

Ford Motor Company(F)

\$4.01 (As of 03/23/20)

Price Target (6-12 Months): **\$4.25**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/22/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: D

Summary

Ford's focus toward bigger vehicles including SUVs and trucks are boosting top-line growth. The company's attempts to build a winning portfolio by launching models of autonomous and electric vehicles are commendable. The firm's \$11- billion restructuring program bodes well for the long term prospects. However, is likely to strain the company's near-term financials. Also, the coronavirus outbreak has prompted the auto giant to withdraw its guidance and suspend dividend payouts. Further, the company's margins in international markets including the Middle East and Asia-Pacific are declining. The company expects these challenges to prevail this year as well. As such, investors are recommended to wait for a better entry point.

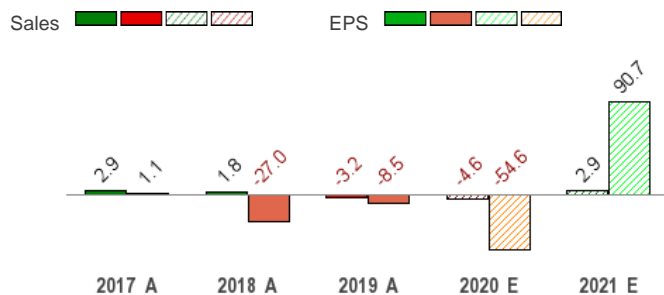
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$10.56 - \$3.96
20 Day Average Volume (sh)	107,002,008
Market Cap	\$15.9 B
YTD Price Change	-56.9%
Beta	1.18
Dividend / Div Yld	\$0.60 / 0.0%
Industry	Automotive - Domestic
Zacks Industry Rank	Top 40% (102 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-29.4%
Last Sales Surprise	-0.3%
EPS F1 Est- 4 week change	-48.4%
Expected Report Date	04/28/2020
Earnings ESP	-38.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					140,892 E
2020	33,572 E	33,588 E	31,525 E	36,766 E	136,953 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					\$1.03 E
2020	\$0.10 E	\$0.11 E	\$0.18 E	\$0.26 E	\$0.54 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 03/23/2020. The reports text is as of 03/24/2020.

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:

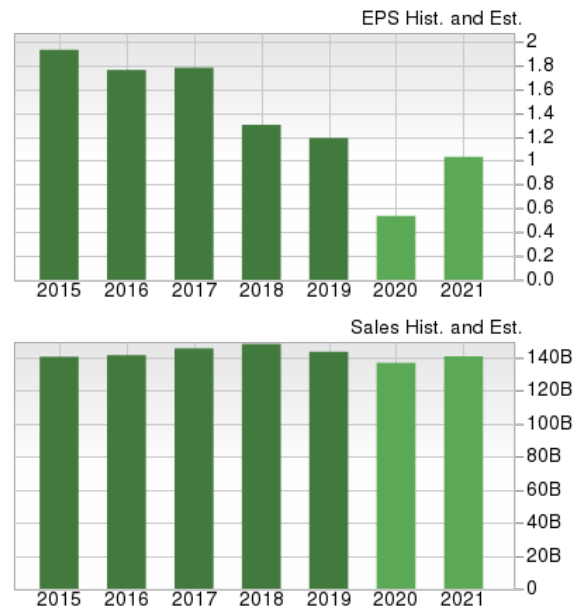
The **Automotive** segment (contributed 92.1% to company's total revenues in 2019) is engaged in the design, development, manufacture, sale and service of Ford and Lincoln vehicles as well as service parts, and accessories. The segment covers five regional business units: North America, South America,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

- ▼ Amid the coronavirus uncertainty, Ford has suspended its dividend and withdrawn 2020 guidance. 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 America, Asia-Pacific, the Middle East, and Africa. Increased cost of raw materials and tariff woes may put pressure on the firm's profitability.
- ▼ Ford's 2019 sales in China, wherein it commands a significant presence, fell for the third consecutive year, by 22%, amid lackluster economy and the long-standing U.S.-Sino trade tiff. The company expects these challenges to prevail this year as well. With the recent coronavirus outbreak set to further affect China's economy, prospects of the firm in the country are becoming even more forbidding.
- ▼ While the company's \$11-billion restructuring program — upon completion — may enhance profitability in the long term, the same is expected to weigh on Ford's financials. 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 Delivers Dismal Q4 Results

Ford delivered fourth-quarter 2019 adjusted earnings per share of 12 cents, missing the Zacks Consensus Estimate of 17 cents. In the prior-year quarter, adjusted earnings were 30 cents per share. This underperformance resulted from the lower automotive sales across all major markets served.

In the fourth quarter, the company reported adjusted earnings before interest and taxes (EBIT) of \$485 million and adjusted EBIT margin of 1.2%, down from the \$1,457 million and 3.5% witnessed in the year-earlier quarter, respectively.

During the reported quarter, Ford generated automotive revenues of \$36,671 million. The figure narrowly missed the Zacks Consensus Estimate of \$36,787 million. In the prior-year quarter, the figure had amounted to \$38,717 million.

