Ford appears strongest of struggling U.S. automakers

by Reuters-News

DETROIT (Reuters) - Ford Motor Co (F.N: Quote, Profile, Research, Stock Buzz) may be a $2 stock, but the company looks the strongest of the three U.S.-based automakers and has options for raising more cash if needed to buy time to complete its turnaround plans.

Revelations the past few days that General Motors Corp (GM.N: Quote, Profile, Research, Stock Buzz) has had preliminary merger talks with Chrysler, and that Ford rejected an overture from the biggest U.S. automaker, underscore Ford's strengths relative to its peers in Detroit.

Under Chief Executive Alan Mulally, Ford raised more than $23 billion two years ago in the capital markets to support its turnaround and has moved faster than GM and Chrysler in improving its vehicle lineup.

"They are ahead of either GM or Chrysler," said Erich Merkle, lead auto industry analyst at Crowe Horwath LLP. "GM is getting there, but it is slow in coming. They are much farther along than Chrysler, Chrysler has a long way to go."

Ford saw the borrowing as insurance against the possibility that a sales decline in the U.S. auto industry would deepen. In fact, U.S. light vehicle sales have been running at the lowest rate in 15 years and are expected to worsen in 2009.

"We tried to anticipate that we needed a cushion in case the economy continued to slow down," Mulally told Reuters in an interview on Friday.

Progress on its turnaround makes it possible for Ford to sell part of its stake in Mazda Motor Corp (7261.T: Quote, Profile, Research, Stock Buzz) and could allow it to sell its Volvo brand, though Volvo has provided an edge in auto safety equipment Ford may not want to give up.

The value of Ford's one-third Mazda stake has dropped by half in about two months amid the global auto downturn to $1.36 billion. It has committed to improving the money-losing Volvo brand, something likely necessary to find a buyer.

As long as Ford can maintain a collaborative approach with Mazda to share future development costs, selling off a share of its stake is a viable option to raise cash, said Aaron Bragman, an analyst at Global Insight.

Ford also intends to apply for loans under the $25 billion program just recently signed by President Bush to help automakers meet a mandated steep increase in fuel economy standards by 2020.

"At the time no one knew what the credit markets would be like, so to be able to do this is really an important part of the government's plan and our plan," Mulally said.

Billionaire investor Kirk Kerkorian - who owns a 6.5 percent stake in Ford - gave the turnaround plan and Ford management a strong endorsement and has expressed willingness to provide additional capital to help Ford complete it.

STILL A ROUGH ROAD AHEAD

A long-time activist investor in the auto industry, Kerkorian has remained publicly silent on his Ford investment even as the global financial crisis deepens.

Kerkorian held a nearly 10 percent stake in GM two years ago, but did not remain silent then. He dropped the GM investment when that automaker rejected his recommendations. He was a major Chrysler shareholder when it was independent and made a failed bid for Chrysler last year before Cerberus .

Ford has not confirmed the reports that GM approached it for possible merger talks, saying that it would not comment on discussions with other carmakers.

"What we can say is that we are convinced our best opportunity is to continue to integrate Ford and leverage our global assets," Ford said. "That remains Ford's focus."

Ford's stock fell to the lowest level in a quarter century last week amid the global financial crisis, but it has a much bigger market cap than GM, which is about even in sales volume with Japan's Toyota Motor Corp (7203.T: Quote, Profile, Research, Stock Buzz) for No. 1 worldwide.

Ford, which was forced to abandon a 2009 profit goal, posted an $8.7 billion second-quarter net loss and ended the quarter with a cash position of $26.6 billion.

Standard & Poor's warned last week it could cut Ford's credit rating deeper into junk, providing much the same analysis as it did with a similar warning on GM -- that Ford has enough liquidity to get through 2008, but next year is uncertain.

The automaker cut U.S. salaried expenses by 15 percent and has accelerated plans to convert some North American truck plants to car production and bring European-designed vehicles to the domestic market.
However, the U.S. auto market has declined more since those plans were announced and other regions have slowed, requiring more cuts. Ford told the United Auto Workers in September it has 4,000 more hourly workers than it needs given sales.
The automaker's U.S. sales dropped 17 percent through the first nine months of the year, deeper than the 13 percent decline in the industry overall.
(Reporting by David Bailey and Kevin Krolicki; Editing by Bernard Orr)
