

EARNINGS OUTLOOK

Restructuring the focus for GM, Ford

Automakers will report first-quarter updates next week

By Shawn Langlois, MarketWatch

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SAN FRANCISCO (MarketWatch) -- General Motors and Ford will post their quarterly results next week, with investors looking for evidence that both car giants are making progress toward slashing labor costs and curbing losses in their auto operations.

Analysts polled by Thomson First Call see GM (GM : [F6.65](#), -0.14, -2.1%) is pegged to hand in a profit of 25 cents a share with revenue of \$39.7 billion. See more analyst coverage.

Prudential Equity analyst Michael Bruynesteyn said both could surprise to the upside, but he still wouldn't recommend buying shares in either company.

"The expected positive [first-quarter] result should not be regarded as the start of an upward trend, as we expect further losses in [the second half the year]," Bruynesteyn said about GM.

For Ford, he said he would use any earnings rally in the stock to sell at a higher price. "Ford's earnings in the past three years have tended to outperform expectations in the 1Q before trailing off for the remainder of the year," he said. "As such, we would be sellers of the shares if the company's earnings surpass consensus."



Shares of both Ford and General Motors have lost more than a quarter of their value in the past year.

Many questions, few answers

While most concerns dogging both companies probably won't be answered in the first-quarter numbers, there could be some clues to watch out for, according to David Kudla, chief investment strategist at Mainstay Capital in Grand Blanc, Mich.

For General Motors, he said brokering a deal with Delphi and its union workers is critical.

"First and foremost, Wall Street hates uncertainty and wants to know that a Delphi strike will be averted," he said, adding that clarity on the issue will come sooner rather than later.

"Rick Wagoner has the trust and support of the UAW," said Kudla, who manages money for almost 1,000 GM retirees and employees. "It's to the benefit of all involved that they reach a deal."

Atop Ford's agenda, the Dearborn, Mich. carmaker on Thursday answered at least some of the questions regarding where it stands in its "Way Forward" plan by naming two plants for closure in 2008. See full story.

In January, Ford laid out these plans to slash up to 30,000 jobs and shut 14 manufacturing plants to restore its North America auto operations to profitability within the next two years. See full story.

About the product

General Motors will likely trumpet the strong start for its GMT900 lineup of SUVs and pickups, which have been flying off dealer lots. Sales of the Chevrolet Tahoe rose 20% from a year ago to 10,126 vehicles, while Escalade sales surged 45%.



2007 Cadillac Escalade

Still, a 17% overall sales decline brought GM's market share below 24%, less than half of where it stood about 45 years ago at its peak.

Deutsche Bank's Rod Lache raised his targets on GM last week, with new products providing some boost.

"We believe that GM could surprise the Street when they report Q1 earnings, as a result of benefits from GM's new pricing strategy, volume/mix benefits from ramp-up of the GMT-900 SUVs, and an accounting benefit (\$0.23 EPS) from the jobs bank charge," he said.

He added that Ford, however, will show "considerable earnings deterioration" due to lower-than-expected production and waning demand for its more profitable vehicles.

In March, Ford's U.S. sales fell 4.6% to 291,146 from 305,172 in the same month a year earlier. See full story.

"While cost savings could mitigate the earnings decline, we doubt it will be enough," he said.

Bruynesteyn is looking for a pretax loss of \$711 million for GM North America, an improvement from the loss of \$1.6 billion in the first-quarter a year earlier.

And he mostly echoed Lache's take on Ford's prospects.

"We continue to believe that Ford's relatively weak cadence in 2006 will lead to a significant market share loss this year," he said. ■

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