General Motors Co. (GM)

Updated December 1st, 2020 by Felix Martinez

Key Metrics

Current Price:	$45	**5 Year CAGR Estimate:**	0.1%	**Market Cap:**	$64.4B
Fair Value Price:	$38	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	N/A
% Fair Value:	120%	**5 Year Valuation Multiple Estimate:**	-3.6%	**Dividend Payment Date:**	N/A
Dividend Yield:	N/A	**5 Year Price Target**	$44	**Years Of Dividend Growth:**	0
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**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 $64.4 billion.

General Motors reported its third-quarter earnings results on November 5, 2020. Total revenue was $35.5 billion for the quarter, representing an increase of 0.1% compared to 3Q19, where total revenue was $35.4 billion. However, net income saw a much more significant increase of 74%. The company reported a profit of $4 billion vs. $2.3 billion in 3Q19. Both Diluted EPS and Adjusted EPS saw a considerable increase in the third quarter. Diluted EPS saw a $2.74 a share for the quarter, an increase of 74% Year over Year (YoY). Adjusted EPS saw a rise of 65% vs. 3Q19. Sales have been impacted by the COVID-19 pandemic, which saw sales down by 20% for the nine months of FY2020. The company sold 1.79 million vehicles in the quarter, which is slightly lower than the 1.876 million that was sold YOY, a decrease of 4%. For the nine months, total vehicle sales are down 17% YOY. In October, the company unveiled the GMC HUMMER EV super truck, its first EV powered by Ultium battery system. It will be built at GM's Factory Zero, with production beginning in late 2021. The company also invested $2 billion in its Spring Hill, Tennessee manufacturing plant, which will enable the site to transition to produce EVs. GM has executed aggressive measures to preserve cash like suspending the quarterly dividend and the company's share repurchase program. We adjusted our expected 2020 EPS from $2.50, in the last report, to now $2.60, which is an increase of 4%. However, because earnings have been temporarily suppressed due to lockdowns because of COVID-19, we will be using normalized earnings for our fair value calculation. Thus, averaging the last three years earnings, the normalized earnings for 2020 is $5.99.

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	***$2.60***	***$6.94***
DPS	$0.00	$0.00	$0.00	$0.00	$1.20	$1.38	$1.52	$1.52	$1.52	$1.52	***$0.38***	***$0.38***
Shares[1]	1560.0	1564.0	1366.0	1500.0	1600.0	1544.0	1498.0	1402.0	1400.0	1429.0	***1432.0***	***1432.0***

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 2021 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 and growth in international markets, primarily China. Share repurchases, which have lowered General Motors' share count over the last several years, will also play a role.

Electric vehicles, autonomous driving, and connectivity have not been a significant factor for General Motors' results but could become more critical during the 2020s. General Motors invests heavily in these technologies, and management

---

[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.

expects them to start contributing to its bottom line in the early 2021s. Thus, we are estimating a 3% average growth in earnings annually for the next five years.

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	***18.2***	***6.3***
Avg. Yld.	---	---	---	---	3.5%	4.0%	4.9%	4.0%	4.0%	4.1%	***0.0%***	***0%***

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 and the cyclicality of General Motors' earnings. However, shares trade for 7.6 times this year's EPS right now, which is above our fair value estimate of 6.3 times earnings. The current dividend has been suspended, which was part of the total return for this company. We do not see the company reinstating the dividend as the Auto industry is a high risk right now.

Safety, Quality, Competitive Advantage, & Recession Resiliency

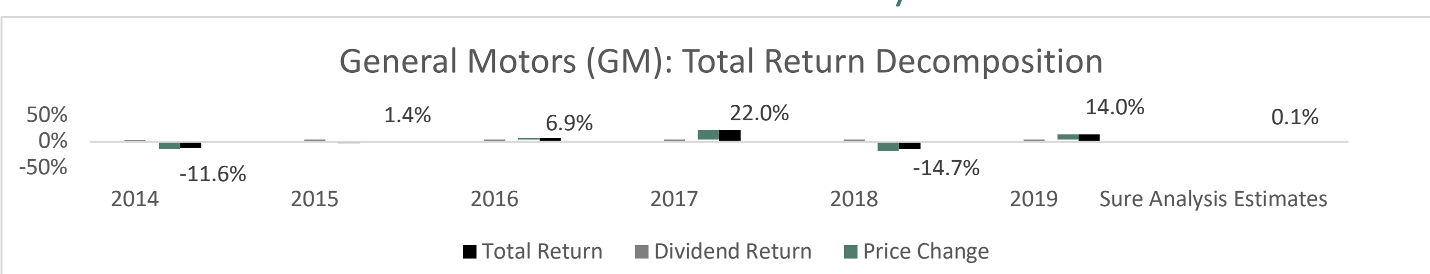
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	0%	0%	0%	0%	39%	27%	25%	23%	23%	32%	***15%***	***0%***

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 be 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 stable. 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 before the previous crisis, and it has been improving YoY. The Fiscal Year 2019 Debt to Equity was 4.36, and now the company has a Debt to Equity ratio of 2.7 and an Interest Coverage of 5.2. The company thus should be able to weather future headwinds better.

Final Thoughts & Recommendation

GM Shares trade above our fair value estimate. The company no longer has an above-average dividend yield compared to the broader market. Thus, we project a return of 0.1% annually at the current price for the next five years. This estimate is based on the normalized earnings of $5.99 for FY2020. Investors should keep in mind that the automobile industry can be quite cyclical. Thus, we have a Sell recommendation for GM. The expected total return is flat for the potential risk that comes with investing in the auto industry.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.]

[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.

General Motors Co. (GM)

Updated December 1st, 2020 by Felix Martinez

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.