General Motors Co. (GM)

Updated February 14th, 2020 by Felix Martinez

Key Metrics

Current Price:	$35	**5 Year CAGR Estimate:**	8.3%	**Market Cap:**	$50.4B
Fair Value Price:	$38	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	03/05/2020
% Fair Value:	92%	**5 Year Valuation Multiple Estimate:**	1.8%	**Dividend Payment Date:**	03/20/2020
Dividend Yield:	4.4%	**5 Year Price Target**	$44	**Years Of Dividend Growth:**	0
Dividend Risk Score:	B	**Retirement Suitability Score:**	A	**Last Dividend Increase:**	N/A

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 $50.4 billion.

General Motors reported its fourth-quarter earnings results on February 5, 2020. For the fourth quarter, GM reported revenue of $30.8 billion, which was (19.7%) less than the $38.4 billion, which was published in the 4Q18 report. For the full year 2019, revenue came in $127.2 billion vs. $147.0 billion in Fiscal Year (FY)2018, or (6.7%) less. Net income was hit harder with less than (17.4%) of$6.7 billion compared to $8.1 billion for FY18. This poor performance was caused by the Strike, in which four weeks of vehicle production were lost in the fourth quarter. This reduces wholesales by 191,000 units year over year. All in all, GM sold 4,209,000 vehicles for the full year vs. 4,707,000 that were sold in FY 2018. This is a drop of (10.6%) in total vehicle sales.

Overall, EPS came in at $4.82 for the full year of 2019 vs. $6.54 for Fiscal Year (FY)2018; this represents a decrease of (26.3%). GM has provided a full-year outlook for FY2020. The company expects adjusted EPS to between $5.75 to $6.25. We will use the mid-point for our valuation calculation of $6.00 for FY2020. Dhivya Suryadevara, GM CFO, said, "We expect another strong year in 2020. Our relentless focus on improving our operating performance will enable us to generate strong cash flow through the cycle and invest in our future."

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.89	$3.88	$2.92	$3.18	$3.05	$5.02	$6.00	$6.62	$6.54	$4.82	***$6.00***	***$6.96***
DPS	$0.00	$0.00	$0.00	$0.00	$1.20	$1.38	$1.52	$1.52	$1.52	$1.52	***$1.52***	***$1.52***
Shares[1]	1624	1668	1675	1676	1687	1640	1570	1492	1431	1439	***1439***	***1439***

General Motors went bankrupt during the last financial crisis, was then restructured while majority-owned by the US government and was finally taken public again in 2010.

In 2020 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 significant factor for General Motors' results in the past but could become more critical during the 2020s. General Motors invests heavily in these technologies, and management expects them to start contributing to the company's bottom line in the early 2020s. Thus, we are estimating 3% average growth in earnings annually for the next five years.

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[1] *Shares 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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	12	7.3	8	10.5	11.3	6.8	5.2	5.7	5.8	7.8	***5.8***	***6.3***
Avg. Yld.	---	---	---	---	3.5%	4.0%	4.9%	4.0%	4.0%	4.1%	***4.4%***	***3.7%***

General Motors has never traded at an exceptionally 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 cyclicality of General Motors' earnings. Shares trade for 5.8 times this year's EPS right now, which is below our fair value estimate. The current dividend yield of 4.39% is slightly higher than the company's 5-year average of 4.13%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	0%	0%	0%	0%	39%	27%	25%	23%	23%	32%	***25%***	***22%***

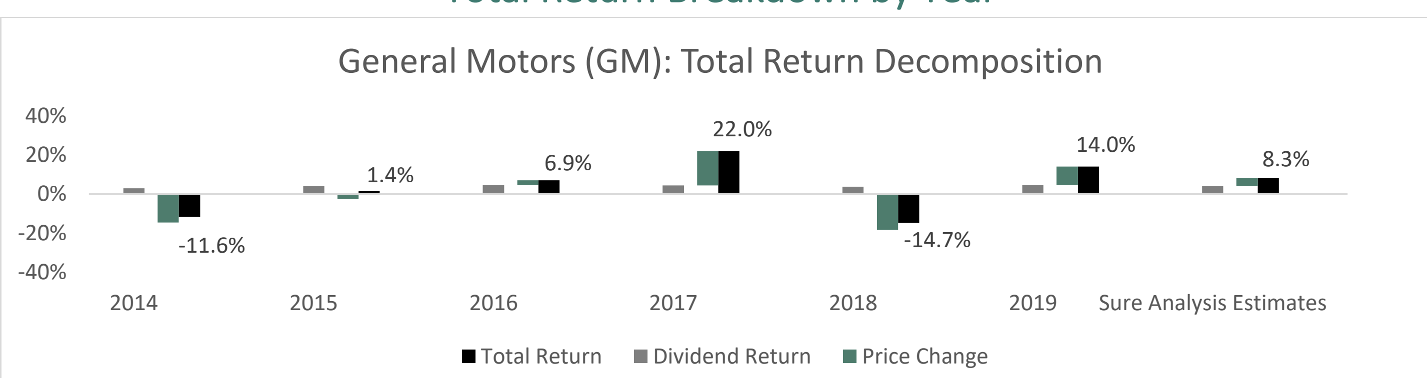
General Motors' dividend payout ratio has declined over the last couple of years since the dividend has not been raised since 2016, while earnings-per-share have grown. The payout ratio is low, but the weak performance during the last financial crisis makes us believe that the dividend could still get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

