



General Motors Co. (GM)

Updated November 2nd, 2019 by Felix Martinez

Key Metrics

Current Price:	\$38	5 Year CAGR Estimate:	2.8%	Volatility Percentile:	75.4%
Fair Value Price:	\$33	5 Year Growth Estimate:	1.9%	Momentum Percentile:	44.9%
% Fair Value:	117%	5 Year Valuation Multiple Estimate:	-3.0%	Growth Percentile:	9.7%
Dividend Yield:	4.0%	5 Year Price Target	\$36	Valuation Percentile:	42.7%
Dividend Risk Score:	C	Retirement Suitability Score:	B	Total Return Percentile:	19.8%

Overview & Current Events

General Motors produces cars, trucks, and automobile parts, and provides automobile financing solutions to its customers. GM's 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 \$53 billion.

General Motors reported its third-quarter earnings results on October 29th. The company's revenue declined 0.9% compared to 3Q18. This loss in sales can be contributed to the work stoppage strike that impacted the U.S. negatively. The strike affected North American business results for this quarter, and it is expected results for the rest of this year. The company lost about two weeks of vehicle production. GM expects that the strike impact will be approximately (\$2.00) per diluted share on the bottom line.

GM's full-size pickups continued to increase in sales. The full-size pickups gained more than 8 percentage points of the retail market share. Dealerships delivered nearly 739,000 vehicles in the third quarter of 2019, an increase of 6% year over year. Results were led by GM's all-new full-size pickups and the company's fresh lineup of crossovers. However, performance in China declined by almost 11% for the quarter compared to 3Q18 due to segment shifts and lower demand for outgoing models. Cash flow was significantly up year over year to \$3.8 billion.

Overall, EPS came in at \$4.77 for the first nine months of 2019 vs \$5.11 for the nine-month a year ago. GM has revised its full-year outlook for adjusted EPS to be \$4.50 to \$4.80 due to the impact of the strike. We've revised our fiscal 2019 target EPS to \$4.65.

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	\$4.65	\$5.10
DPS	--	--	--	--	--	\$1.20	\$1.38	\$1.52	\$1.52	\$1.52	\$1.52	\$1.60
Shares¹	--	1561	1565	1366	1500	1600	1545	1498	1403	1400	1428	1420

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.

During 2018, General Motors enjoyed a tailwind from the launch of several major upgrades to its models, including the newest Chevrolet Silverado and GMC Sierra. The rollout of these new models has allowed for above-average profitability during 2018. Higher commodity costs will remain a headwind over the foreseeable future and were 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.

¹Shares in Millions

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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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 start contributing to the company's bottom line in the early 2020s.

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	5.8	8.2	7.0
Avg. Yld.	--	--	--	--	--	3.5%	4.0%	4.9%	4.0%	4.0%	4.0%	4.5%

General Motors has never traded at an especially high valuation since the company emerged from its bankruptcy in 2010. This makes sense, as the market is not keen to reward the company with a high valuation due to its poor past performance, as well as the cyclical nature of General Motors' earnings. Shares trade for 8.2 times this year's EPS right now, which is above our fair value estimate. The current dividend yield of 4.0% is right at the company's 5-year average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	--	--	--	--	--	39%	27%	35%	23%	23%	33%	31%

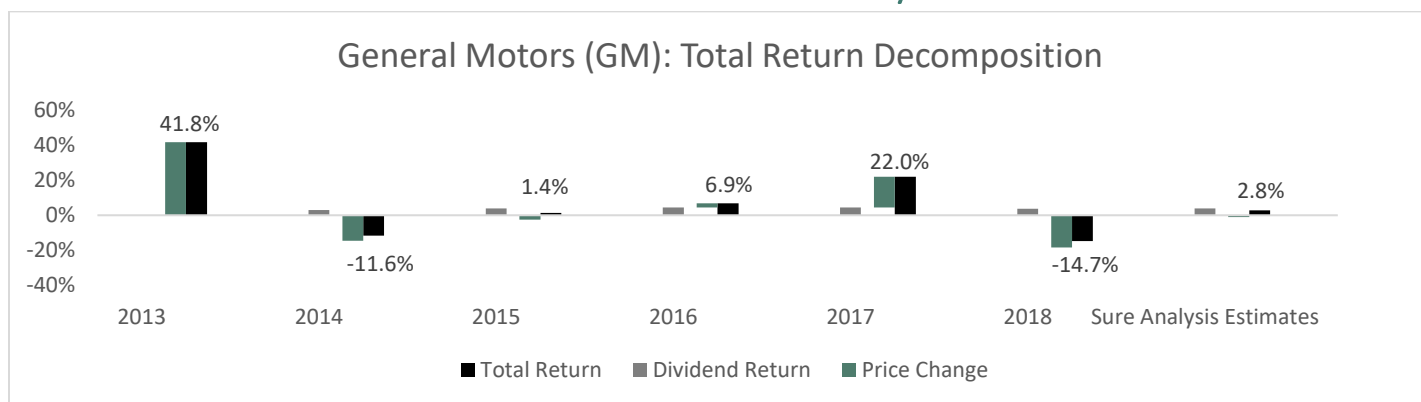
General Motors' dividend payout ratio has declined over the last couple of years since the dividend has not been raised since 2016, while earnings-per-share have grown. The payout ratio is low, but the weak performance during the last financial crisis makes us believe that the dividend could still get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

