



Ford Motor Company (F)

Updated August 5th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$9.74	5 Year CAGR Estimate:	11.3%	Market Cap:	\$40 B
Fair Value Price:	\$12	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	08/07/2024
% Fair Value:	79%	5 Year Valuation Multiple Estimate:	4.9%	Dividend Payment Date:	09/03/2024
Dividend Yield:	6.2%	5 Year Price Target	\$14	Years Of Dividend Growth:	2
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Ford Motor Company was first incorporated in 1903 and in the past 120 years, it has become one of the world's largest automakers. It operates a large financing business as well as its core manufacturing division, which produces a popular assortment of cars, trucks, and SUVs. Ford could produce \$170+ billion in revenue this year and it trades with a \$40 billion market capitalization.

Ford posted second quarter earnings on July 24th, 2024, and results were significantly weaker than expected. Adjusted earnings-per-share came to 47 cents, which was 21 cents worse than expected. Automotive revenue was \$44.81 billion, which was up 5.6% year-on-year, but \$70 million lower than expected.

The company's margins eroded in the second quarter as increased warranty costs and losses associated with its unsuccessful EV division. Management noted the company is working to improve quality and reduce complexity, which should help over time to rebuild margins.

Commercial sales were up 2.9%, but adjusted EBIT plummeted from \$2.8 billion to \$1 billion year-over-year. Adjusted free cash flow was up \$300 million to \$3.2 billion. Sales of hybrid vehicles rose 34% year-over-year, or 9% of total volume globally.

The EV division saw a 37% decline in revenue, and a loss of \$1.14 billion, which more than offset the \$400 million in cost reductions in the segment.

Given the deterioration in the company's results, we've cut our estimate to \$1.90 in adjusted earnings-per-share for this year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.16	\$1.73	\$1.76	\$1.90	\$1.30	\$1.19	\$0.41	\$1.59	\$1.88	\$2.01	\$1.90	\$2.10
DPS	\$0.50	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.15	\$0.10	\$0.50	\$0.60	\$0.60	\$0.60
Shares¹	3,938	3,960	3,974	3,974	4,000	4,003	4,025	4,000	4,000	3,974	3,950	3,850

If we look at the company's earnings-per-share history, Ford has performed rather abysmally. 2019's earnings-per-share were below that of 2010, and every other year from the past decade except for 2014, which is something no company would be proud to admit; 2020 was obviously much lower still. Ford has struggled with volume at times and at others, with profitability, particularly from its international businesses, and more recently, EVs. Recent results show the impacts of Ford's move away from sedans and other low-margin products and into electrification. It is becoming clearer that Ford's EV efforts are a struggle as margins remain very deep in negative territory, with no signs of improvement. We also note the legacy Blue and Pro divisions are highly profitable and Ford therefore has plenty of liquidity to fund its EV expansion for years to come. We have moved our estimate of growth to 2% given the lower base of earnings for 2024. We note the company is pulling back on investments in EVs given price wars that are making profitability extremely difficult.

¹ Share count 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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Ford can achieve this growth mostly from margin gains as it shifts its mix to more profitable vehicles over time. Ford will also benefit from the cost savings program it has in place. Ford's revenue is not likely to move much in either direction going forward but with more profitable vehicles in focus, as well as many billions of dollars of cost savings, Ford should be in a position to see at least steady rates of profitability in the coming years. We note margins are gradually moving higher in non-EV segments, but the big wildcard at the moment is the company's ability to produce electric vehicles profitably, which is a long way off at the moment. We think the move to reduce ambition in this area is a good one for earnings, ultimately.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	13.7	8.1	7.2	6.2	8.0	7.8	17.2	8.9	6.2	6.1	5.1	6.5
Avg. Yld.	3.1%	4.0%	4.8%	5.1%	5.8%	6.5%	2.1%	0.7%	4.3%	4.9%	6.2%	4.4%

Ford's price-to-earnings multiple has been very low for most of the past decade, and we don't expect that will change. Its current multiple of 5.1 times earnings is below our estimate of fair value at 6.5 times earnings. We therefore forecast a tailwind to total returns from the valuation. The dividend now yields a very respectable 6.2%, excluding any supplemental dividends declared.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	42%	32%	48%	32%	46%	50%	37%	6%	27%	30%	32%	29%

