



**TRANSWAY
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File 2

TRANSWAY INTERNATIONAL: Estimated Reduced

<u>Price</u>	<u>1977 Range</u>	<u>Div</u>	<u>Yield</u>	<u>EPS 1976</u>	<u>EPS 1977E</u>	<u>P/E</u>	<u>EPS 1978E</u>	<u>P/E</u>
25	27 - 21	\$1.60	6.4%	\$3.11	\$3.25	7.6	\$4.25	5.9

Last week we reduced our 1977 earnings estimate for Transway International from \$3.75 to \$3.25 to take into account two unfavorable, unrelated developments involving the Company's 50% investment in Waterman Marine Corporation. (Transway made a \$2-million investment in Waterman about 10 years ago which has since grown to about \$18-million; the Company reports its share of Waterman's earnings on an equity accounting basis.)

The first problem centers on Waterman's decision not to take the construction subsidy from the Maritime Administration on three new LASH (Lighter Aboard Ship) vessels for its Far Eastern trade routes #12 and #22. According to the company, sharply escalating U.S. construction costs and inadequate construction differential subsidies made the investment in these vessels unattractive. In addition, Sealand Services' lawsuit pending against the Maritime Administration has made the longevity of such operating subsidies questionable. When Waterman declined the LASH construction subsidies, its operating subsidies were also suspended, throwing the company's Far Eastern trade route operation into a loss position which will continue for the duration of the current voyages of all eight ships, or until November 15, 1977. Transway will then either scrap these eight marine vessels or sell them back to the Maritime Administration under pending legislation.

Waterman's remaining trade route to the Mideast (#18) remains profitable. However, one of the company's LASH ships servicing this area was damaged while on the Indian Ocean by an onboard explosion and fire on July 15; as the vessel will be unable to complete any further trips this year, it will cost Waterman \$2.5-million in voyage profits.

Fortunately, the Waterman difficulties will have no effect on Transway's cash flow, and all of the Company's own operations -- trailer manufacturing, freight forwarding, marine services, and LP gas distribution -- should continue to show strong growth and in some cases record operating profits this year. Therefore, we have reduced our 1977 earnings estimate for the Company by only \$0.50 per share to \$3.25; we expect 1978 earnings to be on track with our expectations of \$4.25 per share.

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