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Outlook: GM rises, Ford falls

Investors see GM rebound while Ford still struggles

Christine Tierney and Brett Clanton / The Detroit News

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General Motors Corp. and Ford Motor Co. have a long way to go to turn around their North American operations, but Wall Street is placing its early bets on GM.

Its shares hit a six-month high Thursday after a two-day rally triggered by reports that GM's U.S. factory workers were signing up in droves for buyout offers.

GM's stock has gained 43 percent this year, while Ford shares have shed 8 percent. The divergence partly reflects GM's head start. It launched its restructuring plan first and has moved further along, while investors feel uncertain about Ford's pace. They also worry about the impact of high gas prices on Ford's truck sales.

"The sentiment obviously has ebbed and flowed around the Big Two, but right now GM is catching the momentum," said Glenn Reynolds, an analyst with CreditSights in New York.

Investment firm Merrill Lynch upgraded GM's stock Wednesday for the second time in less than a month and more than doubled its earnings estimates for the automaker. Investors also were heartened by reports that GM was hiring temporary staff after a higher-than-expected number of workers accepted buyout offers.

The Detroit News reported Thursday that more than 20,000 GM workers have signed up for buyouts or early retirement offers -- more than two-thirds the amount targeted by the automaker in its restructuring plan.

"That's going to have a very significant impact on their structural costs," said David Kudla, CEO and chief investment strategist at Mainstay Capital Management, LLC in Grand Blanc.GM and Ford are struggling against fierce competition from Asian automakers unencumbered by some of the U.S. automakers' legacy costs.

Ford debt ratings might fall

Both automakers are losing money in North America and are slashing jobs and closing plants to shrink their domestic operations, bringing them in line with their falling market share.

"Both companies are faced with the same issues," Kudla said. But while there has been a stream of news about GM's progress, he said, "the difference with Ford is that there hasn't been as much news about their progress."

Further dampening investor sentiment, Standard & Poor's Ratings Services said Thursday it might downgrade Ford's debt ratings deeper into junk status.

S&P said it was concerned about weakening demand for some of Ford's traditionally lucrative SUVs and pickups and its dwindling domestic market share.

A Ford spokesman said S&P had described the automaker's liquidity position as strong and noted that it had a plan to turn around its operations. "Our focus is on executing that long-term strategy well," said spokesman Oscar Suris.

While both U.S. automakers are suffering from high gas prices, which have cut demand for large vehicles, GM is getting a boost from the rollout of new large SUVs.

After shunning GM shares for months, analysts started to take a more favorable view in April as the automaker began fulfilling steps outlined in its restructuring plan.

In a key cash-raising move, GM plans to sell a stake in its GMAC finance arm for $14 billion.

Weeks earlier, it forged a historic deal with the United Auto Workers to clear out thousands of highly paid workers through a massive buyout program.

On April 26, Merrill Lynch upgraded GM from "sell" to "neutral" on optimism that the automaker had enough cash to fund its restructuring and that it was taking the correct steps to recover.

On Wednesday, the firm upgraded GM again, to "buy," after learning early returns from the buyout program were stronger than expected. The buyouts, offered to all of its 113,000 U.S. hourly workers, have found more than 20,000 takers with a month to go before the deadline.

"GM and its shareholders are clearly better off if buyouts are widely accepted, as are workers," said Merrill Lynch's John Murphy in the Wednesday report.

"A worker accepting the buyout is contributing to the health of GM, making their future benefits more secure, especially versus the worst-case scenario of bankruptcy."

Deutsche Bank also upgraded GM to "hold" from "sell" this month, while Key Banc Capital Markets upgraded GM on May 12 to "buy" from "hold."

The optimism also stems from a growing belief that GM will reach a deal to avert a strike at bankrupt Delphi Corp., its largest parts supplier. The UAW has threatened to strike at Delphi if a court allows the company to scrap its labor contracts and impose big pay cuts.

GM will have $27B in cash

Analysts predict GM will end the year with enough cash -- an estimated $27 billion -- to carry the company through its costly restructuring. Although the plan ultimately aims to reduce its costs, GM is taking billions of dollars in charges up front to pay for the buyouts and closure or downsizing of 12 U.S. plants by 2008.

This week, in an apparent effort to hoard cash, Ford offered the highest interest rate it has ever paid to refinance debt.

Ford has had more management turmoil than GM and has a promising but untested North American team led by Mark Fields.

It has been less specific in outlining its plans and has not, for instance, identified all of the 14 plants it intends to close by 2010.

"They have come across as either inept in delivering the message, arrogant in holding back details, or fearful of flunking the tests they set for themselves," said Reynolds.

Analysts also worry about its competitiveness in a cutthroat environment. In a report issued this month, Goldman Sachs cited the slow pace of Ford model launches. Its new hits, such as the midsize Fusion sedan, have smaller profit margins traditionally than its trucks and SUVs. Despite a major overhaul, Explorer SUV sales are down 30 percent this year.

While many analysts feel more hopeful about GM, others urge caution. GM faces federal probes into its accounting practices, still faces the risk of a calamitous strike at Delphi and has yet to stem market share losses. So far this year, its sales are down 6.8 percent.

"GM is suffering losses at the peak of the auto cycle," Robert Hinchliffe of UBS Investment Research wrote last week. It is rolling out new large SUVs in one of the weakest markets for SUVs in years, he said, and has too few other models in the pipeline.

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