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GM's success not helping Obama

Company's stock lags despite healthy profits

By David Welch

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A bailout saved General Motors and its Detroit headquarters, above, but fat profits and growing market share haven't lifted the company's stock enough to pay back the government.

SOUTHFIELD, Mich. — General Motors, saved by the Obama administration with a $50 billion bailout, is making more money than ever, adding jobs and gaining market share. But it's still a headache for the White House.

GM stock closed on Friday at $20.50 a share, less than half the $53 that the Treasury Department needs to break even. The stock still needs to rally almost 50 percent to reach $30 a share, the minimum price the Treasury Department would consider for a secondary offering, said three people familiar with the matter.

That puts President Barack Obama in a quandary. When Republicans nominate a candidate in August, the government probably either will still own a substantial portion of GM or will have sold the stock at a loss that could be more than $10 billion. Obama's opponents can criticize him either way, said Dan Ikenson, an economist at the Cato Institute, a public-policy research group based in Washington.

"The administration is in a Catch-22," he said. "They want to hold on and get the best price, but the longer they hold on to it, they come open to the scorn that the administration still has a horse in the race and could make policy that is favorable to GM."

Investors are holding back on buying GM while they expect that the U.S. will be selling hundreds of millions of shares that might push down the price, said Adam Jonas, a New York-based analyst at Morgan Stanley. After the government sells, the shares should rally, he said.

In Europe, GM's operations will lose money in 2011, the company said last month, after assurances earlier in the year that it would break even. Now, GM management is talking about possible restructuring plans for its Ruesselsheim, Germany-based Opel unit. That makes investors nervous, said Peter Nesvold, a New York-based analyst at Jefferies and Co.

With economic struggles in Europe, GM's exposure to its car market makes investors even more concerned, he said. Ford, also exposed to European risk, has fallen 35 percent this year through Friday, while GM has dropped 44 percent.

GM's pension plan is underfunded. The plan was $22.2 billion short at the end of 2010. Analysts will get an update when fourth-quarter earnings are announced in the next two months. Investors probably will remain wary until then, Nesvold said in a phone interview.

Next year also will be a transition year for new models. GM is preparing to introduce new pickups late in 2012. That means GM temporarily will lower production of its profitable Chevrolet Silverado and GMC Sierra pickups while retooling factories for the new models. That will lower profits, Nesvold said.