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Growth in car dealerships to drop

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Ratings agency Fitch has warned that motor businesses, especially car dealerships, could serve as a “cash drain” on parent companies such as Bidvest and Barloworld in the face of the global economic downturn.

The agency said on Friday, 3 April 2009, that it had revised its outlook to negative for the major local motor companies it rated, noting that it expected the number of new vehicle dealerships to decline further this year amid restructuring.

Fitch said in a report that the industry was marked by large diversified companies such as Steinhoff International Holdings and Super Group being the main players in car dealership networks.

Fitch analyst Roelof Steenekamp said although these parent companies were diversified, the negative outlook related to their dealership divisions could weigh negatively on them.

But Steenekamp stressed that the overall credit ratings of the parent companies would be influenced by various factors including business performance, and the performance of vehicle units.

To a larger extent, he said, the ratings would be influenced by leverage and cash flow.

Fitch said it believed that motor companies with strong cash generation and financial flexibility would be better positioned to weather the economic downturn. “Key rating drivers will include an increased focus on strong liquidity and the ability to deleverage,” it said.

Fitch said that it did not expect numbers in new vehicle sales to recover before 2011 despite interest rate cuts, with the local industry likely to continue facing challenging prospects on the back of low demand for new vehicles.

It said it also expected that limited availability of credit to both consumers and dealerships, in addition to increased costs associated with borrowing, would weigh negatively on new vehicle sales.

It noted that refinancing risk would become increasingly important as a key rating driver, as funding availability constricted this year.

Thus, it said it expected that the cost of funding would accordingly increase, as investors and banks became risk-conscious.

It said that the domestic motor sector was directly influenced by changes in international demand, as it was heavily reliant on the export of locally assembled vehicles.

“The international economic environment, and its impact on international vehicle manufacturers, is therefore of critical importance,” the ratings agency said.

Raymond Hill, senior director and head of Fitch Ratings' emerging markets corporate team, said the combination of the negative trends in vehicle sales, export data and economic growth forecasts with the expected adverse effect on vehicle manufacturers' credit metrics meant that further corporate downgrades seemed probable in the short to medium term.

Source: Business Day

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