Ford registered overall revenue figures of \$39.7 billion in fourth-quarter 2019, down from the year-ago quarter's \$41.8 billion.

Ford Automotive

During the fourth quarter, wholesale volume in the Ford Automotive segment declined 8% to 1.35 million. EBIT declined 81% to \$215 million, mainly due to lower launch-related volumes, higher costs for new products, unfavorable currency exchange and UAW contract related costs in the quarter.

In North America, revenues declined 2% year over year to \$25.3 billion during the December-end quarter. Wholesale volume edged down 8% to 681,000 units. Further, EBIT was \$700 million, marking a decrease of \$1,259 million from the year-ago quarter. This downside was mainly due to low volumes, discontinuation of sedan models and high costs related to product launches.

In South America, revenues declined 22% year over year to \$1 billion. Wholesale volume slipped 17% to 74,000 units. The region reported a negative EBIT of \$176 million, but the loss narrowed from the year-ago period because of a more favourable product mix.

In Europe, revenues fell 4% to \$7.1 billion. Wholesale volume decreased 4% to around 346,000 units. The region registered EBIT of \$21 million, as against a loss of \$199 million reported in the year-ago quarter. The firm's restructuring operations and cost-cut initiatives in the region seems to have yielded results. In the quarter, the business refocused its resources on commercial vehicles, selected passenger vehicles and iconic nameplates, such as Mustang and also announced plans to close or sell six manufacturing plants, and eliminate 12,000 positions across the region, which led to the decrease in losses.

In the Middle East & Africa segment (MEA), revenues declined 7% year on year to \$0.6 billion. Further, wholesale volume declined 16% to 27,000 units. The region reported a negative EBIT of \$83 million.

In the Asia-Pacific region, excluding China, revenues dropped 14% to \$1.7 billion. Wholesale volume dipped 18% to 67,000 units. Further, the region reported a negative EBIT of \$40 million.

In China, revenues plunged 38% year over year to \$1 billion. Further, wholesale volume declined 7% to \$159,000 units. The region reported a negative EBIT of \$207 million, but the loss slumped 61% from the year-ago period due to lower structural costs in the quarter.

Financial Position

Ford had cash and cash equivalents of \$17.5 billion as of Dec 31, 2019 compared with \$16.7 billion as of Dec 31, 2018. Automotive long-term debt stood at \$13.2 billion, reflecting a year-on-year increase from 11.2 billion.

Looking Forward

For full-year 2020, Ford anticipates adjusted free cash flow of \$2.4-\$3.4 billion and adjusted EBIT between \$5.6 billion and \$6.6 billion. Full-year adjusted EPS is forecasted to lie between 94 cents and \$1.20. Capital expenditures are expected to lie between \$6.8 billion and \$7.3 billion.

Ford continues to expect 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 other refreshed or new vehicles in North America in 2020, which includes 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.

In first-quarter 2020, the company anticipates adjusted EBIT to fall by more than \$1.1 billion compared to first quarter of 2019 due to higher warranty costs, lower vehicle volumes, lower results from Ford Credit, and higher investment in Mobility.

Quarter Ending **12/2019**

Report Date	Feb 04, 2020
Sales Surprise	-0.32%
EPS Surprise	-29.41%
Quarterly EPS	0.12
Annual EPS (TTM)	1.22

Recent News

Ford Suspends Production at IMG Sites on Coronavirus Scare

On **Mar 23**, Ford announced that it temporarily suspended vehicle and engine production at its International Markets Group (IMG) manufacturing sites in India, Vietnam, Thailand and South Africa, to prevent the spread of coronavirus. The suspension which began on Mar 21 is expected to continue for several weeks depending on the pandemic situation, national restrictions, supplier constraints and dealer stock requirements.

Ford Taps Brakes on Dividend Payout, Withdraws '20 View

On **Mar 19**, Ford announced that the company will suspend its 15 cents per share quarterly dividend and withdraw the 2020 guidance to preserve cash as vehicle sales fade on the coronavirus outbreak. The company had \$22.3 billion in cash and \$35.4 billion in liquidity at the end of 2019, which would be used to deal with the downturn caused by shutdowns in production due to the pandemic-led crisis. The company is also planning to draw \$15.4 billion from two credit lines. It will borrow \$13.4 billion under its corporate credit facility and an additional \$2 billion under the supplemental credit facility. Meanwhile, Ford will provide a new vehicle financing program to boost demand during such uncertain times, which is denting consumer confidence and slowing dealer-showroom traffic.

Valuation

Ford's shares are down 56.9% and 52.9% in the year to date period and over the past year, respectively. Year to date, stocks in the Zacks Automotive – Domestic industry are down 31.3% and the Zacks Automotive sector is down 31%, respectively. Over the past year, the Zacks sub-industry and sector are up 15.5% and down 22.3%, respectively.

The S&P 500 index is down 28.2% in the year-to-date period and 18.3% in the past year.

The stock is currently trading at 6.18X forward 12-month earnings, which compares to 11.12X for the Zacks sub-industry, 8.11X for the Zacks sector and 13.75X for the S&P 500 index.

