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GM pulls ahead of Ford in race to fix operations

Shares hit highest levels since October

By Christine Tierney and Brett Clanton
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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 finished Friday at their highest since October after a two-day rise triggered by reports that GM's U.S. factory workers were signing up in droves for buyout offers.

GM's stock has gained 45 percent this year, while Ford shares are slightly lower on the year. The divergence partly reflects GM's head start. It launched its restructuring 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 sales of Ford trucks, such as the Louisville-built Super Duty pickups and Explorer SUVs.

"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 last week for the second time in less than a month and more than doubled its earnings estimates for the automaker. Merrill predicted that 30,000 GM workers could take the buyout. Prudential Equity Group joined in Friday, upgrading GM to the equivalent of a buy.

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

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."

Optimism surrounding GM 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.

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.

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," Reynolds said.