General Motors (GM)

Updated November 2nd, 2018 by Jonathan Weber

Key Metrics

Current Price:	$37	**5 Year CAGR Estimate:**	8.4%	**Volatility Percentile:**	68.4%
Fair Value Price:	$39	**5 Year Growth Estimate:**	3.3%	**Momentum Percentile:**	20.0%
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	0.9%	**Growth Percentile:**	16.2%
Dividend Yield:	4.2%	**5 Year Price Target**	$46	**Valuation Percentile:**	64.6%
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Total Return Percentile:**	49.3%

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 $51 billion.

General Motors reported its third quarter earnings results on October 31. The company generated revenues of $35.8 billion, an increase of 6.5% year over year. Revenue growth was driven by higher truck sales, the strong performance of the Cadillac brand, and ongoing expansion in China. Revenues were up year over year despite a decline in vehicle deliveries, due to a shift towards higher-priced (and higher-margin) vehicles like trucks and SUVs. This is also a positive for General Motors' profitability, which is why General Motors was able to grow its earnings-per-share by 42% year over year. Per-share earnings of $1.87 were substantially higher than what the analyst community had expected. General Motors has, however, not made any changes to its earnings-per-share guidance of $5.80 to $6.20 for fiscal 2018.

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***
Shares	-	-	1560	1560	1370	1500	1600	1540	1500	1400	***1400***	***1320***

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. Because of this, there is no data available prior to 2010.

During 2018 General Motors has seen and will continue to see a tailwind from 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 should lead to higher sales (partially due to pent-up demand) and should also result in better profitability. Higher commodity costs are a major headwind over the foreseeable future, and the most important reason for General Motors' guidance cut in July 2018.

Beyond 2018 General Motors should see earnings-per-share growth 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). Share repurchases, which have lowered General Motors' share over the last several years, will play a role as well. Electric vehicles, autonomous driving, and connectivity have not been a major factor for General Motors' results in the past, but could become more important during the 2020s. General Motors invests heavily into these technologies.

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	***6.2***	***6.5***
Avg. Yld.	-	-	-	-	-	-	3.5%	4.0%	4.9%	4.0%	***4.2%***	***3.8%***

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General Motors' shares trade slightly below our fair value estimate of 6.5 times net earnings. This is, compared to the valuations of many other stocks, a very low valuation. Due to the cyclicality of the automotive industry and due to the uncertainties around electric driving and other technological advancements, it is justified that General Motors and its peers trade at single-digit price to earnings ratios. Investors capture a high dividend yield of 4.2% from General Motors.

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%***

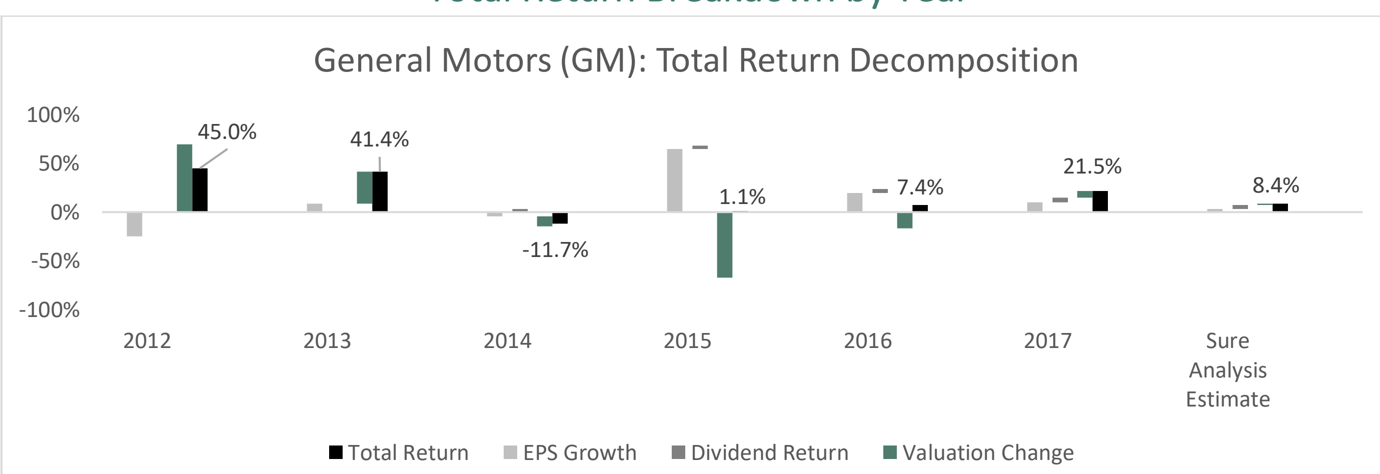
General Motors' high leverage is primarily based on the impact of the company's financial division. General Motors' financial services segment works like a bank, borrowing money at low rates and lending it out at higher rates. Due to its lending business, which generates positive interest income, General Motors' company-wide actual net interest expenses are relatively low, which is why the interest coverage ratio is very high.

