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Moody's downgrades Ford credit rating to junk status

By Phoebe Wall Howard (excerpt)
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Ford Motor saw its credit rating downgraded to "junk" status by Moody's Investors Service late Monday.

The impact of the action, which occurred after the stock market closed, could increase the cost of borrowing money because the automaker is considered a higher credit risk — sort of like a higher interest rate on a car loan for someone with a low credit score. ...

... Moody's said the downgrade reflects the company's anemic global business position and "considerable operating and market challenges facing Ford, and the weak earnings and cash generation likely as the company pursues a lengthy and costly restructuring plan."

However, the outlook is "stable," the debt ratings agency said, noting that its \$23 billion in cash exceeds its debt.

Ford has undergone an \$11 billion restructuring, and a cash cost of about \$7 billion, Moody's wrote. "Ford is undertaking this restructuring from a weak position as measures of cash flow and profit margins are below our expectations, and below the performance of investment-grade rated auto peers." ...

... David Kudla, CEO and chief investment strategist with Mainstay Capital Management, is a Grand Blanc investment adviser who manages \$2.5 billion in assets for clients who include many Ford employees.

He said the downgrade on Monday is "unfortunate for Ford" because things are only getting tougher in the auto industry. Junk status

means fewer pension funds and other institutional investment funds will be able to buy Ford bonds.

"Even though you have cash, you are going out and securing debt from time to time, and it's costlier to do that when that line in the sand is crossed from investment grade to junk," Kudla said. "We're in an environment where we think the economy is looking toward harder times, not better times."

While both Ford and General Motors are stocking up on cash for an expected downturn, he said, securing debt is still necessary for big capital projects.

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