This step was considered essential to the life of the company. It was being slowly hemmed in by other lines. To the north the Northern Pacific and Great Northern were not only tapping territory served by the St. Paul but were also receiving the benefit of through freight from Chicago, Minneapolis, St. Paul and other eastern points to the Pacific Coast. The Chicago, Burlington & Quincy also offered severe competition, while on the south were the Union Pacific and the Denver & Rio Grande, and the latter at that time had virtually decided to build to the Coast. In order not to be relegated to a position of being merely a local road, the St. Paul was also forced to extend its lines.

The Chicago, Milwaukee & Puget Sound Railway was, therefore, built. It extends from Mobridge, South Dakota, where connection is made with the parent company's tracks, to Seattle and Tacoma, Washington, via Butte, Montana.

The total mileage now operated is 2,197 miles. The cost of building this extension has to date amounted to approximately $175,000,000. All of the

Puget Sound's first mortgage bonds, amounting to $154,950,000, have been turned into the St. Paul's treasury, together with the issue of $100,000,000 capital stock, except one share held by each director. In March, 1911, the St. Paul sold $25,000,000 on the Puget Sound bonds, which it guarantees as to both principal and interest.

Unfortunately for the old St. Paul, which advanced the money for the Puget Sound Extension, the panic of 1907-8 followed the commencement of construction work. Traffic of practically all important systems showed large decreases, and operating revenues of the St. Paul for the 1908 fiscal year were approximately $4,000,000 less than in the 1907 fiscal year.

In Operation.

The Pacific Coast Extension went in operation in July, 1909, and has brought the old line a very large amount of traffic. Operating revenues of the old line in 1910, the first fiscal year the extension was in operation, amounted to $64,846,894, as compared with $59,897,400 in the previous year, a gain of 7.6 per cent.

The St. Paul, however, was not in a position to handle this increase in business. Its facilities were inadequate, equipment was lacking, transportation expenses representing the direct cost of moving traffic, have risen from 37½ per cent. of gross for the 1908 fiscal year to forty-three per cent. in 1911. Another material reason for the increase in expenses of moving traffic, and an unavoidable one, has been an increase in the wage account, amounting to forty-three per cent. In consequence, although the amount of business handled in the past four years has expanded from $56,936,600 to $64,975,995, or $8,043,395, revenues available for fixed charges and dividends have fallen off $2,000,000. How this increase in operating revenues in the four years in question has been eaten up is shown in the following tabulation:

Operating revenues gained		$8,043,395
Maintenance expenditures inc.	$3,174,789	
Traffice and transportation expenses, etc.	6,600,993	
General expenses, etc..	114,589	
Taxes inc. less gain outside operations	162,069	
Total	$10,052,330	
Net loss 1911 compared with 1908		$2,008,935

It may, therefore, be rightly said, that the reason for the reduction in the St. Paul dividend from a seven per cent. annual rate to a five per cent. rate in January last, was the inability of the company to handle the expansion in business following the opening of the Puget Sound Extension. True it is that the construction of the Pacific Coast Extension has saddled the St. Paul with a large bonded debt, but it is a fact and not a theory, that had the St. Paul proper been in standard physical condition at the time of the opening of the new extension, the saving in net earnings from the increase in business which the new extension has brought to the St. Paul would have been more than sufficient to meet the old company's increase in fixed charges.

A New Era.

But the St. Paul has entered upon a new era. In short, it is being brought up to standard at which it will be able to economically handle its growth in business and is being prepared to effect a reasonable saving on the further large increase in traffic which the Puget Sound Extension is almost certain to develop. In the current calendar year the St. Paul will expend approximately $25,000,000 on its lines. Grades will be reduced on all parts of the system and much double tracking work is in progress on important mileage. The work on reducing grades, strengthening bridges and double tracking will consume upwards of $20,000,000 in the next eighteen months. In addition, more than $5,000,000 will be spent on equipment. Orders have already been placed for 125 locomotives and more than 3,000 new freight cars. A large part of this new equipment will be built in the company's own shops. Some of the larger locomotives will be purchased from equipment companies. Much attention will also be devoted to enlarging yards and terminals, particularly at Milwaukee, Chicago and Seattle.

The future prosperity of the Chicago, Milwaukee & St. Paul will be largely built up by the Chicago, Milwaukee & Puget Sound Ry. The potentialities of this line are but little understood or appreciated. It is in excellent physical condition. There is not a wooden bridge on the line. The roadbed is heavily ballasted and is laid with eighty pound and ninety pound rails. The expense of maintaining the line will be comparatively small during the next several years.

Possibilities.

Furthermore, the Puget Sound Extension operates through territory which is showing more rapid growth than any other section of the country. Its possibilities are practically unlimited. In the first place, it will be an enormous grain carrier. Then, the products from the various mines will be an increasingly large item of tonnage. Lumber traffic is practically certain to show big expansion and with the growth of the country, merchandise traffic, which brings high freight returns will swell the company's revenue.

Another important consideration is the increase in traffic to be derived through the opening of the Panama Canal. The increase in the inward and coastward movement of freight, following the opening of the canal will, unless all predictions fail, be very large.

The Pacific Coast Extension has already fully justified its construction. In the 1911 fiscal year, the second year of its operation, the company showed total operating revenues of $14,516,366, from which it was able to save $6,226,237 for net. Earnings after charges available for dividends were equivalent to 2.77 per cent. on the Puget Sound's $100,000,000 stock, viz:

Fiscal Year Ended June 30, 1911.

Operating revenues	$14,516,367
Expenses	8,290,128
Net	6,226,239
Operating income	5,711,205
Total income	7,790,617
Charges, interest, etc.	5,018,420
Dividend balance	2,772,197
Per cent. earned on stock	2.77

But the Puget Sound Extension has been even a more profitable source of revenue to the St. Paul than these figures indicate. From last year's surplus the Puget Sound line declared a dividend of 2 3-10 per cent., enriching the parent company's treasury by $2,300,000. In the two years the extension has been in operation it has paid $5,000,000 in dividends to the St. Paul.

Extra Assets.

The Chicago, Milwaukee & St. Paul has valuable assets in the way of timber holdings and coal lands, which promise to become a valuable source of revenue. Timber holdings of the company are valued at approximately $80,000,000. Lumber business in the Northwest is now showing the first definite signs of healthy improvement in some time, and these holdings should materially increase St. Paul's income in the next year or more.

The coal properties of the company are held in the name of the St. Paul Coal Company and the Excelsior Coal Company. These companies own 1,190 acres of coal lands and mining rights for other 1,250 acres in Iowa and 347 acres and mining rights for 27,300 acres in Illinois. The company also owns valuable coal lands in Washington.

As before stated, the St. Paul is entering upon a new era. Old mistakes in policy are rapidly being rectified and the position of the company generally is being gradually strengthened. Its outlook has never been more favorable than it is at the present time, and the market price of its shares should soon begin to discount this improved outlook.