

Ford Motor Company(F)

\$6.19 (As of 06/03/20)

Price Target (6-12 Months): **\$6.25**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/22/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: C

Growth: F

Momentum: D

Summary

Ford's focus toward SUVs and trucks bode well for its long-term growth. The company's attempts to build an enriching portfolio by launching models of electric vehicles are anticipated to boost its prospects. The firm's cost-containment efforts to preserve cash will likely enable the firm to navigate through the coronavirus-induced financial crisis. However, depressed demand of vehicles amid weak consumer confidence in the wake of the pandemic will adversely impact Ford's sales and earnings in the near future. It expects second-quarter operating loss of more than \$5 billion. The firm has also suspended its dividend and scrapped the 2020 guidance. The firm's high leverage and non-investment grade ratings by Moody's and S&P also play spoilsports. As such, investors are advised to wait for a better entry point.

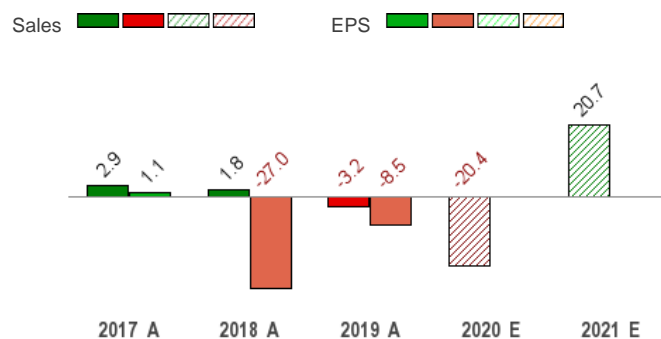
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$10.56 - \$3.96
20 Day Average Volume (sh)	84,228,400
Market Cap	\$23.5 B
YTD Price Change	-36.6%
Beta	1.31
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Domestic
Zacks Industry Rank	Bottom 18% (208 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-130.0%
Last Sales Surprise	-4.2%
EPS F1 Est- 4 week change	-18.2%
Expected Report Date	07/22/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					137,933 E
2020	31,340 A	12,830 E	29,797 E	34,844 E	114,290 E
2019	37,239 A	35,758 A	33,931 A	36,671 A	143,599 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$0.34 E
2020	-\$0.23 A	-\$1.30 E	\$0.07 E	\$0.08 E	-\$1.44 E
2019	\$0.44 A	\$0.32 A	\$0.34 A	\$0.12 A	\$1.19 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/03/2020. The reports text is as of 06/04/2020.

Overview

Dearborn, MI-based Ford Motor Company designs, manufactures, markets and services cars, trucks, sport utility vehicles, electrified vehicles, and Lincoln luxury vehicles. Apart from vehicles, the company provides financial services through Ford Motor Credit Company LLC ("Ford Credit"). It employs approximately 199,000 employees worldwide.

Ford has three reportable operating segments:

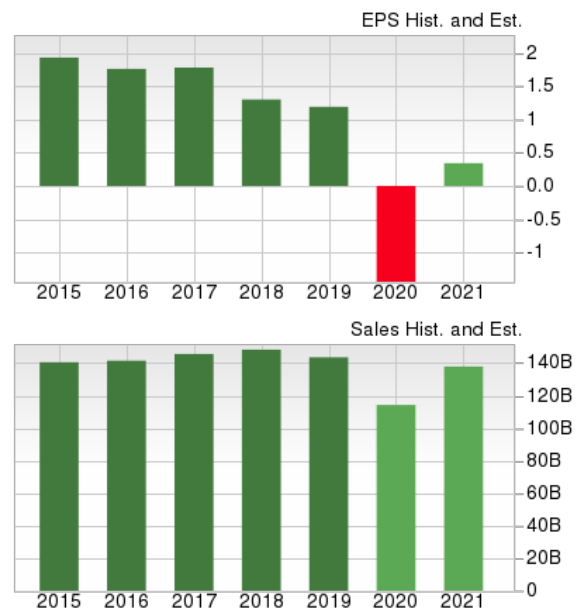
The **Automotive** segment (contributed 92.1% to company's total revenues in 2019) is engaged in the design, development, manufacture, sale and service of Ford and Lincoln vehicles as well as service parts, and accessories. The segment covers five regional business units: North America, South America, Europe, Middle East & Africa, and the Asia Pacific (including China).

