HONOLULU-based Amfac Inc. has, besides its Pacific base, one major attribute: a broad operating base. And owing to its diversified interests (a partial list: retailing, wholesale distribution of building materials and pharmaceuticals, food processing, hotels and resorts, real estate, financial services), the company has managed to put together an unbroken six-year string of rising profits.

It appears, moreover, as though 1974 could be No. 7. Specifically, Amfac, despite some headaches, is in a major way cashing in on higher sugar prices (though its actual production of the sweet will be down).

In the nine months ended September 30, Amfac earned $3.15 a share, compared with $1.73 in the similar year-ago span, despite an increase in the effective federal tax rate to 41% from 36%. Operating revenues rose to $845 million, from $559 million.

For the full year, earnings are expected to range between $4 to $4.50 a share (7% less fully diluted), compared with $2.26 (2.23 fully diluted) in '73. This year's projection is based on a 44% federal tax rate, against 33% in '73, notwithstanding an increase in investment tax credits to about 14 cents from 13 cents a share. It allows, furthermore, for a switch from FIFO to LIFO accounting (which the company is considering) that would cost the company around 50 cents a share. Revenues are expected to come in between $1.15 billion, to $1.2 billion, up from $950 million.

Next year, revenues of around $1.3 billion and a 10% increase in the per-share net seem possible.

One of the "Big Five"

The company, known until 1966 as American Factors and one of Hawaii's famous "Big Five" corporate entities, boasts an earnings growth rate of 25.6% a year compounded on a 23.9% annually compounded increase in sales in the decade through 1973. Its only downturns in operating earnings during that period—a 43.4% decline in 1964 and a 23.5% dip in 1967—resulted, first from price reductions of 18% for sugar and 52% for molasses, and, in '67, from declines in residential construction activity in Hawaii (attributable to the restricted money market). A major share of the company's growth between 1967 and 1973 came from acquisitions, the largest of which brought Lamb-Weston, a potato and vegetable processor with sales of almost $50 million a year, into the fold in 1971.
Considering its scope, Amfac, not surprisingly, does have some trouble spots. The Wilhelm cattle feedlot and slaughtering operation, for one, incurred heavy losses from the high cost of purchasing and fattening young feed cattle. It was also clobbered by falling prices for fat cattle at the wholesale level when they were ready to be sold. Pretax losses here this year are estimated at $13 million, substantially all of which have been incurred prior to September 3.

Higher money costs also have hurt. Losses in mortgage banking activities and sharply lower earnings in several other financial services, combined with sub-

stantial writedowns on mobile home parks and other

lower carrying costs, are expected to produce a $4 million to $15 million decline in earnings. Corporate expense is increasing about $2 million this year and interest costs are up about $1.5 million from last year’s $17.5 million, due to higher rates, although total debt averaged out to about the same as 1971’s approximately $250 million.

However, higher prices for sugar are more than offsetting these negatives. To be sure, sugar production will be down this year at

Amfac, due to a

week strike that hit the industry at the start of the harvesting season in March and April. The higher price tags, though, should yield well over $35 million in pretax earnings in 1974, against $14 million in 1973. Production next year is expected to get back to the 550,000-ton level, enough in itself to accommodate a 15% drop in average sugar price realizations next year without any notable impairment of total earnings from this source in 1975.

Besides sugar, moreover, Amfac should benefit this year by an increase of over $5 million in pretax earnings from Lamb-Weston. That would reflect higher prices and the effect of full production from a fourth frozen

french fries plant completed in early 1973 at Hermiston, Ore., at a cost of $13 million. The facility, with a capacity of 150 million pounds yearly, is expected to generate about 75% more in pretax profits this year than in 1973,
when start-up problems prevented it from reaching capacity. Another $2 million improvement in pretax earnings is anticipated in the wholesaling operation. It is divided pretty evenly across all three major product lines, including building materials, with construction still booming in the two states (Hawaii and Alaska) in which that volume is registered.

