

Fiat to raise Chrysler stake to 46% in move to gain majority

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Fiat S.p.A. has agreed to pay \$1.27 billion for an additional 16 percent stake in Chrysler Group, lifting the Italian automaker's stake to 46 percent in a deal that was faster and cheaper than expected.

Fiat has reached an agreement with Chrysler and its other shareholders to exercise an option to buy the 16 percent stake in the second quarter, it said in a statement.

Last week, Fiat won an additional 5 percent in Chrysler from the U.S. government, giving it a 30 percent holding at the time.

Fiat got to increase its stake by reaching targets that included executing franchise agreements with 90 percent of its dealers in Latin America to carry Chrysler products.

Fiat agreed with the U.S. government after Chrysler emerged from bankruptcy in 2009 to share technology and management in exchange for an initial 20 percent stake and performance goals to increase to 35 percent without paying any cash.

It can buy the additional 16 percent after Chrysler repays government loans, allowing it to reach a 51 percent controlling stake in the company.

Fiat said today that Chrysler aims to complete its debt refinancing in the second quarter.

Three sources familiar with the issue said last week that Fiat was looking to pay around \$1.5 billion for the stake and the deal would be closed in coming months.

'Italian troubles'

Max Warburton, an analyst at Bernstein Research, believe that today's move is just as important for Fiat as it is for Chrysler.

"This move on Chrysler is being made in the hope the American business can, as quickly as possible, be leaned on to subsidize Italian troubles," Warburton said in a written statement.

"If Chrysler can be turned around, with the help of a recovering U.S. auto market, it is conceivable that integrating it into Fiat could provide a new source of profit and cashflow to replace Brazil, if Latin American profits fell apart," he added.

Fiat relies increasingly on Brazil, where it had a first-quarter market share of 22.6 percent, to counter European losses. The automaker's first-quarter market share in Europe fell to 7.2 percent from 8.7 percent after Marchionne postponed model introductions, including an updated Panda compact, until the second half.

Key for IPO

Securing majority control is key for Fiat's plans for a Chrysler initial public offering (IPO). The listing had been planned for the second half of 2011 but could be pushed into 2012, a possibility Marchionne raised in late March.

"They're moving faster than expected as they want to consolidate their (financial) statements before the IPO," said an auto analyst who declined to be named. "The option price seems absolutely fair as the consensus on the value of Chrysler is around \$8 billion."

The analyst said Fiat would reap a 30 percent capital gain if Chrysler's value reached, as expected, \$10 billion or \$11 billion after its listing.

"That would mean a capital gain of between 0.8 and 0.9 euro for each Fiat share," the analyst said.

Citigroup Inc is the adviser on the Chrysler stake purchase.

Marchionne, who is CEO of both Fiat and Chrysler, said on Wednesday he did not expect damage to Fiat's credit rating from purchase of the 16 percent stake. The Italian group is planning to pay for it with its own cash.

Shares in Fiat were up 2.8 percent at 6.76 euros by 10:02 CET.

Fiat on Wednesday posted a first-quarter trading profit of 251 million euros, slightly ahead of the median forecast.

Sources: Staff and wire reports

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