

GM and Ford Had Different Second Quarter Results

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Auto insight

Insider
Q&A



David Kudla

Who he is: CEO and Chief Investment Strategist of Mainstay Capital Management

What he says: Despite recalls, GM is a long-term pick

General Motors and Ford had very different results in the second quarter.

Ford reported a record pretax profit of \$2.4 billion in North America. GM would have made the same amount, but the cost of recalling millions of cars for safety defects knocked its North American profit down to \$1.4 billion. Ford also eked out a small profit in Europe, where GM lost \$305 million. But it wasn't all rosy for Ford, which lost more in South America than GM did. And GM continues to far outpace Ford in China.

David Kudla, the founder, CEO and Chief Investment Strategist of Mainstay Capital Management, follows both companies closely for his Grand Blanc, Mich.-based firm. Here's his take on the second quarter and beyond.

Based on GM's and Ford's second-quarter results, who has the better outlook?

Ford certainly had a great second quarter. They are clearly on the right track and the stock is now up 18 percent YTD.

The picture painted by GM was not as rosy. Profits fell significantly from last year as the company took a \$1.5 billion charge related to their recall woes, and the amount of compensation they will ultimately pay the victims remains a question mark. While Ford may appear to have the current momentum and operational success, GM may be the longer term pick. Fundamentally, they trade at a discount to Ford and the recalls should largely be behind them soon.

Aside from the recalls, is GM healthy?

CEO Mary Barra is conveying the message that under her leadership GM will aggressively deal with the issues of the past and the present. Consumers seem to be convinced judging by the sales numbers, which reflect an unrelenting demand for GM vehicles.

In the next few months, GM should be able to focus back to its underlying business, which implies an upside potential for the stock. We believe overall that GM was making growth decisions intelligently prior to the recalls – which products to support, which regions to expand. This augurs well for the long-range potential of the shares.

The auto business is so cyclical. Are GM and Ford good investments?

Even with their vast global operations, GM and Ford's top and bottom lines are very much dependent on North American sales. This holds them somewhat captive to domestic economic cycles. Total unit sales are approaching the pre-crisis levels, but there is still pent up demand for vehicles in the U.S. Also, demand growth from emerging economies, coupled with an average age of vehicles that has never been higher in the developed countries, will prove a strong cocktail of profits in the years ahead.