GM Profits, But Can They Repay That $43.3B Debt?

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DETROIT (AP) — In less than a year, General Motors Co. has roared back from bankruptcy to a quarterly profit. Now comes the hard part: Sustaining the income and repaying billions of dollars in government aid.

There are signs that GM is on track to do just that. Revenue is up 40 percent over the first quarter of last year. U.S. sales rose 17 percent for the quarter, and the automaker made an operating profit in North America, which had been a cash incinerator. Units in Asia and Latin America posted strong numbers, too.

As a result, the automaker announced Monday, its net income rose to $865 million, a dramatic reversal from the $6 billion the company lost in the same period last year.

"Today's news was wonderful, and even better than we ever expected to be this far in the post-restructuring period," said Steven Rattner, former head of the Obama administration's Auto Task Force.

To keep GM afloat and get it through bankruptcy court, the U.S. government gave the company $50 billion. GM repaid $6.7 billion that the government considered loans, with the remaining $43.3 billion converted to a 61 percent stake in the automaker.

For the Treasury to break even, GM will have to make a lot more money and show prospects for even more profits in the future for its shares to be worth enough to cover the debt.

Still, the first-quarter profit was viewed with hope because, since GM's stay in bankruptcy court, the company has cut expenses, is making better cars and now has a shot at repaying taxpayers.

Some experts were skeptical. James Schrager, professor at the University of Chicago Graduate School of Business, said GM has a history of making boastful claims, only to disappoint. A recent television ad in which CEO Ed Whitacre declared that the company had repaid its government loans in full, with interest, was misleading, he said.

"I'm delighted that they're not losing buckets of money, but a modest profit is a long way away from righting the ship," Schrager said.

Chris Liddell, GM's chief financial officer who was hired recently from Microsoft Corp., would not say Monday when an initial public offering might take place, but he was cautiously optimistic that GM would have a profitable year.

And even Liddell conceded there are still obstacles to the sale, such as losses in Europe, a possible slowdown in U.S. sales, and reduced growth in China, which was GM's biggest market in the quarter in terms of cars and trucks sold.

"Certainly over the next year, there's a possibility we could do an IPO, but the market's got to be ready, the automobile industry has to continue to improve, and we have to continue to improve," Liddell said.

U.S. auto sales have gradually picked up, rising 15.5 percent last quarter from the depths of the recession a year ago.

GM's U.S. rivals also have shown improvement. Chrysler Group LLC, which also went into bankruptcy protection last year before being taken over by Fiat Group SpA, lost $197 million in the first quarter. That's far better than the $3.8 billion it lost between June 10, when it emerged from bankruptcy protection, and Dec. 31. Ford Motor Co. earned $2.1 billion in the first quarter, its fourth straight positive result.

To pay off all its shareholders, including the government, a United Auto Workers union health care trust, and its old bondholders, the stock market would have to value GM at more than $70 billion. That's almost double Ford Motor Co.'s market value of roughly $40 billion, but far less than the total value of Toyota's shares, about $120 billion.

One analyst, Eric Selle of JPMorgan Chase & Co., predicted last month that a GM stock sale could reach around $70 billion, selling at $113 to $137 a share.

"They need two more quarters of increasing results to prove that this is for real and not a one-time event, and get some better history behind it," said Ken Elias, a partner with automotive consulting firm Maryann Keller and Associates.

Rattner, who is now writing a book about the auto industry's near-death, said GM could be worth more than Ford when investors compare their enterprise values, or the values of their stock shares, debt and cash. Ford now has $34 billion in debt on its books and $25 billion in cash, compared with GM's $8.4 billion in debt and $36 billion in cash.

But others are not so confident in GM. Schrager thinks the market will view GM as worth less than Ford because Ford is ahead in management reform and has more and better new vehicles coming in the next year.

Rattner, though, said the government put up money to save thousands of jobs at Chrysler and GM when the economy was nearing a depression. It never expected to get back the whole $50 billion it loaned to GM, he said.

He said under Whitacre, GM has good new products in the pipeline and is a far leaner and faster company.

"I'd be careful about the perfect being the enemy of the good here," he said.

From any perspective, GM was a sick company before its bankruptcy, racking up more than $86 billion in losses since 2005. It had $53 billion in debt, burdensome labor contracts and a weak lineup of cars at a time when global markets were shifting to smaller vehicles.

Since then, the company has rolled out new vehicles that have sold well, including the Chevrolet Equinox crossover and Buick LaCrosse midsize luxury sedan.

In addition, GM is now using 85 percent of its North American factories to make vehicles. That figure was only 38 percent in the first quarter of last year, when the company had shut down most of its factories to control inventory.

Yet GM still faces a number of potential stumbling blocks, including:

— Declining market share and revenue. Global market share has been flat for the past year at 11.2 percent. Liddell said that was largely because of GM's decision to discontinue or sell four brands: Hummer, Pontiac, Saab and Saturn. GM needs its remaining brands — Cadillac, Chevrolet, Buick and GMC — to pick up the slack. Revenues also fell almost $1 billion from the fourth quarter to the first quarter. Liddell said reining in costly incentive spending is one way the company hopes to improve revenues.

— Losses of $506 million in Europe for the quarter, GM's only unprofitable region. GM is in the midst of cutting 8,000 jobs and reducing European plant capacity, which cost it $300 million in the quarter. Liddell said GM hopes to break even in Europe next year, but the debt crisis could hamper progress. "The overall marketplace in Europe is still the most challenging," he said.

— Slowing growth in China, where GM sold 623,000 vehicles in the first quarter thanks in part to aggressive government subsidies. The subsidies are still available, but sales growth has started to slow because the incentives lured so many buyers into the market.

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AP Business Writer Stevenson Jacobs in New York contributed to this report.