The company's wholesales primarily consisted of vehicles sold to dealerships. In 2019, it sold roughly 5,386,000 vehicles at wholesale throughout the world. Beside retail sales, Ford's dealerships sell vehicles to fleet customers, including commercial fleet customers, daily rental car companies and governments. It also sells parts and accessories to authorized parts distributors and offers extended service contracts. At the end of 2019, the company's retail segment held 13.2% market share in North America, 7.2% in South America, 6.8% in Europe, 3.2% in Middle East & Africa and 2.2% in China.

The **Mobility** segment (0.01%) focuses on designing, building, growing and investing in mobility services, and autonomous technology businesses for the company. The segment works as a subsidiary of Ford under the name Ford Smart Mobility LLC ("FSM").

The **Financial Services** segment (7.8%) deals with vehicle-related financing and leasing activities at Ford Credit.

Ford expects extensive product introductions, featuring electric commercial and passenger vehicles, and investments in smart-vehicle capabilities throughout 2020. Apart from Mustang Mach-E, the company plans to launch F-150 — featuring a first-ever hybrid-electric version, a small off-road utility vehicle, the first of 30 market-specific Ford and Lincoln vehicles in China, and Electrified versions of the Lincoln Corsair and Ford Escape/Kuga.



Reasons To Buy:

- ▲ Ford is sharpening focus on SUVs and trucks, as these vehicles are experiencing higher demand. This is likely to boost sales once the impact of the COVID-19 pandemic cools down. Simplifying the business by retiring some of its old models and doubling down on these spacious vehicles bode well for the firm. Ford's focus on cost-containment efforts — lowering operating costs, reducing capital expenditures and deferring portions of executive salaries — are likely to enable the firm to navigate through the coronavirus-induced financial crisis.
- ▲ Strong vehicle mix supported by F-series trucks and SUV models, including Escape, Explorer, Expedition, EcoSport and Edge, among others, all of which offer hybrid and electric options, is expected to bolster the company's long-term revenues. The firm's restructuring efforts to refresh the product portfolio in the not-so-profitable regions are also expected to boost its long-term prospects.
- ▲ Ford has several electric vehicles coming up, including Mustang Mach-E sports SUV and the F-150 pick-up. These vehicles are likely to enhance the profitability of the firm, which will help pay back the heavy investments Ford has made in the technology. Moreover, it intends to launch 30 vehicle models in China by 2025, of which one third will be electric vehicles.

Ford's focus on SUVs and trucks along with EV launches are likely to boost its long-term prospects.

Reasons To Sell:

- ▼ The coronavirus pandemic has rattled the auto industry amid factory closures, low footfall at dealerships and supply-chain distortions. Depressed demand of vehicles amid weak consumer confidence is likely to hurt Ford's sales and earnings in the near future. Importantly, the firm expects second-quarter operating loss of more than \$5 billion. Amid the coronavirus uncertainty, Ford has suspended its dividend and withdrawn 2020 guidance.
- ▼ As of Mar 31, 2020, the company's automotive long-term debt increased to \$28.4 billion from 13.2 billion in the prior quarter. Its total debt-to-capital ratio stands at 0.85, higher than its industry's 0.82. The elevated leverage of the company restricts its financial flexibility. Notably, the firm reported negative first-quarter adjusted free cash flow of \$2.2 billion. Moreover, Ford's times interest earned ratio of negative 2.39 compares unfavorably with the industry ratio of 0.02. Ford's credit ratings are non-investment grade by Moody's and S&P. The firm's weak financial position is likely to increase its credit cost. High funding costs may weigh on Ford's ability to invest in programs which would benefit the firm over the long term.
- ▼ The company's margins in international markets are declining sharply. Ford's sales in China, wherein it commands a significant presence, have been falling for the past several quarters amid lackluster economy and the long-standing U.S.-Sino trade tiff. The company expects these challenges to prevail. In addition, amid the coronavirus outbreak, the firm's prospects in the country are becoming even more forbidding. Further, escalated expenditures of the firm related to the massive autonomous and electric drive may clip its margins.

Ford expects second-quarter operating loss of more than \$5 billion amid coronavirus woes.

Last Earnings Report

Ford Delivers Dismal Q1 Results

Ford reported first-quarter 2020 adjusted loss per share of 23 cents, wider than the Consensus Estimate of a loss of 10 cents. Lower-than-anticipated automotive sales in North America and China resulted in the underperformance. In the prior-year quarter, adjusted earnings were 44 cents per share. The weaker year-over-year results can be attributed to lower automotive sales across all markets served. The firm's first-quarter sales were affected by depressed demand for vehicles, thanks to the coronavirus outbreak.

