

Moody's cuts Ford credit rating to 'junk' status

By Ian Thibodeau
(excerpt)

Moody's Investors Service downgraded Ford Motor Co.'s credit rating to "junk" status Monday, a move that could make it more expensive for the automaker to borrow as it undertakes a sweeping global restructuring amid slowing global sales and a rapidly changing industry.

The ratings agency believes the automaker's years-long restructuring under CEO Jim Hackett will be too costly to generate much return for shareholders. Monday's downgrade to Ba1 — the highest non-investment grade rating — comes as Ford and Hackett have said repeatedly over the last year that 2019 would deliver the results promised, including improved profit margins around the world.

Last August, Moody's had downgraded Ford to its lowest investment grade, Baa3. In May, Moody's upgraded Fiat Chrysler Automobiles NV to the same Ba1 status, an improvement for the automaker driven by strong SUV and truck sales in North America. And the agency last November labeled General Motors Co.'s U.S. restructuring "credit positive."

The Ford "downgrade is an unfortunate inevitability of where we are in the cycle for the auto industry," said David Kudla, CEO of Grand Blanc-based Mainstay Capital Management LLC. "They have this massive restructuring underway and all the auto companies are trying to figure out how to deal with autos 2.0."

In a note, Moody's Senior Vice President Bruce Clark wrote that Ford's financial performance

has lagged during "a period in which global automotive conditions have been fairly healthy. Ford now faces the challenge of addressing these operational problems as demand in major markets is softening."

He added: "The company does have a sound balance sheet and liquidity position from which to operate." ...

... Two other major credit rating agencies — Fitch Ratings and S&P Global Ratings — give a BBB grade to Ford, which is two steps above junk status. Both give a negative outlook to the company. ...

... Kudla said it could take a year or more for the ratings change. The last time Moody's downgraded Ford was in August 2018. For a while, the junk status will negatively impact Ford's ability to borrow, its lending arm and other financial aspects of the business.

"They're undertaking a lot right now in a softening auto market," Kudla said. "These companies are still like turning around a battleship."

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