

## Ford Motor Company(F)

**\$5.84** (As of 07/09/20)

Price Target (6-12 Months): **\$6.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 03/22/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**2-Buy**

Zacks Style Scores:

VGM:D

Value: C

Growth: F

Momentum: B

### 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.

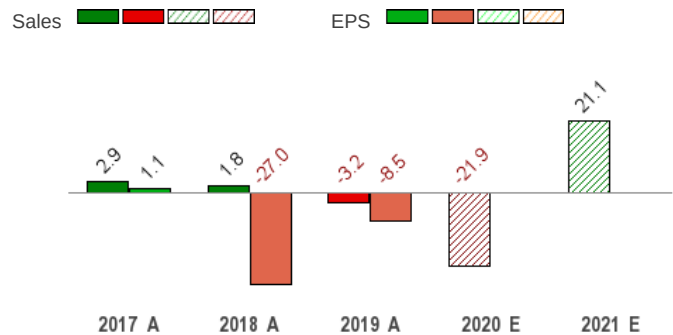
### Price, Consensus & Surprise



### Data Overview

|                            |                                       |
|----------------------------|---------------------------------------|
| 52 Week High-Low           | \$10.56 - \$3.96                      |
| 20 Day Average Volume (sh) | 74,890,728                            |
| Market Cap                 | \$23.2 B                              |
| YTD Price Change           | -37.2%                                |
| Beta                       | 1.32                                  |
| Dividend / Div Yld         | \$0.00 / 0.0%                         |
| Industry                   | <a href="#">Automotive - Domestic</a> |
| Zacks Industry Rank        | Top 38% (95 out of 252)               |

### Sales and EPS Growth Rates (Y/Y %)



|                           |            |
|---------------------------|------------|
| Last EPS Surprise         | -130.0%    |
| Last Sales Surprise       | -4.2%      |
| EPS F1 Est- 4 week change | 6.4%       |
| Expected Report Date      | 07/30/2020 |
| Earnings ESP              | 4.8%       |
| P/E TTM                   | 10.6       |
| P/E F1                    | NA         |
| PEG F1                    | NA         |
| P/S TTM                   | 0.2        |

### Sales Estimates (millions of \$)

|      | Q1       | Q2       | Q3       | Q4       | Annual*   |
|------|----------|----------|----------|----------|-----------|
| 2021 |          |          |          |          | 135,856 E |
| 2020 | 31,340 A | 14,356 E | 32,237 E | 34,728 E | 112,175 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 |           |           |          |          | \$0.42 E  |
| 2020 | -\$0.23 A | -\$1.30 E | \$0.15 E | \$0.12 E | -\$1.35 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 07/09/2020. The reports text is as of 07/10/2020.

## 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:

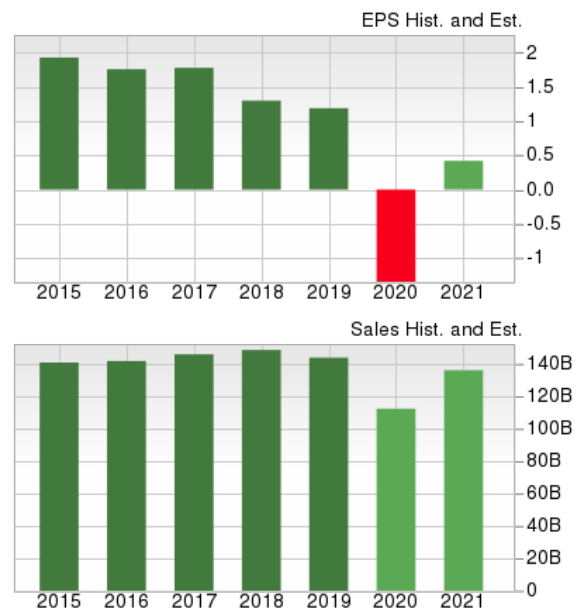
The **Automotive** segment (contributed 92.1% to company's total revenues in 2019) is engaged in the design, development, manufacture, sale and service of Ford and Lincoln vehicles as well as service parts, and accessories. The segment covers five regional business units: North America, South America,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



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### 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.

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### 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 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.

## Recent News

### Ford's Q2 China Sales Snap 3-Year Slump, Rise 3% Y/Y

On **Jul 8**, Ford announced that its vehicle sales in China increased 3% year over year to 158,589 units during the second quarter of 2020. This also marks a 78.7% rise from the prior quarter. The rise in second-quarter sales was primarily driven by robust demand amid the lifting of coronavirus-induced lockdown restrictions in the country and a strong product mix. Importantly, this marked the first time in nearly three years that the U.S. auto giant registered a rise in quarterly sales in China.

