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HEARD ON THE STREET

# Ford Motor's Bonds Suffer New Hit Despite Comments

## Bondholders Lighten Positions as Auto Debt Attracts Skepticism; GM Isn't Hit as Hard

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**Staff Reporters of THE WALL STREET JOURNAL**

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Ford Motor Co. (F)

| | |
|---|---|
| PRICE | 7.75 |
| CHANGE | -0.75 |
| U.S. dollars | 10/8 |

* At Market Close

The distance between Wall Street and the Motor City is getting wider by the day.

The latest evidence: **Ford Motor** Co. bonds, already whacked by concerns about the company's prospects, took another dive Tuesday. And even though Ford executives are talking up the company's turnaround and Chairman and Chief Executive Bill Ford Jr. has delivered recent upbeat comments, investors sent the stock to levels not seen in a decade.

Ford's benchmark 10-year bond maturing in 2011 was trading Tuesday at about 88 cents on the dollar. At the current price, the yield on the Ford bond is 9.25%, compared with 10-year Treasurys yielding 3.6%. A sign of the concern was the fact that some traders were quoting Ford bond prices in dollars and cents, a distinction usually reserved for high-yield, or "junk", bonds. Bonds of investment-grade companies, like Ford, are typically quoted in terms of yield spreads above safe Treasurys.

Meanwhile, shares of Ford took a 9% tumble Tuesday. The stock was trading at $7.75, down 75 cents, on the New York Stock Exchange -- well off the 52-week high of $19.08.

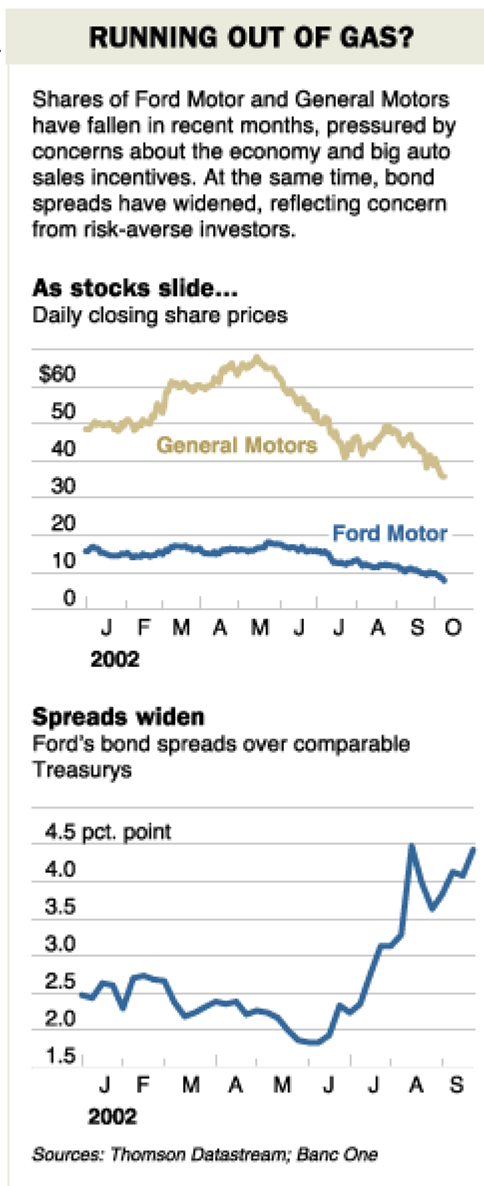
Ford debt is getting slammed, in part, because of forces beyond the auto maker's control. Stung by recent collapses in widely held bonds like Enron Corp. and WorldCom Inc., nervous bondholders are lightening up their positions in many of the biggest names. Ford, the largest U.S. corporate issuer with more than $61 billion in outstanding bonds, is particularly vulnerable to that change in strategy. Overall, corporate bonds have been hit hard this year, with increasingly risk-averse investors demanding steeply higher yields relative

to Treasurys.

"Clearly, this is a situation now where people are viewing the auto companies as they viewed the telecom companies earlier this year -- as an industry with overcapacity and a lot of debt," says Brian Beargie, a credit analyst at Banc One Capital Markets Inc.

An international road show this month by executives of Ford's big consumer-finance unit, Ford Motor Credit, was mounted to reassure investors that the unit's problems of 2001 are behind it. But it hasn't stopped the selling. Nor has Ford Credit's announcement that it will send $450 million to its parent company as a dividend, a sign that the unit's finances are in order.

"The market reaction does not reflect the fundamentals of our business," says Ford spokesman David Reuter. "The fundamentals of our business are strong. Ford Credit's leverage is down, and they have adequate sources of funding." He noted that the average maturity of Ford's automotive bonds is 28 years, with less than $1 billion due before 2006. Ford Credit has larger amounts of term debt due this year, but, like a bank, the finance company routinely refinances as it matches borrowing with the terms of consumer loans. A Ford spokesman says Ford Credit's refinancing obligations this year are in line with past years.