Quarter Ending 03/2020

Report Date	Apr 28, 2020
Sales Surprise	-4.15%
EPS Surprise	-130.00%
Quarterly EPS	-0.23
Annual EPS (TTM)	0.55

In first-quarter 2020, the company reported adjusted negative EBIT of \$600 million against a profit of \$2.4 billion recorded in the corresponding period of 2019. The U.S. auto giant reported net loss of \$2 billion.

Ford registered revenues of \$34,320 million in first-quarter 2020, down from the year-ago quarter's \$40,342 million. During the reported quarter, Ford generated automotive revenues of \$31,340 million. The figure lagged the Zacks Consensus Estimate of \$31,771 million. In the prior-year quarter, the figure had amounted to \$37,239 million. Revenues from Ford Credit declined 4.2% year over year to \$2,967 million. Revenues from Ford Mobility came in at \$13 million, up from \$6 million in the first quarter of 2019.

Ford Automotive

During the first quarter, wholesale volume in the Ford Automotive segment declined 21% from the prior-year period to 1.13 million. The segment recorded negative EBIT of \$177 million against the prior-year profit of \$2 billion.

In North America, revenues declined 14% year over year to \$21.8 billion during the quarter ended March 2020. Wholesale volume edged down 18% from the prior-year quarter to 619,000 units. Further, EBIT was \$346 million, marking a decrease of \$1,859 million from the year-ago quarter.

In South America, revenues declined 21% year over year to \$700 million. Wholesale volume slipped 13% from the year-ago quarter to 59,000 units. The region reported a negative EBIT of \$113 million, narrower than the prior-year loss of \$158 million.

In Europe, revenues fell 16% from a year ago to \$6.2 billion. Wholesale volume decreased 25% from the year-ago period to 288,000 units. The region registered a negative EBIT of \$143 million against a profit of \$57 million reported in the year-ago quarter.

In China, revenues declined 31% year over year to \$600 million. Further, wholesale volume declined 29% from the prior-year figure to 81,000 units. The region reported a negative EBIT of \$241 million, wider than the year-ago loss of \$128 million.

In the International Markets Group, revenues dropped 25% from the year-ago figure to \$2 billion. Wholesale volume dipped 27% from the prior-year level to 78,000 units. Further, the region reported a negative EBIT of \$26 million.

Financial Position

The company reported negative first-quarter adjusted free cash flow of \$2.2 billion. Ford had cash and cash equivalents of \$25.9 billion as of Mar 31, 2020 compared with \$17.5 billion on Dec 31, 2019. Automotive long-term debt increased to \$28.4 billion from 13.2 billion in the prior quarter.

Road Ahead to Get Rougher

Well, coronavirus-induced damage has been done much and the situation is unlikely to improve anytime soon. Given the rate at which the virus is spreading and the fact that customers are likely to put off spending on big-ticket discretionary items for quite some time, Ford is unlikely to churn big profits for a while. Importantly, the firm expects second-quarter operating loss of more than \$5 billion.

Investors already know that coronavirus-induced uncertainty had prompted Ford to scrap annual view. It is pulling every available lever to preserve financial flexibility. The firm has draw down its credit revolvers, and suspended dividends as well as anti-dilutive share buyback programs. After borrowing more than \$15 billion from the existing lines of credit in March, it issued \$8 billion in unsecured bonds this month to bolster liquidity amid coronavirus-led financial crisis. The company has been evaluating other options like pay cuts, and reducing capex and operating costs to preserve cash in the wake of the pandemic.

Ford intends to postpone the launch of an autonomous vehicle service to 2022, given the challenges in the current business environment due to the COVID-19 pandemic. Ford's luxury brand, Lincoln aborted plans to build an electric SUV on the Rivian skateboard platform. While Ford and Lincoln will continue to collaborate on other projects, this project is halted due to problems exacerbated by the coronavirus outbreak.

Valuation

Ford's shares are down 36.6% and 40.5% in the year to date period and over the past year, respectively. Year to date, stocks in the Zacks Automotive – Domestic industry are up 28% and the Zacks Automotive sector is down 1.1%. Over the past year, the Zacks sub-industry and sector are up 63.6% and 15.2%, respectively.

The S&P 500 index is down 4.4% in the year-to-date period and up 9.9% in the past year.

The stock is currently trading at 0.19X forward 12-month sales, which compares to 1.12X for the Zacks sub-industry, 0.74X for the Zacks sector and 3.44X for the S&P 500 index.