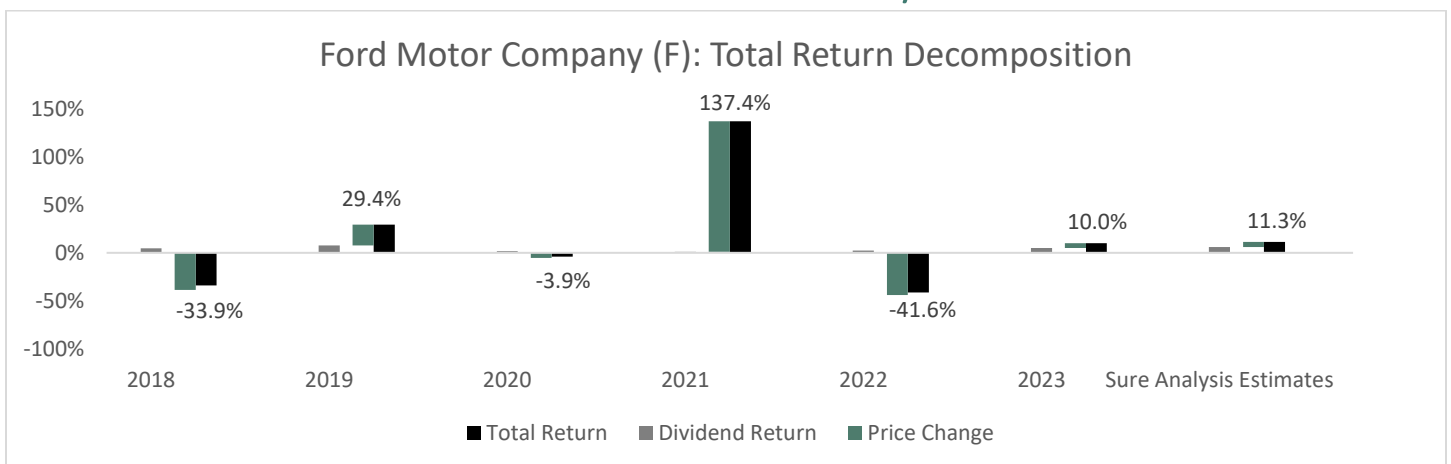
Ford is back to paying its dividend steadily, which is a great sign of confidence from management, and it was raised sharply for Q3 2022. The payout ratio is just 32% of earnings, so even a downturn in earnings shouldn't put the payout at risk. This excludes supplementary dividends paid.

Of course, recessions are not kind to automakers, so the COVID-19 slowdown crushed Ford's earnings. However, the company rebounded very quickly in 2021. Its competitive advantage is easily defined as its market share in trucks, particularly with its F-Series, and it is working to build an advantage in electric vehicles.

Final Thoughts & Recommendation

We see Ford as an undervalued stock with modest future prospects. We are forecasting 11.3% annual total returns going forward due to a mix of the valuation and the ample yield. With 2% growth, a 6.2% yield, and a modest tailwind from the valuation, we are boosting the stock from hold to buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue (\$B)	144	150	152	157	160	156	177	136	158	176
Gross Profit	19,052	25,112	25,605	25,455	24,069	21,207	14,392	21,690	17,164	16,160
Gross Margin	13.2%	16.8%	16.9%	16.2%	15.0%	13.6%	11.3%	15.9%	10.9%	9.2%
SG&A Exp.	11,842	10,763	10,972	11,527	11,403	11,161	10,193	11,915	10,888	10,702
D&A Exp.	7,423	7,966	8,717	8,572	8,413	8,490	7,457	5,960	6,493	6,523
Operating Profit	332	6,981	5,786	4,881	3,203	574	-4,408	9,775	6,276	5,458
Op. Margin	0.2%	4.7%	3.8%	3.1%	2.0%	0.4%	-3.5%	7.2%	4.0%	3.1%
Net Profit	1,231	7,373	4,589	7,731	3,677	47	-1,279	17,937	-1,981	4,347
Net Margin	0.9%	4.9%	3.0%	4.9%	2.3%	0.0%	-1.0%	13.2%	-1.3%	2.5%
Free Cash Flow	7,044	9,030	12,858	11,047	7,237	10,007	18,527	9,560	-13	6,682
Income Tax	4	2,881	2,184	402	650	-724	160	-130	-864	-362

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets (\$B)	209	225	238	258	257	259	267	257	256	273
Cash & Equivalents	10,757	14,272	15,905	18,492	16,718	17,504	25,243	20,540	25,134	24,862
Acc. Receivable	81,111	56,179	57,368	62,809	65,548	62,888	52,394	43,913	54,449	62,026
Inventories	7,870	8,319	8,898	11,176	11,220	10,786	10,808	12,065	14,080	15,651
Goodwill & Int.	---	---	---	288	442	466	402	2,090	2,350	---
Total Liab. (\$B)	184	196	209	223	221	225	236	208	213	231
Accounts Payable	20,035	20,272	21,296	23,282	21,520	20,673	22,204	22,349	25,605	25,992
LT Debt (\$B)	119	133	143	154	154	155	162	138	139	149
Total Equity	24,438	28,642	29,170	35,578	35,932	33,185	30,690	48,519	43,242	42,773
LTD/E Ratio	4.88	4.64	4.90	4.34	4.29	4.68	5.27	2.85	3.21	3.49

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.6%	3.4%	2.0%	3.1%	1.4%	0.0%	-0.5%	6.8%	-0.8%	1.6%
Return on Equity	4.9%	27.8%	15.9%	23.9%	10.3%	0.1%	-4.0%	45.3%	-4.3%	10.1%
ROIC	0.9%	4.8%	2.8%	4.3%	1.9%	0.0%	-0.7%	9.5%	-1.1%	2.3%
Shares Out.	3,938	3,960	3,974	3,974	4,000	4,003	4,025	4,034	4,056	4,041
Revenue/Share	36.40	37.37	37.96	39.21	40.10	38.94	32.00	33.80	38.97	43.60
FCF/Share	1.78	2.26	3.22	2.76	1.81	2.50	4.66	2.37	0.00	1.65

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

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