Fitch warns of drawn-out car sales recovery

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The slow pace of recovery in the US car market will hamper General Motors and Chrysler from accessing equity markets next year, according to a report by Fitch Ratings, reinforcing growing caution at the two Detroit carmakers over their return to public ownership.

The poor sales outlook for 2010 has increased caution at General Motors and Chrysler over their return to public ownership

"While economic recovery is looming in the US, Fitch expects a much longer, drawn-out sales recovery for autos in 2010," the ratings agency said in its annual industry outlook on Monday. It added that even a rebound in light-vehicle sales to 11.1m units from the 10.3m projected this year "would leave much of the industry awash in negative cash flow".

Both GM and Chrysler were taken private as part of their journeys through bankruptcy court this year. Their biggest shareholders are the US and Canadian governments, and a United Auto Workers union healthcare trust.

A group of bondholders has a minor equity stake in GM, while Italy's Fiat now owns 20 per cent of Chrysler.

Fritz Henderson, GM's chief executive, raised the prospect of an initial public offering in the second half of 2010 shortly after the company completed its restructuring in July.

But Mr Henderson as well as the company's chairman Ed Whitacre have more recently hedged their bets.

Mr Henderson said last week that all GM's current shareholders were eager for a return to public ownership and that "our objective is to be ready to go in the second half of 2010". But a decision over whether to proceed would depend on market conditions and GM's progress in restoring its financial health.

A more immediate goal is to negotiate a revolving line of credit with a syndicate of lenders, giving the company greater financial flexibility and enabling it to pay a lower interest rate than the 7 per cent applicable to its government loans.

GM projects US industry sales of between 11m-12m units next year.

Fitch said that its fast-growing operations in China could support an IPO valuation sooner than would otherwise be warranted by its US business and its European Opel-Vauxhall unit.

Chrysler acknowledged this month that an IPO was "highly unlikely" before 2011. The number-three Detroit carmaker aims to break even on an operating basis next year, and to repay its government loans between 2011 and 2014.

Even so, some analysts have questioned whether Chrysler can meet an ambitious increase in market share on which its financial projections are based.

More broadly, Fitch warned that carmakers and their suppliers risk falling into the boom-and-bust pattern that has come to haunt the airline industry.

“A number of suppliers have emerged from bankruptcy with untested business models and capital structures, which have and may result in double-dip bankruptcies.

“The manufacturers could also fall into the same pattern.”

Financial Times, London, Nov. 23rd 2009, Companies, online.