General Motors Co. (GM)

Updated February 6th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$40	**5 Year CAGR Estimate:**	9.2%	**Volatility Percentile:**	67.2%
Fair Value Price:	$44	**5 Year Growth Estimate:**	3.3%	**Momentum Percentile:**	50.5%
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	2.0%	**Growth Percentile:**	17.3%
Dividend Yield:	3.9%	**5 Year Price Target**	$52	**Valuation Percentile:**	67.0%
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Total Return Percentile:**	46.5%

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 reported its fourth quarter and full year earnings results on February 6. The company generated revenues of $38.4 billion during the fourth quarter, which was 1.9% more than General Motors' revenues during the previous year's quarter. These revenues were created through selling 2.2 million vehicles during the quarter, which was less than the number of vehicles that were sold during the previous year's quarter. This headwind was more than offset by higher average selling prices. General Motors generated adjusted EBITDA of $2.8 billion during the fourth quarter, with $3.0 billion being generated by General Motors' North American business. The company's operations in the rest of the world, excluding China, as well as GM Cruise did not provide positive EBITDA.

General Motors' China business is profitable, but is accounted for using the equity method, as General Motors is only active in the country through joint ventures. General Motors generated earnings-per-share of $1.43 during the fourth quarter, which easily beat the analyst consensus, but which was down from the prior year's level nevertheless. The market reacted positively to the higher-than expected profits and revenues, sending General Motors' shares up by 2%. General Motors' management guides for earnings-per-share of $6.50 to $7.00 during fiscal 2019.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	-	$2.89	$3.88	$2.92	$3.18	$3.05	$5.02	$6.00	$6.62	$6.54	***$6.75***	***$7.94***
DPS	-	-	-	-	-	$1.20	$1.38	$1.52	$1.52	$1.52	***$1.52***	***$1.52***
Shares	-	1560	1560	1370	1500	1600	1540	1500	1400	1400	***1380***	***1350***

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 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 beyond 2018. Higher commodity costs are a major headwind over the foreseeable future, and the most important reason for General Motors' earnings decline during 2018. In 2019 and beyond, General Motors should see earnings-per-share growth again, through measures such as the recent introduction of a four-cylinder full-size truck, as well as through growth in international markets, primarily China. Share repurchases, which have lowered General Motors' share count 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, and management expects them to contribute to the company's bottom line in the early 2020s.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	-	12.0	7.3	8.0	10.5	11.3	6.8	5.2	5.7	5.2	***5.9***	***6.5***
Avg. Yld.	-	-	-	-	-	3.5%	4.0%	4.9%	4.0%	4.5%	***3.9%***	***2.9%***

General Motors has not been trading at a high valuation since the company emerged from its bankruptcy. This makes sense, as the market is not keen to reward the company with a high valuation due to poor past performance and the cyclicality of General Motors' earnings. Shares trade for less than 6 times this year's net profits using the midpoint of management's guidance, which is below our fair value estimate.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	-	-	-	-	-	39.3%	27.5%	25.3%	23.0%	23.2%	***22.5%***	***19.1%***

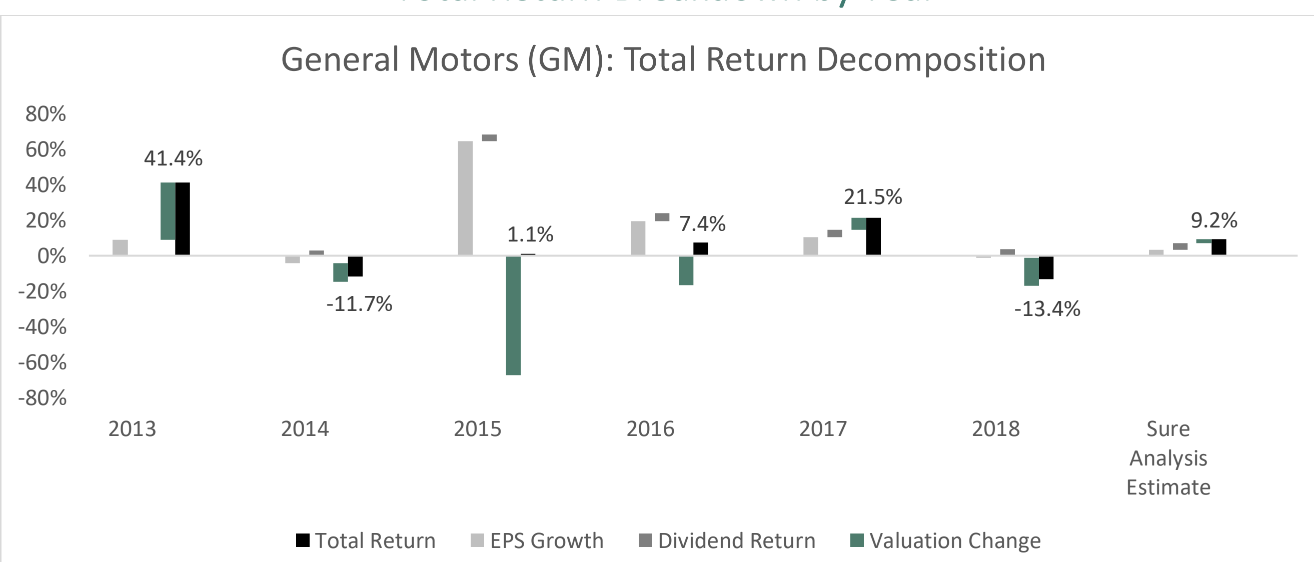
General Motors' dividend payout ratio has declined over the last couple of years due to the fact that the dividend has not been raised since 2016 while earnings-per-share have grown since then. The payout ratio is very low, but the very weak performance during the last financial crisis makes us believe that the dividend could still get cut.

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 has battled with commodity headwinds during 2018, but 2019 will likely be a year of higher profits. Through some earnings growth, tailwinds from multiple expansion, and an above-average dividend yield General Motors could deliver sizeable returns going forward. Shares are a buy for those that seek exposure to this cyclical industry.

Total Return Breakdown by Year



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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.

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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.