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# GM Is on the Right Road Despite Trump's Ire

By Vito Racanelli, Nov. 28, 2018 (excerpt)

Despite the controversy surrounding General Motors' cost-cutting announced on Monday and its subsequent Twitter run-in with President Trump, the outlook for U.S. auto makers hasn't changed significantly. Sales peaked more than a year ago, and should continue a gradual decline as a secular shift toward SUVs, trucks, and electric cars takes further hold.

GM (ticker: GM) said the moves "will accelerate its transformation for the future," and it plans to realize $6 billion in savings by year-end 2020, through cost reductions of $4.5 billion and a lower capital expenditure of $1.5 billion. It will close several plants in the U.S. and Canada and two others outside North America. Salaried and contract staff will be reduced by 15%, which irked the president, who tweeted his disappointment with GM CEO Mary Barra and threatened government subsidies for electric cars. Wall Street, however, applauded the news, as shares rose 5% Monday to $36.65, closing at $36.74 on Tuesday.

None of this should come as a big surprise. Like its U.S. rivals, GM plans to prioritize production of electric vehicles, SUVs, crossovers, and trucks at the expense of sedans. This will improve capacity utilization.

"We are on the other side of peak auto sales numbers," notes David Kudla, chief investment strategist at Mainstay Capital Management, which has steered clear of U.S. auto stocks. Monthly auto sales topped out in September, 2017, at just over 18 million on a seasonally adjusted annual rate (SAAR). While still at relatively high SAAR rates compared with history, they are below that peak. U.S. light-vehicle October SAAR was 17.5 million, down 2.1% from the year-earlier month.

Car buying demand has been steadily slowing in the U.S., and China, which are big markets for American car makers, says Kudla.

The auto industry is going through one of its periodic downcycles, but secular change is also unde r way, he says. GM, Ford (F), and Fiat Chrysler Automobiles (FCAU) are all moving to higher margin SUVs and crossovers from sedans. In 2011-2012, conventional cars were still 50% of the new car market, but that's tumbled toward the low 30% area, Kudla points out. GM has been behind Ford and Fiat in this transition, he adds.

With ride-sharing growing and the move toward autonomous driving progressing, he says, GM CEO Barra is taking a "non-myopic" view that the company is transforming into a transportation company from a traditional car maker

The auto stocks sell at low multiples and continue to be an unloved group. GM has "articulated a good strategy on mobility…and generated decent profits while sales growth slowed," he says. ...