


Determined.
... focusing on the right result for our clients.

PLUNKETT  COONEY
ATTORNEYS & COUNSELORS AT LAW

8:00 pm, December 13, 2009

Auto stocks show signs of life

Market sees promise, helps firms raise funds

By [Ryan Beene](#)

Investors are beginning to show renewed interest in the automotive industry after months of near-frozen credit markets, bankruptcies and plummeting stock prices plagued many of metro Detroit's largest firms.

In the last month, four publicly traded automotive firms have raised or at least announced plans to raise more than \$2 billion by issuing new shares of common stock and bond debt, which analysts say indicates that the worst is likely to be behind us, at least in the eyes of the market.

Last week, **American Axle & Manufacturing Holdings Inc.** announced plans to raise about \$100 million by selling 14 million shares of new common stock and about \$400 million from a private sale of senior secured notes.

Three weeks before, Livonia-based **TRW Automotive Holdings Corp.** raised \$493 million through two bond sales. The next week, on Nov. 24, the Lake Forest, Ill.-based vehicle emissions control supplier **Tenneco Inc.** said it had raised \$187 million by selling new common stock.

On Dec. 4, **Ford Motor Co.** announced plans to raise \$1 billion in cash by issuing new shares of common stock.

Analysts say the flurry of activity — a stark contrast from the pennies-on-the-dollar trading prices of supplier bonds and supplier stocks that fell to near worthlessness during 2009 — is a positive sign for automotive.

Jim Gillette, director of financial services for Northville-based **CSM Worldwide Inc.** and a supplier finance expert, said fear of what lies ahead for automotive is beginning to subside in the marketplace.

"The stocks are looking good from an equity standpoint and we're seeing the ability to issue high-yield debt, also known as junk bonds, for the first time in a while," Gillette said.

Part of the recent public offerings flurry, Gillette said, is a move by companies to improve their balance sheets before the end of the year.

For example, American Axle plans to pay off its \$250 million term loan and pad its coffers with additional cash.

American Axle also was able to refinance about \$243 million of another revolving credit line, pushing out the 2011 due date to 2013 and reducing its exposure.

"The larger element, though, is everybody's breathing a sigh of relief that we've made it through the worst (period) that we've had since the early part of the Great Depression," Gillette said.

Advertisement



"We're sitting here at the end of 2009, we still have an industry left, and we're seeing some promising signs that we'll have a little better year next year."

Kirk Ludtke, who tracks public automotive firms as senior vice president at Stamford, Conn.-based **CRT Capital Group L.L.C.**, said much has happened in the past year.

"Both GM and Chrysler have emerged from bankruptcy and appear to be relatively stable, demand for light vehicles has stabilized and a lot of cash is flowing back into the capital markets and looking for investments," Ludtke said. "That's all contributing to this."

But firms smaller and further down the supply chain from the American Axles and TRWs of the world are still facing nearly frozen capital markets.

"It sounds crazy, but it's probably easier to raise \$2 billion than it is to raise \$10 million," said Brad Coulter, director at Bloomfield Hills-based corporate finance and turnaround firm **O'Keefe & Associates Inc.**

Commercial banks, which traditionally have provided much of the capital for smaller auto suppliers, are still bogged down by bad real estate loans and skittish about putting what precious capital they have into the auto industry.

"It's easy to pick American Axle as a winner, but there's still quite a bit of uncertainty" in the middle market, Coulter said.

Excess capacity still plagues much of the lower tiers of the supply base, making it unclear which companies will survive and which have yet to fail. That, combined with the fact that the value of automotive assets such as real estate, plant equipment and machinery is still very low makes allocating capital into middle-market companies a difficult proposition.

"It's a good positive piece," Coulter said. "But there's a lot more to go."

Ryan Beene: (313) 446-0315, rbeene@crain.com

© 2009 [Crain Communications Inc.](#)