General Motors (GM)

Published January 20th, 2025 by Aristofanis Papadatos

Key Metrics

Current Price:	$51	**5 Year CAGR Estimate:**	11.2%	**Market Cap:**	$56 B
Fair Value Price:	$69	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	2/28/2025[1]
% Fair Value:	74%	**5 Year Valuation Multiple Estimate:**	6.1%	**Dividend Payment Date:**	3/13/2025
Dividend Yield:	0.9%	**5 Year Price Target**	$84	**Years Of Dividend Growth:**	1
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

General Motors is a leading global automotive manufacturer headquartered in Detroit, Michigan. Founded in 1908, the company designs, manufactures and sells cars and trucks. Its brand portfolio includes Buick, Cadillac, Chevrolet, GMC, Baojun, and Wuling. General Motors has a market capitalization of $56 billion and is actively engaged in the production of electric vehicles, with a goal to produce one million electric vehicles in North America in 2025. The company generates more than 90% of its earnings in North America.

General Motors is extremely cyclical and vulnerable to recessions, just like most automotive manufacturers. Due to the Great Recession in 2009, the company filed for bankruptcy in that year. After its shareholders and bondholders incurred devastating losses, General Motors emerged as a new company in the same year.

In late October, General Motors reported (10/22/24) financial results for the third quarter of fiscal 2024. Sales grew 10.5% over the prior year's quarter. Strong momentum in conventional vehicles in the U.S, which comprise more than 80% of the U.S. business, more than offset a decrease in market share in China from 8.3% to 6.5% amid fierce competition. Adjusted earnings-per-share grew 30%, from $2.28 to $2.96, exceeding the analysts' estimates by $0.57. The company has beaten the analysts' estimates in 19 of the last 20 quarters. Management narrowed its guidance for adjusted earnings-per-share in 2024 from $9.50-$10.50 to $10.00-$10.50. Accordingly, we expect earnings-per-share of $10.25 for 2024. Management also stated that competition is fierce in the automotive industry while the regulatory environment will keep getting tougher. The company is trying to make its electric vehicles profitable on an EBIT basis.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.65	$5.91	$6.00	-$2.60	$5.53	$4.57	$4.33	$6.70	$7.59	$7.68	***$10.25***	***$12.47***
DPS	$1.20	$1.38	$1.52	$1.52	$1.52	$1.52	$0.38	---	$0.18	$0.36	***$0.48***	***$0.80***
Shares[2]	1687	1640	1570	1492	1431	1439	1442	1468	1454	1306	***1130***	***850***

Just like most auto manufacturers, General Motors has exhibited a volatile performance record due to the high cyclicality of its industry. With that said, the company has grown its earnings-per-share by 6.3% per year on average since 2015. General Motors is currently trying to make its electric vehicles profitable. Thanks to the strong growth of sales of electric vehicles, we expect the company to continue growing its earnings in the upcoming years. On the other hand, its U.S. market share has remained essentially flat at 17% over the last decade. Given also the intense competition in the automotive industry, we prefer to be somewhat cautious and assume 4% growth of earnings-per-share until 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.3	5.8	5.3	---	6.9	8.1	7.2	8.3	5.3	4.6	***5.0***	***6.7***
Avg. Yld.	3.4%	4.0%	4.8%	4.1%	4.0%	4.1%	1.2%	---	0.5%	1.0%	***0.9%***	***1.0%***

[1] Estimated date.

[2] 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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General Motors is currently trading at a price-to-earnings ratio of 5.0, which may seem extremely low to some investors. However, the low earnings multiple is in line with that of Ford (F) and is partly justified by the extreme cyclicality of the automotive industry and the bankruptcy of General Motors in 2009, which is indicative of the risk of the stock. The stock has traded at an average price-to-earnings ratio of 6.7 over the last five years. If it trades at this earnings multiple in five years, it will enjoy a 6.1% annualized valuation gain.