General Motors has a relatively stable 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 healthy 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, and it has been improving YoY. The fiscal Year 2019 Debt to Equity was 4.36, which is better than the 4.75 D/E ratio for Fiscal Year 2018. The company thus should be able to weather future headwinds better.

Final Thoughts & Recommendation

GM Shares trade moderately below our fair value estimate. The company does sport an above-average dividend yield compared to the broader market. Thus, at the current price, we project a reasonable return of 8.3% annually for the next five years. Investors should keep in mind that the automobile industry can be quite cyclical. Thus, we rate GM as a Hold today as the expected total return is too low for the potential risk that comes with investing in the auto industry.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue ($B)	135.59	150.28	152.26	155.43	155.93	135.73	149.18	145.59	147.05	137237
Gross Profit	16824	19890	12020	20502	17847	22730	27400	29359	26393	13972
Gross Margin	12.4%	13.2%	7.9%	13.2%	11.4%	16.7%	18.4%	20.2%	17.9%	10.2%
SG&A Exp.	11446	12163	14031	12382	12158	11888	10345	9570	9650	8491
D&A Exp.	6930	7427	38762	8041	7238	7487	9819	12261	13669	14118
Operating Profit	5108	6942	-3218	5672	1650	5538	8686	8661	4445	5481
Op. Margin	3.8%	4.6%	-2.1%	3.6%	1.1%	4.1%	5.8%	5.9%	3.0%	4.0%
Net Profit	6172	9190	6188	5346	3949	9687	9427	-3864	8014	6732
Net Margin	4.6%	6.1%	4.1%	3.4%	2.5%	7.1%	6.3%	-2.7%	5.4%	4.9%
FCF ($B)	2.57	1.08	1.49	2.81	-1.81	-10.14	-11.27	-10.31	-10.24	-8.98
Income Tax	672	-110	-34.8B	2127	228	-1219	2739	11533	474	769

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets ($B)	138.9	144.6	149.4	166.3	177.5	194.3	221.7	212.5	227.3	228.0
Cash & Equivalents	21061	16071	18422	20021	18954	15238	12574	15512	20844	19069
Acc. Receivable	8699	13215	14439	22813	25606	26388	24827	28685	33399	33398
Inventories	12125	14324	14714	14039	13642	13764	11040	10663	9816	10398
Goodwill & Int.	43660	39033	8782	7228	6410	5947	6149	5849	5579	5337
Total Liab. ($B)	101.7	105.6	112.4	123.2	141.5	154.0	177.6	176.3	184.6	182.1
Accounts Payable	21497	24551	25166	23621	22529	24062	23333	23929	22297	21018
Long-Term Debt	10758	11863	16050	36183	46665	63111	75123	94219	104951	103324
Total Equity	25789	27729	25853	39498	35457	39871	43836	35001	38860	41792
D/E Ratio	0.30	0.31	0.44	0.85	1.32	1.58	1.71	2.69	2.70	2.47

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	4.5%	6.5%	4.2%	3.4%	2.3%	5.2%	4.5%	-1.8%	3.6%	3.0%
Return on Equity	26.2%	34.3%	23.1%	16.4%	10.5%	25.7%	22.5%	-9.8%	21.7%	16.7%
ROIC	14.4%	18.6%	11.9%	8.1%	4.9%	10.4%	8.5%	-3.1%	5.8%	4.5%
Shares Out.	1560	1560	1370	1500	1600	1540	1500	1400	1400	1439
Revenue/Share	83.49	90.09	90.90	92.74	92.43	82.76	95.02	97.58	102.76	95.37
FCF/Share	1.58	0.65	0.89	1.68	-1.07	-6.18	-7.18	-6.91	-7.16	-6.24

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