

GM swings to profit but falls short of estimates

By Jui Chakravorty

Wed Mar 14, 2:47 PM ET

DETROIT (Reuters) - General Motors Corp. (NYSE:GM - news) swung to a profit in the fourth quarter but fell short of Wall Street expectations on mounting mortgage losses from its former finance unit.

The world's largest automaker said it expects results from finance company GMAC, in which it retains a 49 percent stake, to remain under pressure this year due to increased defaults in subprime mortgages -- loans to borrowers with poor credit.

GM shares and bonds fell as investors and analysts worried about continued pressure on GMAC and expressed concern about whether GM could maintain the pace of its aggressive cost-cutting.

"Income saw a major boost from cost cuts, but many are noncash, and future cost-cutting will likely be harder," Goldman Sachs analyst Robert Barry said.

GM reported fourth-quarter net income of \$950 million, or \$1.68 per share, on Wednesday, compared with a loss of \$6.6 billion, or \$11.63 per share, a year earlier. Revenue slipped to \$51.2 billion from \$51.7 billion.

Excluding one-time items, the company earned \$180 million, or 32 cents per share. Analysts, on average, had expected \$1.20 per share, according to Reuters Estimates.

"The pressure on results is a function of the slowdown in the residential mortgage business and increased provisions in response to the weakening subprime market," Merrill Lynch analyst John Murphy.

GM's North American auto operations recorded a profit of \$50 million in the quarter.

Net earnings were boosted by \$770 million in one-time gains related to the sale of a majority stake in GMAC and the sale of an Arizona proving ground.

The automaker said it cut its recurring costs by \$6.8 billion in 2006, about \$800 million more than initially planned. The savings came from a program of more than 34,000 job cuts in its factory work force and reduced spending on marketing and engineering, Chief Financial Officer Fritz Henderson said.

Henderson said he expects improvement in profitability this year but declined to make a specific forecast. GM had forecast a fourth-quarter profit but had not specified a target.

Analysts say that among Detroit automakers, GM has made the most progress toward a financial turnaround. The company's net loss narrowed to \$2 billion in 2006 from \$10.4 billion in 2005. Ford Motor Co. (NYSE:F - news) lost \$12.7 billion last year, while DaimlerChrysler AG's (DCXGn.DE) Chrysler unit lost almost \$1.5 billion.

Henderson said GM's operating cash flow, which Wall Street has tracked as an indicator of the durability of its turnaround, will improve in 2007 but will remain negative.

GMAC UNDER PRESSURE

GM booked a \$284 million quarterly loss from GMAC, which had been a consistent source of profit for the automaker as a captive finance company.

GMAC's ResCap, which specializes in mortgage financing, lost \$651 million in the fourth quarter as defaults on housing loans to borrowers with poor credit increased.

Standard & Poor's analyst Efraim Levy reiterated his "hold" rating on GM shares, citing weakness in the residential mortgage market. "I think weakness in subprime mortgages will continue and impact equity income this year," he said.

GM delayed filing its fourth-quarter and 2006 results, which were due in January, in part because of difficulties in preparing the balance sheet for GMAC in the face of the weakening housing market.

The automaker sold a majority stake in GMAC to a group led by Cerberus Capital Management in November, and guaranteed a minimum book value of \$14.4 billion at the closing of the sale.

GMAC on Tuesday said it would receive about \$1 billion from GM this quarter, in order to shore up the company's book value.

GM shares were down 49 cents, or 1.5 percent, at \$30.02 in afternoon trade on the New York Stock Exchange. The shares have risen 54 percent since the start of 2006.

GM's bond prices fell amid concerns of continued fallout from the subprime mortgage crisis. GM's 8.375 percent bond due in 2033 was trading at 90 cents on the dollar, compared with 91.5 cents on Tuesday.

COST-CUTTING ON TRACK

GM said it remains on track to cut structural costs by \$9 billion this year compared with 2005, before it began a sweeping restructuring.

The automaker, which is expected to be challenged for the top spot in global sales by Toyota Motor Corp. (7203.T) in 2007, is banking on the success of many new products this year, including new sport utility vehicles, which were hurt last year as high gas prices drove consumers to more fuel-efficient vehicles.

"We look for further positive earnings momentum as a result of cost-cutting and improved SUV and truck sales," said David Kudla, chief executive of Mainstay Capital Management.

(Additional reporting by Neil Shah in New York and Kevin Krolicki in Detroit)