Over the past five years, the stock has traded as high as 9.72X and as low as 4.64X, with a 5-year median of 7.19X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$4.25 price target reflects 6.64X 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	6.18	11.12	8.11	13.75
	5-Year High	9.72	14	11.75	19.34
	5-Year Low	4.64	7.95	8.11	13.75
	5-Year Median	7.19	10.47	9.88	17.42
EV/EBITDA TTM	Current	9.88	11.72	8.34	8.52
	5-Year High	16.96	16.56	11.34	12.88
	5-Year Low	4.72	6.37	6.97	8.31
	5-Year Median	10.94	11.81	9.31	10.78
P/S F12M	Current	0.12	0.54	0.47	2.5
	5-Year High	0.46	0.9	0.76	3.43
	5-Year Low	0.12	0.52	0.47	2.5
	5-Year Median	0.32	0.65	0.62	3

As of 03/23/2020

Industry Analysis Zacks Industry Rank: Top 40% (102 out of 254)



Top Peers

Fiat Chrysler Automobiles N.V. (FCAU)	Outperform
Fox Factory Holding Corp. (FOXF)	Outperform
Autobytel Inc. (AUTO)	Neutral
Polaris Industries Inc. (PII)	Neutral
Tesla, Inc. (TSLA)	Neutral
General Motors Company (GM)	Underperform
Harley-Davidson, Inc. (HOG)	Underperform
PACCAR Inc. (PCAR)	Underperform

Industry Comparison Industry: Automotive - Domestic				Industry Peers		
	F Neutral	X Industry	S&P 500	GM Underperform	PCAR Underperform	TSLA Neutral
VGM Score	D	-	-	C	C	D
Market Cap	15.90 B	2.46 B	15.21 B	25.15 B	17.29 B	78.75 B
# of Analysts	5	4.5	13	5	9	10
Dividend Yield	0.00%	0.00%	2.82%	8.64%	2.56%	0.00%
Value Score	C	-	-	A	C	F
Cash/Price	2.02	0.19	0.07	0.90	0.29	0.08
EV/EBITDA	9.31	7.29	9.67	3.22	4.37	35.51
PEG Ratio	1.20	1.10	1.37	0.37	1.17	1.76
Price/Book (P/B)	0.49	1.55	1.99	0.55	1.78	10.48
Price/Cash Flow (P/CF)	1.24	4.52	8.15	1.19	4.98	52.89
P/E (F1)	8.76	6.74	11.83	3.62	9.73	64.25
Price/Sales (P/S)	0.10	0.38	1.60	0.18	0.68	3.20
Earnings Yield	13.47%	15.06%	8.21%	27.61%	10.28%	1.56%
Debt/Equity	3.05	0.73	0.70	1.43	0.73	1.56
Cash Flow (\$/share)	3.25	3.25	7.01	14.84	10.02	8.21
Growth Score	D	-	-	D	C	A
Hist. EPS Growth (3-5 yrs)	-3.44%	3.88%	10.85%	6.93%	12.15%	NA
Proj. EPS Growth (F1/F0)	-54.96%	7.46%	4.20%	0.79%	-25.33%	5,099.23%
Curr. Cash Flow Growth	-2.64%	-0.38%	5.93%	-8.62%	6.65%	36.54%
Hist. Cash Flow Growth (3-5 yrs)	1.90%	5.42%	8.55%	9.37%	11.72%	54.29%
Current Ratio	1.16	1.22	1.23	0.88	2.32	1.13
Debt/Capital	75.31%	59.04%	42.57%	58.92%	42.29%	62.18%
Net Margin	0.03%	4.78%	11.57%	4.91%	9.33%	-3.51%
Return on Equity	13.84%	14.52%	16.74%	15.19%	24.87%	-13.07%
Sales/Assets	0.60	0.94	0.54	0.59	0.94	0.77
Proj. Sales Growth (F1/F0)	-4.63%	2.64%	2.76%	3.06%	-15.19%	21.06%
Momentum Score	D	-	-	F	D	F
Daily Price Chg	-7.39%	-6.88%	-3.98%	-2.98%	-4.57%	1.58%
1 Week Price Chg	-23.09%	-21.83%	-16.96%	-26.59%	-19.70%	-21.79%
4 Week Price Chg	-47.03%	-46.81%	-36.64%	-46.81%	-31.38%	-47.91%
12 Week Price Chg	-56.65%	-51.70%	-37.10%	-51.70%	-36.80%	4.72%
52 Week Price Chg	-52.88%	-50.03%	-28.90%	-52.11%	-25.95%	66.76%
20 Day Average Volume	107,002,008	1,573,607	4,200,337	21,634,046	3,071,723	19,766,928
(F1) EPS Est 1 week change	-41.36%	-0.03%	-0.16%	-15.00%	-0.06%	-59.54%
(F1) EPS Est 4 week change	-48.38%	-2.81%	-1.37%	-19.30%	-5.62%	-62.93%
(F1) EPS Est 12 week change	-56.69%	-8.76%	-2.41%	-22.30%	-8.17%	-72.00%
(Q1) EPS Est Mthly Chg	-52.33%	-8.68%	-1.16%	-57.05%	-5.14%	-12.22%

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	D
Momentum Score	D
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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