

Ford Motor Company(F)

\$9.14 (As of 01/23/20)

Price Target (6-12 Months): **\$11.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/26/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: D

Summary

Ford's focus on streamlining its portfolio and rising inclination toward bigger vehicles including SUVs and trucks are boosting top-line growth. Ford's attempts to build a winning portfolio by launching models of autonomous and electric vehicles are commendable. Strong FCF generation and solid dividend yield further boosts investors' confidence. The \$11-billion restructuring program bodes well for the long term but is likely to strain the company's near-term financials. As it is, concerns over economic slowdown, increased raw material costs and tariff issues are weighing on the firm's profitability in the international markets, especially in the Middle East and China. In addition, frequent recalls act as headwinds. As such, investors are recommended to wait for a better entry point.

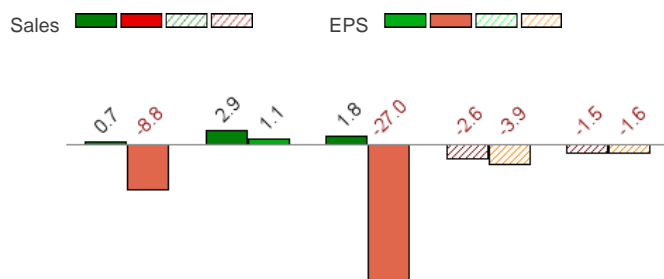
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$10.56 - \$8.16
20 Day Average Volume (sh)	40,515,048
Market Cap	\$36.2 B
YTD Price Change	-1.7%
Beta	1.09
Dividend / Div Yld	\$0.60 / 6.6%
Industry	Automotive - Domestic
Zacks Industry Rank	Top 28% (71 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	30.8%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	-0.7%
Expected Report Date	02/04/2020
Earnings ESP	-5.9%

P/E TTM	6.5
P/E F1	7.4
PEG F1	1.0
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					142,272 E
2019	37,239 A	35,758 A	33,931 A	37,523 E	144,418 E
2018	39,012 A	35,905 A	34,660 A	38,717 A	148,294 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020					\$1.23 E
2019	\$0.44 A	\$0.32 A	\$0.34 A	\$0.17 E	\$1.25 E
2018	\$0.43 A	\$0.27 A	\$0.29 A	\$0.30 A	\$1.30 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 01/23/2020. The reports text is as of 01/24/2020.

Overview

Dearborn, MI-based Ford Motor Company (F) 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 92.5% to company's total revenues in 2018) 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 2018, it sold roughly 5,982,000 vehicles at wholesale throughout the world. At end of 2018, the company had 11,534 dealerships worldwide, which consisted of 10,466 Ford dealerships, 210 Lincoln dealerships and combined Ford-Lincoln dealership of 858.

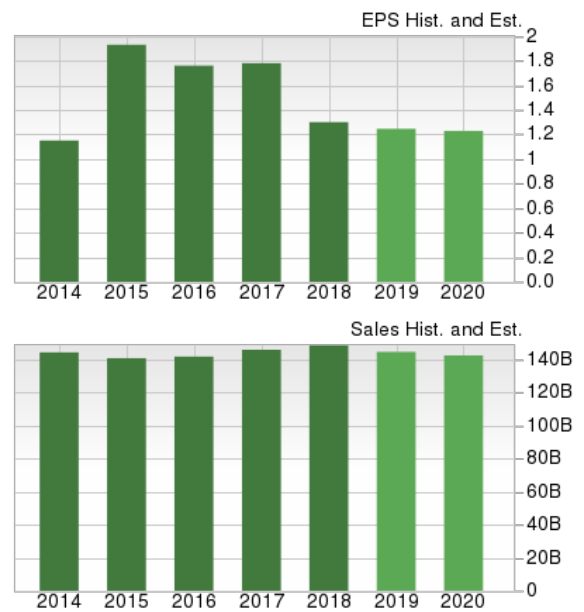
Beside retail sales, Ford's dealerships sell vehicles to fleet customers, including commercial fleet customers, daily rental car companies and governments. It also sells parts and accessories to authorized parts distributors and offers extended service contracts.

At the end of 2018, the company's retail segment held 13.4% market share in North America, 8.3% in South America, 7.2% in Europe, 3% in Middle East & Africa and 2.9% in China.