General Motors has a relatively strong position in the US market and the Chinese market, and General Motors is among the best-positioned companies in the truck market. General Motors is not strong in the European market, but if the company can continue to hold a strong market share in the US and the fast-growing Chinese market, it will remain on solid footing. With that said, 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 much cleaner than it was before the last crisis. The company thus should be able to weather future headwinds better.

Final Thoughts & Recommendation

GM Shares trade above our fair value estimate. The company does sport an above-average dividend yield compared to the broader market. However, at the current price, we project little return of 2.8% for the foreseeable future. Investors should keep in mind that the automobile industry can be quite cyclical. Thus, we rate GM as a sell today.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue (\$B)	104.59	135.59	150.28	152.26	155.43	155.93	135.73	149.18	145.59	147.05
Gross Profit	-7606	16824	19890	12020	20502	17847	22730	27400	29359	26393
Gross Margin	-7.3%	12.4%	13.2%	7.9%	13.2%	11.4%	16.7%	18.4%	20.2%	17.9%
SG&A Exp.	13417	11446	12163	14031	12382	12158	11888	10345	9570	9650
D&A Exp.	11384	6930	7427	38762	8041	7238	7487	9819	12261	13669
Operating Profit	-21023	5108	6942	-3218	5672	1650	5538	8686	8661	4445
Op. Margin	-20.1%	3.8%	4.6%	-2.1%	3.6%	1.1%	4.1%	5.8%	5.9%	3.0%
Net Profit	N/A	6172	9190	6188	5346	3949	9687	9427	-3864	8014
Net Margin	N/A	4.6%	6.1%	4.1%	3.4%	2.5%	7.1%	6.3%	-2.7%	5.4%
FCF (\$B)	-22.62	2.57	1.08	1.49	2.81	-1.81	-10.14	-11.27	-10.31	-10.24
Income Tax	-2166	672	-110	-34.8B	2127	228	-1219	2739	11533	474

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets (\$B)	136.3	138.9	144.6	149.4	166.3	177.5	194.3	221.7	212.5	227.3
Cash & Equivalents	22679	21061	16071	18422	20021	18954	15238	12574	15512	20844
Acc. Receivable	7518	8699	13215	14439	22813	25606	26388	24827	28685	33399
Inventories	10107	12125	14324	14714	14039	13642	13764	11040	10663	9816
Goodwill & Int.	45219	43660	39033	8782	7228	6410	5947	6149	5849	5579
Total Liab. (\$B)	114.3	101.7	105.6	112.4	123.2	141.5	154.0	177.6	176.3	184.6
Accounts Payable	18725	21497	24551	25166	23621	22529	24062	23333	23929	22297
Long-Term Debt	15783	10758	11863	16050	36183	46665	63111	75123	94219	104951
Total Equity	21249	25789	27729	25853	39498	35457	39871	43836	35001	38860
D/E Ratio	0.74	0.30	0.31	0.44	0.85	1.32	1.58	1.71	2.69	2.70

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	92.2%	4.5%	6.5%	4.2%	3.4%	2.3%	5.2%	4.5%	-1.8%	3.6%
Return on Equity	-326%	26.2%	34.3%	23.1%	16.4%	10.5%	25.7%	22.5%	-9.8%	21.7%
ROIC	N/A	14.4%	18.6%	11.9%	8.1%	4.9%	10.4%	8.5%	-3.1%	5.8%
Shares Out.	--	1560	1560	1370	1500	1600	1540	1500	1400	1400
Revenue/Share	113.0	83.49	90.09	90.90	92.74	92.43	82.76	95.02	97.58	102.76
FCF/Share	-24.5	1.58	0.65	0.89	1.68	-1.07	-6.18	-7.18	-6.91	-7.16

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

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