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 was dramatically illustrated during the last financial crisis. Such deep, global downturns are not very common, though, and General Motors' balance sheet is cleaner than it was before the last crisis. The company thus should be able to stomach future headwinds better.

Final Thoughts & Recommendation

General Motors is one of the "old-tech" automobile companies with a strong position in the truck and SUV segments. The company invests heavily into new technologies such as autonomous driving and connectivity, though, which could result in sales tailwinds during the 2020s. General Motors will likely deliver solid total returns over the coming years, and shares trade below fair value right now. For those seeking exposure to the automotive industry, General Motors earns a buy recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue ($B)	149.0	104.59	135.59	150.28	152.26	155.43	155.93	135.73	149.18	145.59
Gross Profit	-278	-7606	16824	19890	12020	20502	17847	22730	28685	30719
Gross Margin	-0.2%	-7.3%	12.4%	13.2%	7.9%	13.2%	11.4%	16.7%	19.2%	21.1%
SG&A Exp.	N/A	13417	11446	12163	14031	12382	12158	11888	10354	9575
D&A Exp.	N/A	11384	6930	7427	38762	8041	7238	7487	9819	12261
Operating Profit	N/A	-21023	5108	6942	-3218	5672	1650	5538	9962	10016
Operating Margin	N/A	-20.1%	3.8%	4.6%	-2.1%	3.6%	1.1%	4.1%	6.7%	6.9%
Net Profit	N/A	N/A	6172	9190	6188	5346	3949	9687	9427	-3864
Net Margin	N/A	100.2%	4.6%	6.1%	4.1%	3.4%	2.5%	7.1%	6.3%	-2.7%
Free Cash Flow	N/A	-22618	2567	1080	1487	2811	-1806	N/A	N/A	N/A
Income Tax	1766	-2166	672	-110	N/A	2127	228	-1219	2739	11533

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets ($B)	91.04	136.30	138.90	144.60	149.42	166.34	177.50	194.34	221.69	212.48
Cash & Equivalents	14053	22679	21061	16071	18422	20021	18954	15238	12574	15512
Acc. Receivable	8340	7518	8699	13215	14439	22813	25606	26388	24827	28685
Inventories	13195	10107	12125	14324	14714	14039	13642	13764	11040	10663
Goodwill & Int.	265	45219	43660	39033	8782	7228	6410	5947	6149	5849
Total Liab. ($B)	176.12	114.34	101.74	105.61	112.42	123.17	141.48	154.02	177.62	176.28
Accounts Payable	22259	18725	21497	24551	25166	23621	22529	24062	23333	23929
Long-Term Debt	45938	15783	10758	11863	16050	36183	46665	63111	75123	94219
Total Equity	-85560	21249	25789	27729	25853	39498	35457	39871	43836	35001
D/E Ratio	-0.54	0.74	0.30	0.31	0.44	0.85	1.32	1.58	1.71	2.69

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	N/A	92.2%	4.5%	6.5%	4.2%	3.4%	2.3%	5.2%	4.5%	-1.8%
Return on Equity	N/A	N/A	26.2%	34.3%	23.1%	16.4%	10.5%	25.7%	22.5%	-9.8%
ROIC	N/A	N/A	14.4%	18.6%	11.9%	8.1%	4.9%	10.4%	8.5%	-3.1%
Shares Out.	N/A	N/A	1560	1560	1370	1500	1600	1540	1500	1400
Revenue/Share	257.3	113.07	83.49	90.09	90.90	92.74	92.43	82.76	95.02	97.58
FCF/Share	-33.8	-24.45	1.58	0.65	0.89	1.68	-1.07	-6.18	-7.18	-6.91

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.