GM woes worsen after Delphi warning

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General Motors yesterday warned that Delphi, its biggest parts supplier, may not be able to emerge from bankruptcy protection. In a regulatory filing, the ailing US carmaker also painted a dark picture of prospects for ResCap, one of the US's biggest mortgage lenders, controlled by GMAC, GM's 49 per cent-owned financing unit.

The comments came on another bad day for GM, which lost a quarter of its market value after several analysts further ratcheted down projections of the ailing carmaker's financial performance.

However, the White House offered hope to the beleaguered US auto industry, saying it was willing to "listen" to any new proposals coming out of Capitol Hill on a possible bail-out package.

"Congress will have a chance to meet next week, and if they decide to move forward with something additional [for carmakers], we will be able to listen to their ideas," said Dana Perino, White House press secretary.

Though the Bush administration has been reluctant to use the $700bn financial rescue plan enacted last month to help Detroit, Ms Perino's comments could pave the way for legislation aiding the US car industry to be considered by Congress.

Reporting a $2.5bn third-quarter loss last week, GM warned that it was in danger of running out of cash in the first half of 2009 without a government bail-out or other source of capital.

Rod Lache, analyst at Deutsche Bank, said in a report that GM's shares were worthless and that the carmaker had few options beyond government intervention. Brian Johnson at Barclays Capital added that any government bail-out would probably significantly dilute GM's equity.

Echoing others, Mr Lache said that Washington would have little choice but to extend a helping hand to the biggest Detroit carmaker.

Refusing a bail-out, he said, "would precipitate systemic risk that would be difficult to overcome for automakers, suppliers, retailers and sectors of the US economy".

Delphi filed for Chapter 11 protection in October 2005 and has struggled to find investors to finance its emergence.

GM warned yesterday that the Michigan-based parts maker "is unlikely to emerge from bankruptcy in the near-term and possibly may not emerge at all", forcing it to liquidate its assets.

Referring to ResCap, GM said that "there is substantial doubt about (its) ability to continue as a going concern" in light of its liquidity and capital needs, as well the current upheavals in credit markets.

GM shares stood at $3.28, down 25 per cent, in mid-afternoon trading. Ford Motor was down 3 per cent at $1.96 in early trading. While Ford faces similar problems to GM, it has a bigger liquidity cushion.

Democratic leaders and influential business lobby groups such as the US Chamber of Commerce have in the past week stepped up pressure on the government to rescue the carmakers on the grounds that their collapse could be devastating for the US economy and lead to more than 2m job losses across the country.

A "lame-duck session" of Congress has not been formally called, but lawmakers are expecting to reconvene next week to discuss fresh measures to boost the US economy.

Fonte: Financial Times, London, November 11 2008, Companies & Markets, p. 18.