



Two auto suppliers survive with cash, credit

Magna International and Federal-Mogul report losses, but say liquidity may fund future growth.

Alisa Priddle / The Detroit News

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Two major automotive suppliers reported losses on Tuesday but, unlike some of their smaller counterparts, have the cash or lines of credit available to help them weather the economic downturn.

Magna International Inc. reported a fourth-quarter net loss of \$148 million; and Southfield-based Federal Mogul Corp. reported a net loss of \$468 million for the year.

Both companies separately said sagging global demand for autos hurt sales, but their liquidity will see them through a tough 2009 and potentially fund growth as competition thins.

Magna has about \$1.9 billion in cash and access to \$1 billion in credit; Federal-Mogul ended the year with \$888 million in cash and a line of credit brings its liquidity to \$1.3 billion.

But executives at both companies said they were concerned about the strength of the supply base, particularly over the next two months.

"We're seeing a lot of tier 2 and tier 3 failures," said Magna co-Executive Officer Don Walker.

About a third of parts makers won't make it and the quicker the painful consolidation of the supply chain, the better, Walker said.

Federal Mogul's President and Chief Executive Officer José Maria Alapont agreed.

"The farther you go in the chain, the more vulnerable areas you find," he said, adding Federal-Mogul has created a special team to monitor lower-tier suppliers, many of which supply parts to larger suppliers.

"No one can make money today," said Van Conway, a turnaround expert with Conway, MacKenzie & Dunleavy of Birmingham. "The question is whether they have the cash to weather the storm."

The good news is both the U.S. and Canadian governments appear to understand they must support payment of receivables for parts makers if an automaker goes into restructuring so as to prevent a collapse of the supply chain, Walker said.

"I don't think governments will be short-sighted enough to let the whole industry disappear," Walker said.

Meanwhile, Canada-based Magna ended 2008 with sales of \$23.7 billion, a 9 percent decrease, largely due to lower sales in North America. It had a drop of as much as 12 percent fewer Magna parts per vehicle and the contract assembler built fewer vehicles for other automakers, the supplier said in releasing fourth-quarter and full-year earnings.

Magna's operating income for the year was \$328 million down from \$824 million last year; net income was \$71 million, down from \$592 million; and diluted earnings per share was 62 cents, down from \$5.24 in 2007. Magna had a fourth-quarter operating loss of \$165 million, down from \$368 million in the fourth-quarter of 2007; a net loss of \$148 million, down from \$176 million; and a diluted loss per share of \$1.33, from \$1.57 a year ago.

Federal-Mogul reported full-year 2008 sales of \$6.9 billion, in line with 2007, with restructuring efforts credited for helping to offset a drop in sales of \$430 million in the fourth quarter.

Chief Financial Officer Jeff Kamisky said the fourth-quarter global restructuring saved \$60 million in cost for the supplier of powertrain and safety technologies.

Fourth-quarter sales of \$1.3 billion represented a 25 percent reduction versus \$1.7 billion for the same period in 2007. When adjusted, Federal-Mogul had a net loss of \$24 million for the year, compared with an adjusted net income of \$11 million in 2007.

Federal-Mogul will continue to cut shifts, plants, workers and hours and is merging its five business units into four to reduce overhead, Alapont said.

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