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Drive to raise price of GM stock begins

BY DAVID SHEPARDSON and MELISSA BURDEN (excerpt)

A former Obama administration auto adviser who helped engineer General Motors' bankruptcy and bailout wants to join the automaker's board — with the backing of four hedge funds — and convince the company to buy back \$8 billion in shares.

Harry Wilson, who was a senior member of the auto task force that pushed GM into bankruptcy in 2009 as part of a \$49.5 billion bailout, said he plans to seek election by shareholders to the board at the company's 2015 annual meeting. He wants the automaker to repurchase \$8 billion in stock by mid-2016. The effect of a buyback would be to boost the value of the remaining shares. ...

Buyback questioned

...Some analysts are skeptical about a big buyback. GM nearly collapsed in 2008 after it ran out of money; it was rescued by a government bailout. Auto sales have been rising for five straight years — but the industry has historically had “bust-boom” cycles, and industry experts say manufacturers need a significant cushion to carry them through the bust periods. ...

...GM ended 2014 with \$25.2 billion in cash, down from \$27.9 billion at the end of 2013. Chief Financial Officer Chuck Stevens has said GM wants to protect its “fortress balance sheet” but also wants to return capital to shareholders.

In January, GM said it did not plan on raising its dividend. Then GM this month announced a 20 percent increase of its quarterly dividend to 36 cents per share. The dividend increase would be for the second quarter, pending board approval. ...

...David Kudla, CEO and chief investment strategist at Mainstay Capital Management LLC in Grand Blanc, questioned whether GM should spend nearly one-third of its cash on a dividend just a few years of out of bankruptcy.

“They need to let GM leadership run the company, let them decide how to deploy capital,” he said. “These activists want to use financial engineering to enrich themselves by increasing the stock price in the short-term.”

Morningstar Inc. auto analyst David Whiston in an interview said he likes the idea of a share buyback, but says \$8 billion in one year is too much for GM, given uncertainties such as ignition switch recall litigation costs, unsettled Justice Department issues, and uncertainties in Russia and South America.

“This happens a lot when times are good,” Whiston said. “Activist investors demand a buyback ... and the problem is those people don't think about how much cash you've got to have in a recession.” ...

Biggest challenge since '06

...The automaker faces big costs like a new union contract this summer and a potential Justice Department settlement — big unknowns for its balance sheet.

Officials say the company wants to have at least \$20 billion on hand in order to maintain investment grade status from rating agencies. That's to ensure that its GM Financial lending unit has access to low-interest funds. ...