The Detroit News

Auto stocks jump on agreement

GM's shares, credit rating up; pact also boosts Detroit's other carmakers.

September 27, 2007

Wall Street applauded the tentative agreement between General Motors Corp. and the United Auto Workers as stock prices across the automotive industry propelled upward Wednesday.

The day's big winner was GM, whose stock surged $3.22, or 9.47 percent, to close at $37.64, and whose bond outlook was upgraded by two debt-rating agencies.

The landmark agreement transfers $50 billion in retiree health care obligations to the union in exchange for a massive one-time payment from GM. Wiping those obligations off its books cuts GM's labor cost gap with Asian rivals, which is key to the automaker's long-term viability, analysts said.

"This means that (GM's) business model finally works again and that they can be competitive with Asian manufacturers," said analyst Brad Rubin at investment firm BNP-Paribas. "It will allow them to manufacture smaller vehicles here and still be profitable."

Addressing retiree obligations in the contract agreement also boosted the financial outlook for Detroit's other automakers. The UAW is expected to model its pacts with Ford Motor Co. and Chrysler LLC on Wednesday's GM agreement.

Ford's stock closed up 54 cents to $8.88 Wednesday, and S&P upgraded Ford and Chrysler credit outlook. Chrysler is privately held, so its shares do not trade publicly.

Some analysts couched their enthusiasm, saying they did not know enough about the details of the agreement and specifically how GM will fund the retiree obligations.

"They are likely going to take on debt to pay for this," said David Healy, an auto industry analyst with Burnham Securities Inc. "And there could be new stock financing, which will dilute the position of shareholders."

He said the short duration of the strike means that there will be little impact on the automaker's annual earnings.

Goldman Sachs expressed concern that GM might have to step in and "backstop" retiree health care if costs run up in the future. In a report released Wednesday, the investment bank also noted that GM's commitment to invest in North American manufacturing will slow its movement toward low-cost countries.

Credit ratings upgraded

While maintaining GM's "B" rating, Standard & Poor's placed the company's credit rating on watch for a positive move. S&P previously had put the company's bonds on a negative outlook, meaning it was more likely to lower the rating.

S&P attributed the improved outlook to the agreement, which addresses the automaker's "massive" post-retirement employment benefit obligations. The conclusion of a strike also eliminated risks associated with a long-term work stoppage, S&P said.

Fitch Ratings also gave a nod to GM , taking the company off its watch list for a possible downgrade. The rating service gives the automaker a "B" rating.

Moody's Investors Service, however, maintained its "B3" rating and negative outlook. GM still faces challenges -- including its slipping U.S. market share, over-reliance on trucks and SUVs and a downturn in overall vehicle sales, said Moody Senior Vice President Bruce Clark.

S&P also upgraded the outlook for Chrysler and Ford. Still, despite the improvements, all three automakers' bonds hold "junk" status.

Auto suppliers' stock prices jumped as well Wednesday, especially those who are major suppliers to GM. Among the biggest gainers, Detroit-based American Axle & Manufacturing shares gained $1.68 to close at $24.94 and Zeeland-based Gentex Corp. was up $1.31 to close at $20.90.

Analysts like GM cost cuts

Most analysts praised the cost cuts GM negotiated in the new agreement.

Wall Street had been hoping that GM and the union would agree to establish a voluntary employees' beneficiary association, or VEBA, in which GM would pay the union to assume retiree health care obligations. The union is to administer the fund going forward.

That expectation helped push GM shares up more than 13 percent since Sept. 13, when the UAW picked GM as the lead company -- or strike target -- in this year's contract talks.

"With this new contract and other cost-reduction initiatives over the past two years, GM has now made significant progress in addressing its structural costs and long-term legacy costs," said David Kudla of Mainstay Capital Management in Grand Blanc. "With this success on the cost side of the equation, GM's challenge now turns to the revenue (product) side of the equation."

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