Fiat Posts Profit, Agrees To Split Into Two

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MILAN (AP) — The Italian automaker Fiat, which controls Chrysler, on Wednesday reported a return to second-quarter profits on improved sales of agriculture equipment and trucks, and said it may raise its 2010 forecasts.

Fiat also said its board approved the plan to separate its industrial vehicle and auto businesses into two distinct companies in order to "give birth" to a global automotive company that will incorporate Chrysler LCC. The plan was announced in April.

A second-quarter net profit of euro90 million ($115.6 million) compares with a loss of euro168 million in the same period last year. Net revenues were up 12.5 percent to euro14.8 billion.

The report sent shares in the company 6 percent higher to euro9.60 ($12.33) in Milan.

Bernstein analyst Max Warburton said the better-than-expected results should lead the way for strong reports across the European auto sector. He had expected Fiat to underperform French and German competitors, which have yet to report, but was forced to revise his assumptions.

"Missing the degree of Fiat's progress in Q2 is probably a classic case of a European auto analyst trying (and failing) to follow global construction markets and Brazilian developments," Warburton wrote in a note. "But Fiat beat numbers massively, largely due to a massive improvement in the operating results of CNH, the Powertrain business and a better-than-expected auto result, driven by Brazil and LCVs," or light commercial vehicles.

Fiat sells cars under the Fiat, Lancia and Alfa Romeo brands, as well as trucks, farm and construction equipment.

Revenues at CNH construction and agriculture rose 16 percent to euro3.3 billion as higher sales in North and South America helped offset weak markets in Europe, Australia and the former Soviet Union, Fiat said. Iveco trucks saw revenues soar 18.3 percent to euro2.1 billion with deliveries up 32 percent to 34,318 vehicles amid early signs of recovery in the sector.

Fiat said in a release that recovery in the light commercial vehicle business offset a drop in passenger car sales, particularly in Italy and Germany, after eco-incentive programs in Europe were ended. In all, Fiat Group Autos reported revenues of euro7.4 billion, up 6.4 percent.

Fiat this quarter launched the Alfa Romeo Giulietta, a key model for the survival of

its Alfa Romeo brand, which celebrates its 100th anniversary this year and is preparing to be launched in the United States. It also has been working to squeeze performance out of its engines, and this month presented the Fiat 500 with a new 2-cylinder TwinAir engine using the automaker's MultiAir technology.

Fiat confirmed its 2010 targets, including break-even net profit, trading profit of between euro1.1 billion and euro1.2 billion and revenues exceeding euro50 billion, but said it was likely to revise the forecasts upward based on next quarter's earnings.

Fiat, meanwhile, is proceeding with the spinoff of the industrial side to create Fiat Industries SpA, comprising CNH agriculture and construction equipment, Iveco and FPT Industries and Marine activities. Fiat SpA will include Fiat Group Autos, which includes the Fiat, Alfa and Lancia brands, Maserati and 85 percent of Ferrari, as well as components businesses and other related assets.

Fiat has previously forecast that the "new" Fiat, or auto company, will have revenues of euro64 billion ($86.31 billion) by 2014, while Fiat Industrial revenues will be euro29 billion. Debt will go to the spunoff company Fiat Industries SpA.

The demerged company will be quoted on the Milan Stock Exchange, with each current Fiat shareholder receiving one share of each company. The spinoff, which is expected to take effect on Jan. 1, still requires approval of Fiat shareholders.

"The demerger will provide strategic and financial clarity to both businesses and enable them to strategically develop independently of each other," Fiat said in a statement.

Based on CNH results, Warburton said the future Fiat Industrial looks to be "powering up — earlier than we expected."

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