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Proposal for GM stock raises many questions

By Susan Tompor (excerpt)
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Take an ax to GM stock and somehow chop it into two? Are we looking at what could be a good deal for everyday investors? Or just another potential money maker for a hedge fund manager?

General Motors' top management made its position clear on Tuesday. GM rejected billionaire David Einhorn's proposal for a second class of stock — a plan that would somehow put "value" and "growth" into two baskets of stock for the Detroit-based automaker.

Einhorn, who runs Greenlight Capital, has thrown around big numbers, indicating that his proposal could unlock up to $38 billion in shareholder value. …

…What might be good news for GM shareholders: Just talking about this proposal could somehow drive up GM's stock value, according to CFRA analyst Efraim Levy. …

…But under the proposed split, one class of GM shares would offer a fixed, perpetual dividend; another would offer capital appreciation and participate in all earnings and future growth of the company. The growth shareholders would be entitled to any dividends in excess of the fixed dividend that would be paid to the other class of shareholders, according to Moody's report Tuesday. …

…Moody's Investors Service sounded the alarm bell — as did Standard & Poor's. Such alarms are especially worth noting since just eight years ago GM was in such bad shape that it filed for a government-assisted Chapter 11 bankruptcy in June 2009.

Moody's said it believes that the "dual-class shareholder proposal submitted to General Motors Company's board of directors by Greenlight Capital would, if adopted, be credit-negative for GM and its subsidiaries."

Moody's noted that the new structure would represent a "significant departure from the company's current financial strategy."

"This well-defined and publicly communicated strategy was an important element in the recent upgrade of GM's ratings," Moody's wrote in a research report Tuesday.

Moody's noted that Greenlight's plan to create a perpetual, cumulative dividend in excess of $2.2 billion annually would "saddle GM with a sizable and largely inflexible cash outflow burden."

Anyone who knows anything about Detroit knows that car companies can burn through billions in cash quickly once the country hits an economic downturn. A fixed dividend can add to management's woes. …

…David Kudla, CEO for Mainstay Capital Management based in Grand Blanc, said he'd take Moody's comments under careful consideration. He's unclear how you'd break down GM into two class shares.

"You're drawing an imaginary line there," Kudla said. "This is a form of financial engineering."

Does the dual-share plan somehow build a new GM plant in Michigan? Does it add a few hundred or few thousand more jobs anywhere? Does it engineer a safer, sizzling new SUV?

Right now, we'd have to answer no, no and no.

"Is this just something Einhorn wants to do? How does this really help GM?" Kudla said.

Even so, GM shareholders — and the rest of Detroit — will need to keep an eye on this proposed deal.