General Motors (GM)

Updated July 25th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$38	**5 Year CAGR Estimate:**	7.9%	**Volatility Percentile:**	70.5%
Fair Value Price:	$39	**5 Year Growth Estimate:**	3.3%	**Momentum Percentile:**	60.6%
% Fair Value:	97%	**5 Year Valuation Multiple Estimate:**	0.6%	**Valuation Percentile:**	69.6%
Dividend Yield:	4.0%	**5 Year Price Target**	$46	**Total Return Percentile:**	54.1%

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 currently trades with a market capitalization of $56 billion.

General Motors' most recent quarterly results were announced on July 25. The company reported earnings per share of $1.81, a decrease of 4% year over year. General Motors' revenues totaled $36.8 billion during the first quarter, a decline of 0.5% year over year. General Motor has revised its guidance for 2018. The company now expects earnings per share of approximately $6.00. Unfavorable currency rates and increases in commodity costs were blamed on the downward revision. The market reacted negatively to the guidance cut. Shares declined by 5% on the day of the announcement.

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	***$6.00***	***$7.06***
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. The first half of 2018 was better than analysts had expected, but still General Motors was not as profitable as during the prior year's first two quarters. General Motors' revenues declined by two percent year over year during H1.

General Motors should see a tailwind from the launch of several major upgrades to its models, including the newest Chevrolet Silverado and GMC Sierra in H2. 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. Higher commodity costs are a major headwind over the foreseeable future, though, and the most important reason for General Motors' guidance cut in July 2018.

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, and through share repurchases, which have lowered General Motors' share count by 6% over the last year alone. Electric vehicles and autonomous driving have not been a major factor for General Motors' results in the past, but could become more important during the 2020s. We expect that earnings per share growth will primarily rely on stock buybacks over the coming years, as organic growth will most likely remain low.

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	***6.3***	***6.5***
Avg. Yld.	-	-	-	-	-	-	3.5%	4.0%	4.9%	4.0%	***4.0%***	***3.7%***

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Shares of General Motors are trading at a marginal discount to what we deem a fair valuation right now, which provides a very small multiple expansion tailwind. General Motors' dividend yield is relatively high in comparison to the broad market. Since the last dividend raise occurred in 2016 General Motors is not looking like a strong dividend growth pick.

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%	***25.3%***	***24.8%***
Std. Dev.	-	-	32.4%	33.7%	31.5%	22.6%	21.3%	25.2%	24.0%	23.7%	***24.0%***	***24.0%***

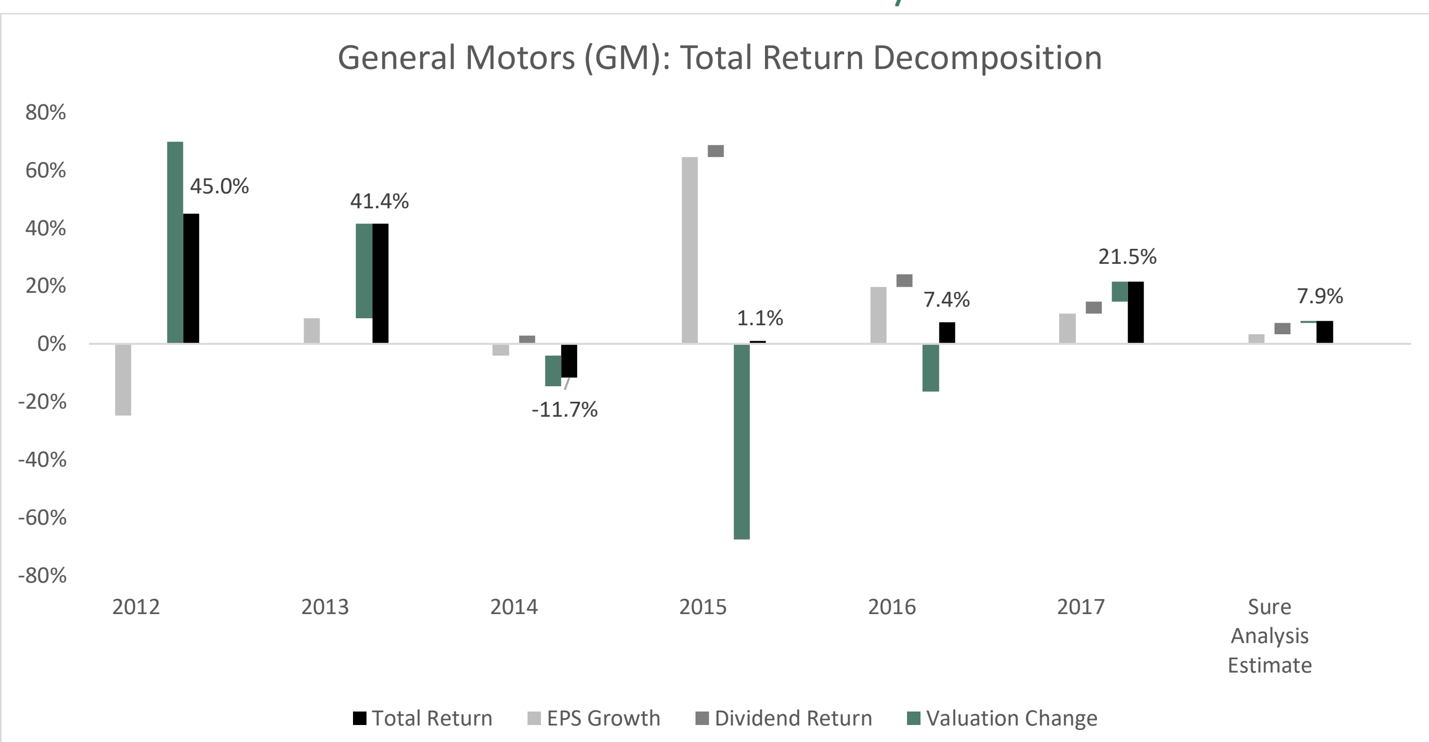
General Motors' high leverage is impacted by the company's financial division. General Motors' financial services segment works like a bank, borrowing money at low rates and lending it out at higher rates. Due to its banking business (which generates positive interest income) General Motors' company-wide actual net interest expenses are relatively low, which is why the interest coverage ratio is so impressive.

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. 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, 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

General Motors' expected total returns of ~8% annually are not bad, but the company is highly cyclical and will likely give investors quite a bumpy ride along the way. Accordingly, we are recommending GM as a hold today.

Total Return Breakdown by Year



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