General Motors (GM)

Updated May 29th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$38	**5 Year CAGR Estimate:**	9.3%	**Quality Percentile:**	N/A
Fair Value Price:	$42	**5 Year Growth Estimate:**	3.3%	**Momentum Percentile:**	N/A
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	2.0%	**Total Return Percentile:**	N/A
Dividend Yield:	4.0%	**5 Year Price Target**	$49	**Valuation Percentile:**	

Overview & Current Events

General Motors is an automobile company that produces cars, trucks and automobile parts and that provides automobile financing solutions to its customers. Its brand portfolio includes Chevrolet, Cadillac, Baojun, Buick, GMC, Holden, Jiefang, Wuling, Maven and OnStar. General Motors was founded in 1908, is headquartered in Detroit, MI, and is currently valued at $54 billion.

General Motors' most recent quarterly results were announced on April 26. The company reported earnings per share of $1.43, a decrease versus the prior year's $1.70. General Motors' revenues totaled $36.1 billion during the first quarter, a decline of roughly 3% year over year.

Growth on a Per-Share Basis

Year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2023**
EPS	-	-	$2.89	$3.88	$2.92	$3.18	$3.05	$5.02	$6.00	$6.62	***$6.40***	***$7.55***
DPS	-	-	-	-	-	-	$1.20	$1.38	$1.52	$1.52	***$1.52***	***$1.75***

General Motors went bankrupt during the last financial crisis, was then restructured (whilst majority-owned by the US government), and was finally taken public again in 2010, which is why there is no data available for years prior to 2010. Since going public in 2010 General Motors has increased its profitability substantially; earnings more than doubled over the last seven years.

The start to 2018 was better than analysts had expected, but still General Motors was not as profitable as during the prior year's first quarter. Its revenues declined by $1.2 billion, primarily due to lower sales volumes and an unfavorable product mix, even though price increases and better results from General Motors' financial services division lessened the blow that came from less vehicles being sold.

Profits declined by about 20% during the first quarter but going forward General Motors' performance should improve. The company's relatively weak Q1 results were impacted by more downtime related to the launch of several major upgrades to its models, including the newest Chevrolet Silverado and GMC Sierra. These full-size pickup trucks are not only a major factor for the company's sales number, they also come at above-average sales prices and are therefore an important factor for General Motors' revenues and earnings. The rollout of these new models later this year should lead to higher sales (pent-up demand) and will result in better profitability, which is why the overall EPS decline throughout fiscal 2018 is forecasted to be relatively small.

Beyond 2018 General Motors should see EPS growing again, through measures such as the introduction of a four-cylinder full-size truck in late 2018, as well as through growth in international markets (primarily China, which is already the biggest market for Cadillac) and through share repurchases, which have lowered General Motors' share count by 6% over the last year alone. General Motors started paying a dividend in 2014, but has now kept it flat for a couple of years.

Valuation Analysis

Year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Now**	**2023**
Avg. P/E	-	-	12.0	7.3	8.0	10.5	11.3	6.8	5.2	5.7	***5.9***	***6.5***
Avg. Yld.	-	-	-	-	-	-	3.5%	4.0%	4.9%	4.0%	***4.0%***	***3.7%***

Shares of General Motors have traded at a substantially higher valuation than they did right now, but over the last couple of years its valuation has been quite low and stayed there. The automobile industry is relatively cyclical, and in good times (such as right now) valuations tend to be low, thus big increases in General Motors' valuation are not likely.

General Motors' dividend yield is rather high in comparison to the broad market, but relatively in line with where General Motors' dividend yield has been over the last couple of years, after the company started to pay dividends again.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	-	-	12.0%	13.8%	8.0%	12.3%	10.0%	11.7%	12.9%	14.4%	***15.0%***	***15.0%***
Debt/A	-	-	73.4%	73.1%	75.2%	74.1%	79.2%	79.4%	80.2%	83.0%	***84.0%***	***85.0%***
Int. Cov.	-	-	10.8	114	-	89	24.2	-	53.3	43.6	***40.0***	***35.0***
Payout	-	-	-	-	-	-	39.3%	27.5%	25.3%	23.0%	***23.8%***	***23.2%***
Std. Dev.	-	-	32.4%	33.7%	31.5%	22.6%	21.3%	25.2%	24.0%	23.7%	***24.0%***	***24.0%***

General Motors does not produce a large amount of gross profits relative to the assets it owns, and its leverage is quite high, as its liabilities are equal to more than 80% of its asset base. Both of these metrics are impacted by General Motors' financial division, though. The company's financial services segment works like a bank, borrowing money at low rates and lending it out (in this case to finance automobiles) at higher rates. The bank-related assets and liabilities make up a huge part of General Motors' large balance sheet (total assets are more than $210 billion), which is why gross profits relative to those assets are low, and at the same time the bank's high leverage increases company-wide leverage as well. Due to its banking business (which generates positive interest income) General Motors' company-wide actual net interest expenses are relatively low, which is why the interest coverage ratio is so high (and in some years there was no net interest cost at all, e.g. 2015).

General Motors has a relatively strong position in the US market and in the Chinese market, and General Motors is among the best positioned companies in the truck market (which has been growing in the last couple of years). General Motors is not so strong in the European market, but if the company can continue to hold a strong market share in the US and in the fast-growing Chinese market it will remain highly profitable. General Motors is vulnerable to recessions (if they are deep and prolonged enough) and to financial crisis, which has been impressively illustrated during the last financial crisis. Such deep, global downturns are not common, though, and General Motors' balance sheet is cleaner than it was before the last crisis, the company therefore should be able to stomach future headwinds better.

Final Thoughts & Recommendation

Overall General Motors looks like a solid hold at current prices. The company's 9%+ expected total returns are nice, but the company is highly cyclical and will likely give investors quite a bumpy ride along the way.

Total Return Breakdown by Year