

Volvo quarterly profit jumps on production cutbacks

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By Dorothee Tschampa, Bloomberg

Volvo AB, the world's second-largest truckmaker, said first-quarter operating profit surged almost fivefold as the manufacturer scaled back production to meet a cost-savings target for 2015.

Earnings before interest and taxes rose to 2.27 billion kronor (RM1.11 billion) from 482 million kronor a year earlier, Gothenburg, Sweden-based Volvo said in a statement today. Profit beat the 1.67 billion-krona average of seven analyst estimates compiled by Bloomberg.

Chief executive officer Olof Persson has a goal of turning the company into the most profitable heavy-truck maker by reorganizing the Volvo and Renault brands' production in Europe, cutting administrative jobs and expanding overseas. The program's target is 4 billion kronor in annual cost savings by the end of 2015. A truck-production line was closed during the quarter, in addition to a component plant, Volvo said today.

"The results are clearly better than expected," said Hans-Peter Wodniok, a Kronberg, Germany-based analyst with Fairesearch. "The higher capacity utilization helped greatly in the first quarter. This reduces the fix costs per vehicle sold."

Orders Fall

First-quarter orders fell 9.7% to 55,146 trucks as deliveries jumped 25% to 47,845 vehicles. Net income totaled 1.08 billion kronor, versus a year-earlier loss of 304 million kronor. Revenue rose 13% to 65.6 billion kronor. Operating cash flow from manufacturing was a negative 9 billion kronor versus a negative 7.6 billion kronor a year earlier.

The full-time workforce totaled 93,476 employees as of March 31, 2014, a 2.2% decline from the end of 2013 following the sale of the Volvo Rents construction-equipment leasing unit early this year. Under a plan announced late last year to eliminate office jobs, about 900 people have left the company out of a target reduction of 4,400 positions, Volvo said.

“The measures we are implementing to increase the group’s profitability are running according to plan and start to have a positive impact on our gross margin and costs,” Persson said in the statement. “But there is still more work to do in terms of cost reductions, and this is the group’s main focus for 2014.”

Scania Profit

The operating-profit gain compares with a 17% jump at Scania AB, the Soedertaelje, Sweden-based truckmaker controlled by Volkswagen AG, to 2.26 billion kronor on a 9.2% increase in revenue to 21.1 billion kronor. New truck orders rose 4% in the quarter as European customers’ need to replace aging models more than made up for an emissions-rule change in the region that prompted some fleet owners to accelerate purchases to last year.

Volkswagen is bidding 200 kronor a share for all remaining stock in Scania to push closer collaboration with MAN SE, the Munich-based truckmaker that the German car manufacturer also controls. Wolfsburg-based Volkswagen will carry through with the purchase provided it receives shareholder pledges giving it 90% ownership of Scania, the threshold needed under Swedish law to force remaining investors to sell their stock and delist the company. The acceptance period ends today.

Volvo revised truck-market predictions for this year. North American deliveries will amount to 260,000 vehicles industrywide, an increase from an earlier forecast of about 250,000 units. The company builds Mack trucks in the region.

Demand in Brazil is forecast to drop to 90,000 trucks from 104,000 last year. The company had predicted an increase of about 1,000 vehicles. A “sluggish economy” will lead Volvo to reduce production in the country during the second quarter, the manufacturer said.

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