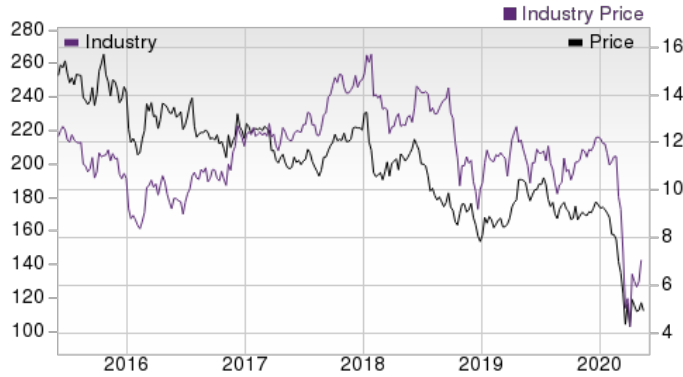
Over the past five years, the stock has traded as high as 0.44X and as low as 0.12X, with a 5-year median of 0.31X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$6.25 price target reflects 0.2X F12M sales.

The table below shows summary valuation data for F:

Valuation Multiples - F					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.19	1.12	0.74	3.44
	5-Year High	0.44	1.12	0.75	3.44
	5-Year Low	0.12	0.52	0.49	2.53
	5-Year Median	0.31	0.65	0.61	3.02
EV/EBITDA TTM	Current	10.51	16.03	10.79	11.3
	5-Year High	16.96	16.59	11.3	12.86
	5-Year Low	4.72	6.37	6.94	8.26
	5-Year Median	10.94	11.99	9.25	10.81
P/B TTM	Current	0.79	4.08	1.54	4.21
	5-Year High	2.5	4.18	2.13	4.56
	5-Year Low	0.49	1.97	1.11	2.83
	5-Year Median	1.39	2.71	1.72	3.66

As of 06/02/2020

Industry Analysis Zacks Industry Rank: Bottom 18% (208 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Autobytel Inc. (AUTO)	Neutral	3
Fiat Chrysler Automobiles N.V. (FCAU)	Neutral	3
General Motors Company (GM)	Neutral	3
HarleyDavidson, Inc. (HOG)	Neutral	3
Polaris Inc. (PII)	Neutral	3
Tesla, Inc. (TSLA)	Neutral	2
Fox Factory Holding Corp. (FOXF)	Underperform	4
PACCAR Inc. (PCAR)	Underperform	5

Industry Comparison Industry: Automotive - Domestic				Industry Peers
	F	Industry	S&P 500	NA
Zacks Recommendation (Long Term)	NA	-	-	NA
Zacks Rank (Short Term)	NA	-	-	
VGM Score	-	-	-	-
Market Cap	NA	NA	22.11 B	NA
# of Analysts	NA	NA	14	
Dividend Yield	NA	NA	1.93%	%
Value Score	NA	-	-	-
Cash/Price	NA	NA	0.06	NA
EV/EBITDA	NA	NA	12.69	NA
PEG Ratio	NA	NA	2.98	NA
Price/Book (P/B)	NA	NA	3.07	NA
Price/Cash Flow (P/CF)	NA	NA	11.86	NA
P/E (F1)	NA	NA	21.79	NA
Price/Sales (P/S)	NA	NA	2.29	NA
Earnings Yield	NA	NA	4.39%	NA%
Debt/Equity	NA	NA	0.76	NA
Cash Flow (\$/share)	NA	NA	7.01	NA
Growth Score	NA	-	-	NA
Hist. EPS Growth (3-5 yrs)	NA	NA	10.87%	NA
Proj. EPS Growth (F1/F0)	NA	NA	-10.74%	NA
Curr. Cash Flow Growth	NA	NA	5.48%	NA
Hist. Cash Flow Growth (3-5 yrs)	NA	NA	8.55%	NA
Current Ratio	NA	NA	1.29	NA
Debt/Capital	NA	NA	44.75%	NA
Net Margin	NA	NA	10.59%	NA
Return on Equity	NA	NA	16.29%	NA
Sales/Assets	NA	NA	0.55	NA
Proj. Sales Growth (F1/F0)	NA	NA	-2.67%	NA
Momentum Score	NA	-	-	-
Daily Price Chg	NA	NA	0.99%	NA%
1 Week Price Chg	NA	NA	4.60%	NA%
4 Week Price Chg	NA	NA	9.15%	NA%
12 Week Price Chg	NA	NA	4.65%	NA
52 Week Price Chg	NA	NA	-0.30%	NA
20 Day Average Volume	NA	0	2,486,038	0
(F1) EPS Est 1 week change	NA	NA	0.00%	NA
(F1) EPS Est 4 week change	NA	NA	-0.33%	NA
(F1) EPS Est 12 week change	NA	NA	-16.13%	NA
(Q1) EPS Est Mthly Chg	NA	NA	-0.55%	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	F
Momentum Score	D
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.