### Ford Sees 33.3% Fall in Q2 Sales Volume, Partners With Disney

On **Jul 2**, Ford reported U.S. second quarter sales of 433,869 units. This marks a year-over-year plunge of 33.3% on a volume basis, mainly due to bleak demand for passenger cars and SUVs amid the coronavirus crisis. While the company's retail sales declined 14.3% amid the coronavirus mayhem, Ford's retail share grew to 13.3%, marking the best retail share in five years. Meanwhile, Ford is collaborating with Disney to launch the Bronco 4x4 SUVs across its Media Networks on Jul 13, marking the first ever, prime-time product reveal through the latter's broadcast, cable, internet and online platforms, including ABC, ESPN, National Geographic and Hulu. Custom three-minute videos are planned for each network and two- and four-door Bronco models, as well as a smaller Crossover named the Bronco Sport will likely debut.

### Ford Unveils Revamped F-150 With Hybrid V6 Powertrain

On **Jun 25**, Ford unveiled the latest edition of the F-150 pickup, which will be equipped with a hybrid V6 powertrain, available at any trim level from the F-150 XL to F-150 Limited, along with internet access, and a redesigned interior that makes the truck into more of a rolling office or even a nap room. The all-new F-150 will be manufactured at Ford's Dearborn and Kansas City plants.

### Ford to Roll Out Hands-Free Monitoring in Mustang Mach-E

On **Jun 18**, Ford announced that it intends to offer its own hands-free advanced driver-assist systems, which will first appear as an option for the all-electric Mustang Mach-E. The technology — Ford Co-Pilot360 — offers a whole range of driver-assist features, including Active Drive Assist, Ford's hands-free driving system.

## Valuation

Ford's shares are down 37.2% and 42.6% in the year to date period and over the past year, respectively. Year to date, stocks in the Zacks Automotive – Domestic industry are up 66.7% and the Zacks Automotive sector is up 11.8%. Over the past year, the Zacks sub-industry and sector are up 99% and 25.3%, respectively.

The S&P 500 index is down 1.4% in the year-to-date period and up 6.2% in the past year.

The stock is currently trading at 0.19X forward 12-month sales, which compares to 1.45X for the Zacks sub-industry, 0.83X for the Zacks sector and 3.53X 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 price target reflects 0.19X 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  | 1.45         | 0.83   | 3.53    |
|                         | 5-Year High   | 0.44  | 1.45         | 0.83   | 3.53    |
|                         | 5-Year Low    | 0.12  | 0.52         | 0.49   | 2.52    |
|                         | 5-Year Median | 0.31  | 0.65         | 0.61   | 3.04    |
| EV/EBITDA TTM           | Current       | 10.5  | 21.25        | 12.22  | 12.1    |
|                         | 5-Year High   | 16.96 | 21.3         | 12.28  | 12.45   |
|                         | 5-Year Low    | 4.72  | 6.47         | 7.1    | 8.04    |
|                         | 5-Year Median | 10.94 | 12.15        | 9.35   | 10.76   |
| P/B TTM                 | Current       | 0.78  | 5.18         | 1.93   | 4.34    |
|                         | 5-Year High   | 2.33  | 5.2          | 2.08   | 4.65    |
|                         | 5-Year Low    | 0.49  | 2.11         | 1.13   | 2.81    |
|                         | 5-Year Median | 1.33  | 2.68         | 1.71   | 3.69    |