Some industry analysts suggest the current selling is overdone. Ford's triple-B-plus credit rating from Standard & Poor's has a negative outlook, meaning that if the company's turnaround program falters, it could be downgraded. But Scott Sprinzen, an S&P managing director, says, "Our position is, it's a basically sound company. The turnaround is going to produce solid results over the next year or two. When that happens the bond spread should settle down."

Bruce Clark, a senior vice president at Moody's Investors Service, Tuesday dismissed speculation that Ford faces a near-term risk of a big ratings cut. Moody's rates Ford's debt at BAA 1 with a negative outlook, but Mr. Clark says there's no imminent action contemplated on that rating. "The fundamentals from an operating standpoint and a financial standpoint are inconsistent with even contemplating a junk rating at this point," he says. "There appears to be a disconnect between the fundamentals and many of the technical factors driving the market view of these bonds."

### GM Isn't Hit as Hard

**General Motors** Corp. is faring somewhat better, although the spreads on its bonds also have widened in recent months. GM stock broke through its 52-week low before closing at $33.60, down $2.28, or 6.4%. The company's benchmark 10-year debt was trading at 4.45 to 4.65 percentage points above comparable Treasurys.

"There's nothing particular we have said or done today that's causing this," GM spokeswoman Toni Simonetti says. "We still think economic fundamentals are relatively strong. Operationally, we are doing very well."

Among the potential consequences of the bear market in automotive debt, and the accompanying fall in share prices: Those 0% interest loans the car makers are using to sustain sales will get more expensive for them to finance.

The Ford selloff was exacerbated Tuesday by Credit Suisse First Boston analyst Wendy Needham's decision to cut her share-price target for Ford to $10 from $20, citing concern about the company's pension liabilities and its stumbling luxury-car operations.

But Ms. Needham was far from the first stock analyst to downgrade Ford, or the auto sector in general. Among analysts' concerns: The auto makers, eager to keep sales rolling, are lending money to less credit-worthy customers.

Earlier this month, UBS Warburg lowered its share-price target to $7 from $9.50, saying, "We see no end to considerable operational problems that Ford Motor is having today." UBS analyst Saul Rubin also predicted that Ford will be forced to develop a more significant restructuring. "Competition in the auto sector today is a war of attrition and we see Ford losing the battle," he wrote in a research report.

Most industry executives expect U.S. vehicle sales to drop next year to about 16.5 million vehicles from about 17 million this year. That's still healthy demand, but Morgan Stanley auto analyst Stephen Girsky points out that Detroit's Big Three are adding more production capacity to an already overserved market, potentially undercutting efforts to dial down expensive discounts. "The consumer environment is getting tougher, but we are not seeing the sense of urgency" to cut capacity, he says.

The outlook may get gloomier before it brightens. Both Ford and GM have signaled they will likely lower the assumed rate of return for their huge pension trusts later this year, reflecting the recent market slump. Such action would appease some accounting critics, who say such high assumptions don't accurately reflect true pension costs.

Still, from the executive suites in Detroit and Dearborn, the thrashing from Wall Street doesn't seem fair.

**Ford's Plan**

Mr. Ford has declared that his company's five-year plan to recover from a disastrous $5.45 billion loss in 2001 is "back on track" after a slow start this year. Last month, Mr. Ford said the No. 2 auto maker would be profitable for the just-ended third quarter on a so-called operating basis, confounding analysts' forecasts of a loss. (Such operating earnings exclude expenses such as restructuring charges or asset writedowns that are considered ordinary costs under generally accepted accounting principles. Ford is expected to take a writedown of about $500 million in the third quarter related to the sale of its United Kingdom Kwik Fit unit, but may offset that with nonoperating gains.)

The company just concluded a peaceful contract settlement with the Canadian Auto Workers union, defusing a dispute over a plan to close an Ontario truck plant with a promise to transfer 900 of 1,400 at-risk jobs to a second plant to support expanded production of a new line of minivans -- if market demand allows.

Despite its recent woes, Ford had gross cash on hand of $24.9 billion at the end of the second quarter. Indeed, the cash exceeds the company's current market capitalization by about $10 billion.

The downdraft in Ford's debt has caught the attention of some hedge funds, but their scattered bargain hunting hasn't been enough to counteract the widespread portfolio diversification that's spreading through the bond market. "As investors rebalance their portfolios to become more diversified, many become net sellers of the

large issuers," says Richard Schwartz, senior managing director at New York Life Investment Management, which owns the bonds.

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