

McTevia tells the Detroit Free Press that loans could be tough to obtain for auto suppliers

Auto suppliers to hold breath for rest of '08
Expectations and stocks dropping

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July 18, 2008

It has been a summer of plummeting expectations for auto suppliers.

Week after week, analysts have lowered all sorts of expectations -- for stock price, earnings and overall ratings -- for many local suppliers, often to the drumbeat of new production cuts that automakers have announced for their truck lineups.

All the while, supplier stocks have plummeted.

Shares of American Axle, which counts on trucks for most of its sales -- have dropped nearly 70% since May 1. Shares of seatmaker Lear Corp. and Ford Motor Co. spinoff Visteon Corp. have lost nearly half of their value in that time.

During the next two weeks, suppliers will report how they fared during the first half of 2008 -- slated to be one of the worst years for auto sales since the mid-1990s.

"You still have to hold your breath over the balance of 2008," said David Sowerby, portfolio manager at Loomis Sayles & Co.

Next week, Federal-Mogul Corp and American Axle are to report their second quarter earnings. The following week, ArvinMeritor Inc., Lear Corp. and Visteon Corp. are to report their financial performance for the April-to-June period.

The second quarter, and the rest of the year, will be trying for those suppliers that rely on waning SUV and pickup business at Detroit automakers.

Just how low suppliers' shares go will depend on the health of financial institutions, treading through the subprime mess, and the price of oil, which tumbled \$5.31 Thursday, falling below \$130 for the first time in more than a month.

In June and July, American Axle, Lear and Visteon all saw analysts lower price estimates as General Motors Corp. and Ford have begun implementing plans to cut truck production by hundreds of thousands over the next two years.

Coping with cuts

It seems almost every month, Ford and GM announce new waves of cuts.

GM's announcement Tuesday to cut an additional 150,000 trucks by next year prompted Deutsche Bank auto analyst Rod Lache to lower his 12-month price target for American Axle's from \$19.50 to \$11.

"Key downside risks include more severe than expected declines in the truck market," Lache wrote in a note to investors this week.

As executives discuss their performance with analysts, they will be on the hot seat to reveal their plans to weather further downturns.

"The production cuts announced by GM and Ford really put a premium on the views of supplier management and what they have to say about the actions they are going to take to adapt to the changes in the marketplace," said Mark Warnsman, auto analyst at Calyon Securities.

Cash is king

Investors should also pay careful attention to the cash that companies report. Cash becomes more important, Sowerby said, during times of production cuts, to make up for lost profits that were pegged to previous production estimates.

Suppliers will also need to be careful with their cash because loans will be tough to find, said restructuring expert Jim McTevia.

"Money is going to be very difficult to obtain for people in the auto industry in this country," he said. "And it's going to be very expensive."