As of 07/09/2020

## Industry Analysis Zacks Industry Rank: Top 38% (95 out of 252)



## Top Peers

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

| Industry Comparison Industry: Automotive - Domestic |            |            |           | Industry Peers |           |            |
|-----------------------------------------------------|------------|------------|-----------|----------------|-----------|------------|
|                                                     | F          | X Industry | S&P 500   | GM             | PCAR      | TSLA       |
| Zacks Recommendation (Long Term)                    | Neutral    | -          | -         | Neutral        | Neutral   | Neutral    |
| Zacks Rank (Short Term)                             | 2          | -          | -         | 3              | 3         | 3          |
| VGM Score                                           | D          | -          | -         | B              | D         | F          |
| Market Cap                                          | 23.23 B    | 5.11 B     | 21.19 B   | 33.52 B        | 25.73 B   | 258.46 B   |
| # of Analysts                                       | 6          | 5          | 14        | 6              | 9         | 8          |
| Dividend Yield                                      | 0.00%      | 0.00%      | 1.96%     | 6.49%          | 1.72%     | 0.00%      |
| Value Score                                         | C          | -          | -         | A              | B         | F          |
| Cash/Price                                          | 1.93       | 0.09       | 0.07      | 1.28           | 0.17      | 0.04       |
| EV/EBITDA                                           | 10.29      | 10.12      | 12.56     | 3.27           | 6.54      | 110.54     |
| PEG Ratio                                           | NA         | 3.67       | 2.85      | 1.57           | 2.38      | 7.36       |
| Price/Book (P/B)                                    | 0.78       | 2.68       | 3.00      | 0.76           | 2.68      | 25.74      |
| Price/Cash Flow (P/CF)                              | 1.80       | 8.20       | 11.41     | 1.58           | 7.43      | 169.80     |
| P/E (F1)                                            | NA         | 26.58      | 20.79     | 15.48          | 26.99     | 294.93     |
| Price/Sales (P/S)                                   | 0.15       | 0.80       | 2.19      | 0.25           | 1.06      | 9.93       |
| Earnings Yield                                      | -23.12%    | 2.88%      | 4.52%     | 6.45%          | 3.71%     | 0.34%      |
| Debt/Equity                                         | 3.85       | 1.07       | 0.76      | 1.84           | 0.75      | 1.07       |
| Cash Flow (\$/share)                                | 3.24       | 3.23       | 6.94      | 14.84          | 10.02     | 8.21       |
| Growth Score                                        | F          | -          | -         | C              | D         | C          |
| Hist. EPS Growth (3-5 yrs)                          | -10.72%    | 1.90%      | 10.90%    | 1.65%          | 12.44%    | NA         |
| Proj. EPS Growth (F1/F0)                            | -213.30%   | -43.89%    | -9.99%    | -68.60%        | -59.86%   | 3,536.54%  |
| Curr. Cash Flow Growth                              | -2.64%     | 7.98%      | 5.51%     | -8.62%         | 6.65%     | 36.54%     |
| Hist. Cash Flow Growth (3-5 yrs)                    | 1.90%      | 7.39%      | 8.55%     | 9.37%          | 11.72%    | 54.29%     |
| Current Ratio                                       | 1.32       | 1.28       | 1.30      | 1.07           | 2.49      | 1.24       |
| Debt/Capital                                        | 79.39%     | 53.08%     | 44.46%    | 64.76%         | 42.85%    | 53.08%     |
| Net Margin                                          | -2.06%     | 3.82%      | 10.62%    | 3.60%          | 8.73%     | -0.55%     |
| Return on Equity                                    | 6.54%      | 12.73%     | 15.75%    | 12.73%         | 21.76%    | -1.86%     |
| Sales/Assets                                        | 0.57       | 0.82       | 0.55      | 0.57           | 0.88      | 0.76       |
| Proj. Sales Growth (F1/F0)                          | -21.88%    | -13.07%    | -2.52%    | -11.28%        | -37.82%   | 9.34%      |
| Momentum Score                                      | B          | -          | -         | B              | F         | F          |
| Daily Price Chg                                     | -4.11%     | -1.12%     | -1.52%    | -6.09%         | -1.37%    | 2.08%      |
| 1 Week Price Chg                                    | 2.37%      | 2.90%      | 3.66%     | 3.19%          | 4.47%     | 25.94%     |
| 4 Week Price Chg                                    | -4.73%     | -0.29%     | 0.36%     | -11.62%        | 2.55%     | 43.32%     |
| 12 Week Price Chg                                   | 18.22%     | 26.47%     | 10.41%    | 12.22%         | 12.45%    | 87.10%     |
| 52 Week Price Chg                                   | -42.69%    | -18.27%    | -8.70%    | -39.06%        | 5.16%     | 484.36%    |
| 20 Day Average Volume                               | 74,890,728 | 1,332,005  | 2,339,510 | 14,209,326     | 1,420,652 | 12,158,889 |
| (F1) EPS Est 1 week change                          | 0.00%      | 0.00%      | 0.00%     | 0.00%          | 0.00%     | 0.00%      |
| (F1) EPS Est 4 week change                          | 6.37%      | 0.00%      | 0.00%     | 13.08%         | -2.21%    | -4,099.99% |
| (F1) EPS Est 12 week change                         | -4,658.82% | -28.72%    | -7.77%    | -43.29%        | -38.55%   | 70.83%     |
| (Q1) EPS Est Mthly Chg                              | 120.00%    | 0.00%      | 0.00%     | 22.03%         | -0.29%    | -47.89%    |

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## 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.

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### 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 | B |
| VGM Score      | D |

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.

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### Disclosures

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