Notably, General Motors has begun to take advantage of its extremely cheap valuation and has been repurchasing shares aggressively in the last two years. It has reduced its share count by 22% in the last two years and has provided guidance for a share count below 1.0 billion by the end of 2025, thus implying a further reduction of at least 9%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	73%	23%	25%	---	27%	33%	9%	---	2%	5%	***5%***	***6%***

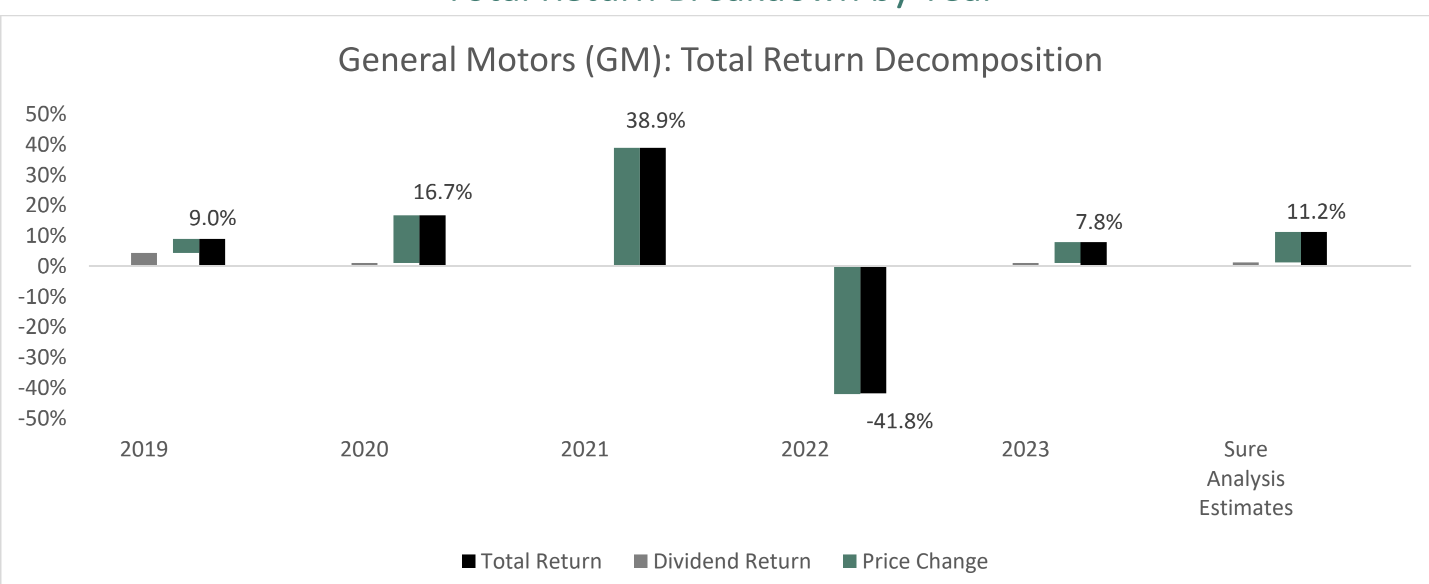
Competition is fierce in the automotive industry and may become even worse in the future due to the low cost of production of Chinese automakers. Companies need to invest hefty amounts in order to produce new models and remain competitive. They are also highly vulnerable to recessions. Due to intense competition and a high debt load, General Motors went bankrupt during the Great Recession, in 2009. The suspension of the dividend of General Motors in 2020-2021 amid the pandemic is just a reminder of the vulnerability of the company to downturns.

Fortunately, General Motors seems to have learnt its lesson and thus it now has a healthy balance sheet, paying negligible interest expense. As a result, the company should be less sensitive to recessions than it was in the past, though it certainly remains vulnerable.

