Rock Island Has Improved Status

No longer the marginal road it was prior to reorganization, carrier has developed substantial earning power. Position of its equities is enhanced by debt retirement

Severe reorganization terms effected in 1947 cut the Rock Island's funded debt, replaced two preferred issues with one at five per cent, and made a sweeping reduction in fixed charges. The road was left in a more comfortable financial position with a relatively small stock capitalization. Strong earnings protection is now afforded the sole mortage bond issue, and coverage of the preferred dividend requirement is quite ample.

Under these conditions, common share earnings during the 1948-51 period amounted to $38.77 while only $12.25 per share was paid in common dividends. Even with the common dividend rate raised to $1 quarterly, six months' 1952 earnings were nearly three times the new half-year rate. Since a considerably larger proportion of earnings is derived from operations of the last six months, it will not be at all surprising if the Chicago, Rock Island & Pacific, to give the road its corporate title, will earn better than three times its $4.00 dividend rate this year.

Dependent Upon Wheat

The Rock Island normally carries a large tonnage of grain and other food supplies, raw materials of various kinds, manufactured goods and war materiel. The product which brings the road more revenue than any other—and the difference is fairly wide—is wheat. Even when a wheat crop fails, as did the 1951 winter wheat harvest in its territory due to drought, the road may still transfer a large volume from warehouses. Despite the failure of the winter crop, which affected mid-year earnings, total wheat tonnage carried last year exceeded that of 1950 although it was hardly up to that of other prior years.

A highly uneven month-to-month earnings record last year was caused not only by a poor winter wheat crop but also by a series of floods. While the months of June, July and August are quite profitable normally, the road reported a July loss of 38 cents per share with earnings of only 80 cents for the three summer months. Revenue loss ascribed to flood waters was estimated at more than $9 million, plus damages to property of $4 million.

These adverse factors are entirely absent this year. Production of winter wheat was placed at well over a billion bushels compared with only 645.5 million in 1951. Total wheat production for the year will also be greater. This year's corn crop, despite the drought, is also expected to exceed 1951 output. While flood conditions were again experienced this year, damage was slight.

Consequently June revenues were up about $3 million, lifting net income below depressed year-earlier levels by 110.6 per cent, or 92 cents per common share. Still larger gains will be shown for July and net income is bound to build up further in later months. The Regional Shippers Advisory Board for the central western district predicts a third quarter increase of 13.9 per cent in grain movements while shipments of ore and concentrates are expected to rise by 6.9 per cent and other metals by 25.8 per cent. The effect of the freight rate increase (effective May 17 for grain and grain products) is estimated to bring a revenue gain of about seven per cent.

Progressive dieselization and other operating economies have resulted in a decline in the road's operating ratio —to 73.4 per cent for the first six months vs. 75.1 per cent one year earlier. For the month of June alone the ratio dropped to 68.4 per cent compared with 78.0 per cent in the 1951 month. Since last February, equipment and joint facility rentals have been declining, reflecting new additions to the systems railway car fleet.

Also of longer-term interest is growing industrial expansion along the Rock Island lines. Last year, 277 new permanent industries were located at various points on the system, and 29 larger plants already served expanded their operations. Annual freight revenue to accrue from traffic originating at these plants is estimated at more than $3.1 million with an additional million to be derived from temporary industrial installations of which there are many.

Financial Position

Funded debt plus equipment obligations of the Rock Island at the end of last year amounted to only $95.8 million, and while there has been some increase in equipment debt since, the total is conservative in relation to demonstrated earning power. Fixed charges of about $3 million annually are less than dividend requirements on the 703,898 shares of $5 preferred stock outstanding and should be covered at least eight times over in 1952.

Selling at little more than five times indicated earnings, the common stock at 66, close to its high for the year, still appears quite reasonably valued. Yielding 6 per cent on the present $4 per share annual dividend rate the shares appear attractive for both income and longer term appreciation possibilities. The road's strong financial position and excellent earnings would fully justify an increased rate of dividend disbursements, which at least is of speculative interest.

Chic., Rock Island & Pac.

Year	Revenues (Millions)	*Earned Per Share	Dividends	Price Range
1939..	$78.5	D$2.31	...	....
1940..	80.7	D0.51	...	....
1941..	97.0	6.38	...	....
1942..	137.1	19.04	...	....
1943..	176.6	20.25	...	....
1944..	190.4	12.67	...	....
1945..	192.0	8.82	Nil	....
1946..	159.9	6.22	Nil	51 —19
1947..	178.1	9.72	Nil	31 —19½
1948..	197.4	10.30	$3.00	42½—25½
1949..	184.7	9.83	3.00	41½—25½
1950..	179.7	10.20	3.00	53¼—36¾
1951..	198.5	8.44	3.25	61¼—43⅞
Six months ended June 30:				
1951..	$99.9	$4.27	...	....
1952..	104.3	5.85	a$3.00	a69½—49¼

*Pro forma in 1943 and prior years. a—To August 20. D—Deficit.