The **Mobility** segment (0.02%) 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 (7.5%) deals with vehicle-related financing and leasing activities at Ford Credit.

In Sep 2016, Ford signed an agreement to acquire San Francisco-based crowd-sourced shuttle service, Chariot. Through this acquisition, the company is planning to venture into the global shuttle services business.



Reasons To Buy:

- ▲ Ford is sharpening focus on SUVs and trucks, as these vehicles are experiencing higher demand. This is likely to expand its profit margins, going forward. Simplifying the business by retiring some of its old models and doubling down on these spacious vehicles bode well for the firm. 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 scale up the company's revenues.
- ▲ Ford's \$11-billion restructuring program over the next three-five years is expected to increase its market share in not-so-profitable markets like Europe, while lowering costs through collaborations and job cuts. While strong demand in North America is driving the company's bottom-line, restructuring efforts to refresh the product portfolio in not so profitable regions are expected to boost its long-term prospects.
- ▲ The company is actively working to introduce new models of autonomous and electric vehicles, which seem to be the future of the auto industry. These initiatives are likely to boost the prospects of Ford. The firm plans to produce self-driving cars by 2021. Moreover, it intends to launch 30 vehicle models in China by 2025, of which one third will be electric vehicles (EVs).
- ▲ Ford's shareholder-friendly policy further boosts investors' confidence. Its dividend yield of nearly 6.9% is above the broader industry's yield of around 3.3%. Ford fares well in the free cash flow parameter, which is a key indicator of a firm's performance and financial health. Notably, the metric increased almost 79.5% year over year to \$2.1 billion on a year-to-date basis. On the back of strong cash reserve and the firm's commitment to reward its shareholders by paying regular dividends through business cycles, Ford's dividend payout appears to be safe and reliable.

Ford's focus on SUVs and trucks is likely to aid the top line, in turn positioning it for FCF growth, and impressive dividend payouts.

Reasons To Sell:

- ▼ The company's margins in international markets are declining. Slowdown in the economy and the discontinuation of Sedan models have lowered vehicle sales and dented margins in South Africa, China, and the Middle East and Africa. Increased cost of raw materials and tariff woes may put pressure on the firm's profitability.
- ▼ Ford has lowered its 2019 outlook amid higher warranty costs, sagging sales in China, along with high incentive spending in North America. The company now expects full-year adjusted EBIT in the range of \$6.5 billion to \$7 billion compared with the prior year's \$7 billion. Adjusted EPS is anticipated in the range of \$1.20-\$1.32 compared with \$1.30 recorded a year ago. The trimmed guidance is a dampener.
- ▼ While Ford's adjusted free cash flow (FCF) is improving, it is still not supporting the dividend payouts. While Ford's year-to-date FCF amounted to \$2,288 million, the dividend payments stood at \$2,308 million. In fact, the company has not paid any special dividend this year. Moreover, as part of the firm's restructuring actions, it expects to incur \$7 billion of cash costs, including about \$1.5-\$2 billion in outlays in 2019. Considering high capital budget and restructuring expenses, there's little chance for the company's FCF to make way for special dividends, going forward.
- ▼ While the company's \$11-billion restructuring program — upon completion — may enhance profitability in the long term, the same is expected to put pressure on Ford's financials. The company's mega spending plans to produce next-generation cars bode well for long-term prospects. However, investments to develop technology, and manufacture and launch these cars will raise costs and create short-term strains on Ford's financials. Further, frequent vehicle recalls by Ford due to safety issues remain a headwind. In addition to elevating costs for repairing defects, frequent recalls and criminal investigation reduce consumers' confidence in a brand.

Declining margins in international markets along with frequent recalls remain headwinds.

Last Earnings Report

Ford's Earnings Surpass Estimates in Q2, Improve Y/Y

Ford delivered second-quarter 2019 adjusted earnings per share (EPS) of 32 cents, which beat the Zacks Consensus Estimate of 30 cents. In the prior-year quarter, adjusted earnings were 27 cents per share.

In the second quarter, the company reported adjusted earnings before interest and taxes (EBIT) of \$1.7 billion and adjusted EBIT margin of 4.3%, both flat year over year. Excluding the Pivotal Software revaluation, adjusted EBIT would have amounted to \$1.8 billion.