Losses in Mainland department stores (Rhodes and Liberty House) are expected to be trimmed about 30% by fewer openings and merchandising improvements. And, profits in the Liberty House operation in Hawaii seem headed for a 20% increase over 1973 levels. Finally, the hospitality group is expected to generate about $2 million more in pretax earnings, up 25% to 30% over its 1973 performance, reflecting an increase in occupancy in the Hawaiian operation, to around 84%, against 80.4% last year, as well as a 15% rate boost effected January 1. Mainland operations are enjoying much smaller rate hikes, but have encountered a decline in occupancy (to around 60% from 63.4% last year).
The '75 Outlook

Next year, things should be helped by several things. Relief from Wilhelm's cattle losses, with an estimated 3,000 head going into 1975, compared with 60,000 going into 1974, could alone be worth 55 to 60 cents a share in after-tax net if the operation only breaks even. And break-even is the minimum expectation for next year. Also, a decline in interest rates to the level of an 8.5%-9% prime, as an average for the year, could generate another 14 cents a share in after-tax earnings increases from financial services (only about half of that has been cranked into the earnings projections for 1973).

If sugar profits hold about even, land sales are likely to be restrained (because of their rising value). However, it should be noted that Amfac went into 1974 with 65,450 acres of owned property in Hawaii and another 27,777 acres on the Mainland, having sold only 155 acres in Hawaii and 313 acres of Mainland holdings in 1973.

Amfac derived about 60% of its revenue last year from its merchandising activities. These include wholesale distribution of drugs and electrical supplies (primarily west of the Mississippi), and of building materials and appliances.

 Realty House Department Stores (in Hawaii, California, Oregon and Washington), the smaller Liberty House resort stores in Hawaii, Rhodes Department Stores (in Arizona, New
Mexico and Texas), and Joseph Magini specialty stores (in Hawaii, California, Nevada and Colorado).

Food processing embraces Lamb-Weston, Pacific Pearl Seafoods and the Wilhelm cattle feeding and packing house operation, about 18% of revenues. Agricultural activities involve mainly sugar produced on five plantations in Hawaii, each with its own processing facilities, and generated 3% of revenues.

The so-called hospitality group provided 10% of revenues. Here, units include the Coco Palms, Royal Lahaina and eight other hotels in Hawaii. In addition, 11 hotels, and capital restaurants and souvenir shops, are operated by the Fred Harvey division, largely in national parks. Rounding out its vast interests is the asset management group. Activities span the development and management of commercial and industrial property; and construction of residential properties. Amfac has equity interests in wholly-owned non-consolidated finance subsidiaries on the West Coast and Hawaii.

Capital expenditures this year are expected to approximate the $30 million spent in 1973 and dip to under $20 million next year. Over 60% of this year's outlays are going into hotel furnishings and equipment and store fixtures. Cash needs are expected to be more than amply covered from internal cash generation this year, with total long- and short-term debt, in fact, likely to be reduced $25 million to $30 million by the end of the year.

Current assets totaled $21.8 million against current liabilities of $172.1 million on December 31, 1973, a current ratio of 1.37-to-1.

Besides the $210 million or so in long-term debt, capitalization includes 10,877,523 shares of common, 19.5% of it held by Gulf & Western, which has indicated its intention of increasing its ownership to at least 20% of the voting stock but continues to describe its position as being solely "for investment purposes." Also outstanding were 38,076 shares of $2.50 cumulative preferred convertible into 1.2 common shares, and 934,689 shares of $1 Series B cumulative preferred convertible with 0.5887 share of common. Options for 13,626 shares were exercisable at $12.63 to $36.67 a share to December 3, 1978.

The quarterly cash dividend was increased to 20 cents from 17 cents a share with the December 1974 payment, marking the second increase this year.

Amfac Inc. common is listed on the New York Stock Exchange.

---MITCHELL GORDON