Final Thoughts & Recommendation

General Motors is facing cut-throat competition in China but its U.S. business of conventional (non-electric) vehicles remains strong. The company is expected to report all-time high earnings-per-share for 2024. The stock could offer an 11.2% average annual return over the next five years thanks to 4.0% growth of earnings-per-share, a 0.9% dividend and a 6.1% valuation tailwind. It thus receives a buy rating, though it is suitable only for investors who can stomach the extreme stock price pressure during recessions. Due to its high cyclicality and its low dividend yield, General Motors is unsuitable for retirees and income-oriented investors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	155,929	135,725	149,184	145,588	147,049	137,237	122,485	127,004	156,735	171,842
Gross Profit	13,808	17,426	19,031	18,231	14,095	13,972	13,672	17,878	20,981	19,138
Gross Margin	8.9%	12.8%	12.8%	12.5%	9.6%	10.2%	11.2%	14.1%	13.4%	11.1%
SG&A Exp.	12,158	11,888	10,345	9,570	9,650	8,491	7,038	8,554	10,667	9,840
D&A Exp.	7,238	7,487	9,819	12,261	13,669	14,118	12,815	12,051	11,290	11,888
Operating Profit	1,650	5,538	8,686	8,661	4,445	5,481	6,634	9,324	10,314	9,298
Operating Margin	1.1%	4.1%	5.8%	5.9%	3.0%	4.0%	5.4%	7.3%	6.6%	5.4%
Net Profit	3,949	9,687	9,427	(3,864)	8,014	6,732	6,427	10,019	9,934	10,127
Net Margin	2.5%	7.1%	6.3%	-2.7%	5.4%	4.9%	5.2%	7.9%	6.3%	5.9%
Free Cash Flow	(1,806)	(10,140)	(11,272)	(10,305)	(10,241)	(8,975)	(3,863)	(6,923)	(5,144)	(3,680)
Income Tax	228	(1,219)	2,739	11,533	474	769	1,774	2,771	1,888	563

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	177,501	194,338	221,690	212,482	227,339	228,037	235,194	244,718	264,037	273,064
Cash & Equivalents	18,954	15,238	12,574	15,512	20,844	19,069	19,992	20,067	19,153	18,853
Accounts Receivable	25,606	26,388	24,827	28,685	33,399	33,398	34,244	34,043	46,956	51,454
Inventories	13,642	13,764	11,040	10,663	9,816	10,398	10,235	12,988	15,366	16,461
Goodwill	6,383	5,976	6,193	5,892	5,618	5,378	5,220	5,073	4,934	4,841
Total Liabilities	141,477	154,015	177,615	176,282	184,562	182,080	185,517	178,903	191,753	204,757
Accounts Payable	22,529	24,062	23,333	23,929	22,297	21,018	19,928	20,391	27,486	28,114
Long-Term Debt	46,665	63,111	75,123	94,219	104,951	103,324	109,894	109,379	114,699	121,741
Shareholder's Equity	35,457	39,871	43,836	35,001	38,860	41,792	45,030	59,744	67,792	64,286
LTD/E Ratio	1.32	1.58	1.71	2.69	2.70	2.47	2.44	1.83	1.69	1.89

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Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.3%	5.2%	4.5%	-1.8%	3.6%	3.0%	2.8%	4.2%	3.9%	3.8%
Return on Equity	10.0%	25.4%	22.3%	-9.6%	20.3%	15.2%	13.4%	17.4%	14.4%	14.4%
ROIC	4.9%	10.4%	8.5%	-3.1%	5.8%	4.5%	4.2%	6.0%	5.5%	5.4%
Shares Out.	1687	1640	1570	1492	1431	1439	1442	1468	1454	1306
Revenue/Share	92.43	82.76	95.02	97.58	102.76	95.37	84.94	86.52	107.80	125.52
FCF/Share	(1.07)	(6.18)	(7.18)	(6.91)	(7.16)	(6.24)	(2.68)	(4.72)	(3.54)	(2.69)

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