During the reported quarter, Ford generated automotive revenues of \$35.8 billion. The figure surpassed the Zacks Consensus Estimate of \$34.5 billion. In the prior-year quarter, the figure amounted to \$35.9 billion.

Ford Automotive

During the reported quarter, wholesale volume in the Ford Automotive segment declined 129,000 units to 1.36 million. EBIT rose 19% to \$1.4 billion. The figure was driven by improvement in mix and net pricing, especially North America's franchise strengths in trucks and sport-utility vehicles.

In North America, revenues inched up 1% year over year to \$24 billion during the reported quarter. Wholesale volume declined 7% to 693,000 units. Further, EBIT was \$1.7 billion, marking fall of \$57 million from the year-ago quarter.

In South America, revenues declined 33% year over year to \$1 billion. Wholesale volume declined 22% to 75,000 units.

In Europe, revenues fell 1% to \$7.6 billion. Wholesale volume increased 3% to around 379,000 units. EBIT amounted \$53 million, marking an increase of \$126 million from the first quarter of 2018.

In the Middle East & Africa segment, revenues were \$0.6 billion. Further, wholesale volume declined 22% to 21,000 units. The region recorded a negative EBIT of \$45 million.

In the Asia Pacific region, excluding China, revenues fell 1% to \$1.8 billion. Wholesale volume declined 9% to 70,000 units. Further, the region recorded an EBIT of \$30 million.

In China, revenues surged 48% year over year to \$0.9 billion. Further, wholesale volume declined 32% to \$126,000 units.

Financial Position

Ford had cash and cash equivalents of \$12.6 billion as of Jun 30, 2019 compared with \$9.6 billion as of Dec 31, 2018.

2019 Outlook

Ford expects adjusted EBIT in the range of \$7-\$7.5 billion compared with \$7 billion in 2018. The range indicates additional strength in market factors and improved costs.

Adjusted EPS is anticipated in the range of \$1.20-\$1.35 compared with \$1.30 a year ago. The range assumes a full-year adjusted effective tax rate in the band of 18-20%, which indicates a rise of 10% from year-ago levels. This is likely to create a headwind of 12-16 cents per share in 2019.

Quarter Ending **09/2019**

Report Date	Oct 23, 2019
Sales Surprise	0.34%
EPS Surprise	30.77%
Quarterly EPS	0.34
Annual EPS (TTM)	1.40

Recent News

Ford to Incur \$2.2B Pre-Tax Loss in Q4 Over Pension Plans

On Jan 22, Ford announced that it expects to be hit by a pre-tax loss of about \$2.2 billion in fourth-quarter 2019, due to pension and other post-retirement employee benefits (OPEB) obligations. The \$2.2-billion loss is projected to reduce Ford's net income by around \$1.7 billion, after taxes. It includes a loss of \$2 billion related to pension plans outside the United States and a \$600-million loss associated with global OPEB plans, offset by a \$400-million benefit associated with U.S. pension plans. However, since it is a special item, the loss will not affect the adjusted profit or the adjusted profit per share. It also did not have an impact on the company's cash in 2019, and did not change its expectations for pension contributions in 2020.

Valuation

Ford's shares are up 3.1% in the trailing 12-month period. Over the past year, stocks in the Zacks Automotive – Domestic industry are up 31% and the Zacks Automotive sector is up 12%, respectively. The S&P 500 index is up 24% over the past year.

The stock is currently trading at 7.37X forward 12-month earnings, which compares to 13.43X for the Zacks sub-industry, 10.84X for the Zacks sector and 19.13X for the S&P 500 index.

Over the past five years, the stock has traded as high as 10.08X and as low as 5.67X, with a 5-year median of 7.22X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$11 price target reflects 8.87X F12M earnings.

