

GM needs to cut European losses: analysts

A new alliance between General Motors and French automaker PSA Peugeot Citroen underscores the US auto giant's desire to stem losses in Europe piled up by unit Opel-Vauxhall.

While the US auto giant has made a comeback at home, its European operations, focused on the Opel and Vauxhall brands, have sagged amid high costs, tough competition and the weak EU economy.

"This is an issue GM has been dealing (with) for 12 years," said Michelle Krebs, an analyst at automotive industry news website Edmunds.com.

On Wednesday GM and Peugeot -- Europe's number two automaker -- said they would form a global partnership with GM taking a seven per cent stake in the French firm.

The two companies agreed to share vehicle platforms and create a joint venture to purchase commodities and other goods and services. They targeted \$2 billion in annual savings within five years from the alliance.

The global partnership comes more than two years after GM was forced to take some \$50 billion in rescue aid from the US government in a bankruptcy restructuring in 2009.

The largest US automaker has made a stunning comeback since then. For 2011, GM reported \$7.6 billion in net income, breaking the annual record as sales surged in the United States and China, and reclaiming its title as the world's largest automaker from Toyota.

But Europe remains the US automaker's biggest weak spot: although halved from 2010, GM lost nearly \$750 million in Europe in 2011.

And with the government under pressure to recover its investment, the European operations are dragging down GM at a time when "it is really important to boost the stock price so the government can sell its stake," Krebs said.

The Treasury holds a 32 per cent stake, or 500 million shares, which are worth \$13.2 billion at the stock's current level of around \$26.

That is believed well below the cost of the Treasury's investment, and lower than the \$33 per share reached when the "new" GM returned to trading on the New York Stock Exchange in November 2010.

That puts the Opel-Vauxhall division in focus. With production in Britain, Germany and Eastern Europe, the sister firms have been burdened by high production costs.

Opel sold some 1.2 million vehicles last year, while Vauxhall's sales hit just 150,000 in the first half of the year.

In early February, GM chairman and chief executive Dan Akerson stressed the company's determination to end the European red ink, including by cutting production.

"We have to match capacity with demand and demand has been falling," he said.

Ahead of Wednesday's announcement, analysts painted a mixed picture of its utility.

A 7.0 per cent GM stake in Peugeot would be "ill-conceived at best," Bank of America Merrill Lynch analysts said in a research note.

The alliance "would be more of a deeper dive into a thicket than a solution," they said.

"The most straightforward solution to GM's European losses, in our view, would be to reduce capacity at least by one-third."

Krebs though called the partnership a move in the right direction, if they shut down capacity.

"If it results in some closing of plants it could be a positive in terms of stemming the losses for both companies," Krebs said.

But if they only move to joint development of engines or vehicles, "I see the advantage as being minimum."

Krebs stressed that GM has no interest in getting rid of its loss-making European unit. In 2009 it had tried to sell the Opel business but then decided to keep it on concerns a sale would compromise its technology.

"Opel is excessively important. It's where GM's diesel technology comes from," she said.

"German engineers are the best" in diesel technology, giving GM an edge over its competitors, she said.

"You can feel it when you drive a car," she said. "They can't lose that expertise."

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