The table below shows summary valuation data for F:

Valuation Multiples - F					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.37	13.43	10.84	19.13
	5-Year High	10.08	13.43	11.75	19.34
	5-Year Low	5.67	7.95	8.23	15.17
	5-Year Median	7.22	10.47	9.93	17.44
EV/EBITDA TTM	Current	7.53	10.55	8.73	12.38
	5-Year High	16.91	16.37	11.33	12.86
	5-Year Low	4.78	6.48	7.05	8.48
	5-Year Median	10.83	11.34	9.27	10.69
P/S F12M	Current	0.26	0.85	0.67	3.56
	5-Year High	0.46	0.85	0.76	3.56
	5-Year Low	0.21	0.52	0.5	2.54
	5-Year Median	0.32	0.65	0.62	3

As of 01/23/2020

Industry Analysis Zacks Industry Rank: Top 28% (71 out of 255)



Top Peers

CNH Industrial N.V. (CNHI)	Neutral
General Motors Company (GM)	Neutral
Honda Motor Co., Ltd. (HMC)	Neutral
Harley-Davidson, Inc. (HOG)	Neutral
Nissan Motor Co. (NSANY)	Neutral
Toyota Motor Corporation (TM)	Neutral
Tesla, Inc. (TSLA)	Neutral
Daimler AG (DDAIF)	Underperform

Industry Comparison Industry: Automotive - Domestic				Industry Peers		
	F Neutral	X Industry	S&P 500	GM Neutral	HMC Neutral	TM Neutral
VGM Score	A	-	-	B	B	A
Market Cap	36.24 B	5.44 B	24.46 B	49.84 B	48.23 B	202.03 B
# of Analysts	7	5	13	7	3	3
Dividend Yield	6.56%	0.00%	1.75%	4.36%	2.97%	2.27%
Value Score	A	-	-	A	A	A
Cash/Price	1.03	0.12	0.04	0.53	0.44	0.29
EV/EBITDA	7.09	7.87	14.11	4.48	4.17	6.51
PEG Ratio	1.02	1.39	2.04	0.52	1.17	1.10
Price/Book (P/B)	1.05	2.85	3.40	1.02	0.60	1.06
Price/Cash Flow (P/CF)	2.69	8.37	13.66	2.12	4.02	6.32
P/E (F1)	7.43	11.99	19.10	5.68	8.73	9.21
Price/Sales (P/S)	0.23	0.85	2.67	0.34	0.34	0.72
Earnings Yield	13.46%	8.49%	5.23%	17.60%	11.46%	10.86%
Debt/Equity	2.81	0.67	0.72	1.43	0.47	0.50
Cash Flow (\$/share)	3.39	4.72	6.94	16.46	6.82	22.62
Growth Score	B	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	-0.36%	5.43%	10.60%	12.25%	8.63%	2.44%
Proj. EPS Growth (F1/F0)	-1.37%	8.82%	7.59%	29.00%	0.64%	32.48%
Curr. Cash Flow Growth	-13.28%	6.06%	13.90%	4.80%	-7.09%	-12.84%
Hist. Cash Flow Growth (3-5 yrs)	0.48%	5.91%	9.00%	12.08%	-2.43%	1.76%
Current Ratio	1.17	1.13	1.22	0.96	1.24	1.06
Debt/Capital	73.77%	61.11%	42.99%	58.83%	32.11%	33.53%
Net Margin	1.01%	4.74%	11.35%	6.19%	3.34%	6.25%
Return on Equity	15.53%	17.66%	17.10%	19.78%	6.14%	9.58%
Sales/Assets	0.61	0.97	0.55	0.63	0.78	0.60
Proj. Sales Growth (F1/F0)	-1.49%	3.90%	4.03%	3.70%	0.10%	2.03%
Momentum Score	D	-	-	F	F	A
Daily Price Chg	-0.22%	0.00%	0.26%	-0.09%	-0.11%	1.06%
1 Week Price Chg	-0.97%	0.81%	2.29%	2.74%	0.22%	0.22%
4 Week Price Chg	-3.28%	-3.28%	2.24%	-4.39%	-4.69%	1.08%
12 Week Price Chg	6.40%	2.02%	7.79%	-6.14%	1.63%	3.26%
52 Week Price Chg	6.28%	3.85%	21.61%	-8.60%	-7.52%	16.47%
20 Day Average Volume	40,515,048	988,960	1,536,379	7,877,514	360,724	117,550
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.72%	-0.48%	0.17%
(F1) EPS Est 4 week change	-0.72%	0.00%	0.00%	-1.73%	-0.48%	0.17%
(F1) EPS Est 12 week change	-2.69%	-1.88%	-0.23%	-3.75%	-9.09%	2.92%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.00%	NA	0.00%	0.00%

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	A
Growth Score	B
Momentum Score	F
VGM Score	A

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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