

General Motors Company (GM)

\$37.38 (As of 01/02/20)

Price Target (6-12 Months): **\$39.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/10/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: B

Summary

Strong demand for profitable trucks and SUVs is aiding General Motors' revenues. The company's hot-selling brands in America like Chevrolet Silverado, Equinox and GMC Sierra are driving the top line. The firm is increasing capacity investment in emerging markets to enhance global sales, and is undertaking several initiatives to make its vehicles more advanced, safer and fuel efficient. However, high cost of raw materials amid tariff woes might put pressure on the firm's profitability. As it is, the firm's negative FCF and high debt are restricting the financial flexibility of the firm. Also, the ongoing UAW-General Motors strike will act as a near-term headwind. Hence, investors are recommended to wait for a better entry point.

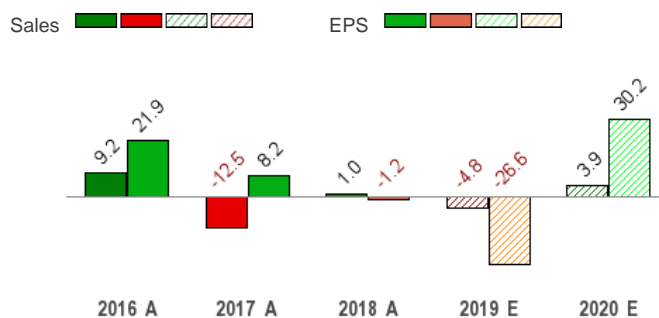
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$41.90 - \$32.20
20 Day Average Volume (sh)	7,440,456
Market Cap	\$53.4 B
YTD Price Change	2.1%
Beta	1.37
Dividend / Div Yld	\$1.52 / 4.1%
Industry	Automotive - Domestic
Zacks Industry Rank	Top 17% (43 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	45.8%
Last Sales Surprise	3.9%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/05/2020
Earnings ESP	0.0%
P/E TTM	6.0
P/E F1	6.0
PEG F1	0.7
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	36,060 E	33,225 E	37,275 E	36,690 E	145,525 E
2019	34,878 A	36,060 A	35,473 A	31,295 E	140,037 E
2018	36,099 A	36,760 A	35,791 A	38,399 A	147,049 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.77 E	\$1.27 E	\$1.71 E	\$1.73 E	\$6.25 E
2019	\$1.41 A	\$1.64 A	\$1.72 A	\$0.06 E	\$4.80 E
2018	\$1.43 A	\$1.81 A	\$1.87 A	\$1.43 A	\$6.54 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 01/02/2020. The reports text is as of 01/03/2020.

Overview

Detroit, MI-based General Motors Company, founded in 1908, is a leading global automotive company. The company is engaged in designing, building and selling cars, trucks, crossovers and automobile parts worldwide. The company is also expanding autonomous vehicle business. Moreover, the company offers automotive financing services through General Motors Financial Company, Inc.

Management of General Motors has taken the initiative to transform the company into the most valued automotive company of the world. Strategic plans aim at to redefine the future of personal mobility and advance its vision of zero crashes, zero emissions, zero congestion vehicles while also strengthening the core of its business.

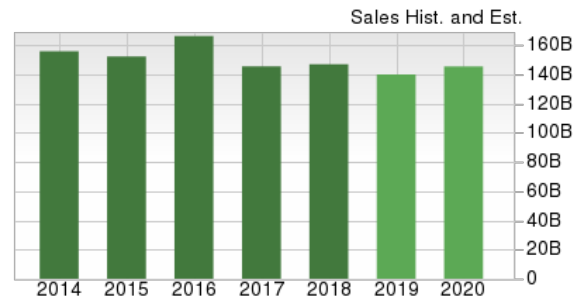
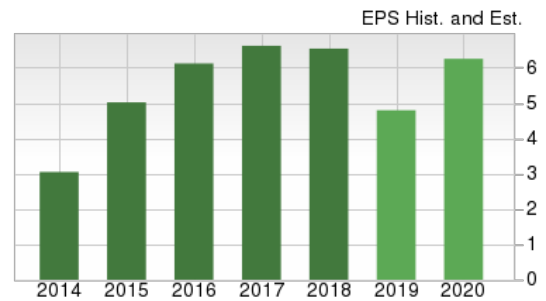
The company filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code on Jun 1, 2009. Pursuant to this, the New GM was formed by acquiring most of the assets and assuming certain liabilities of the Old GM, and some of its direct and indirect subsidiaries.

GM received \$52 billion in U.S. Treasury loans by selling 61% ownership stake of the company and C\$1.5 billion (\$1.5 billion) in Export Development Canada loans during the bankruptcy protection. In Dec 2013, the U.S. Department of Treasury completed the divestment of its entire stake in General Motors.

Nearly 73.4 million shares of GM, which were held by Canada GEN Investment Corporation, were sold to Goldman, Sachs & Co under an unregistered block trade in Apr 2015. With this, Canada GEN sold its entire stake in General Motors.

GM, along with its strategic partners, produces, sells and services cars, trucks and parts under four core brands – Chevrolet, Buick, GMC and Cadillac. GM assembles passenger cars, crossover vehicles, light trucks, sport utility vehicles (SUVs), vans and other vehicles.

GM has three operating segments, namely, General Motors North America ("GMNA"), General Motors International Operations ("GMIO") and GM Financial.



Reasons To Buy:

- ▲ Strong demand for profitable trucks and SUVs is aiding General Motors' revenues. The company's hot-selling brands in America like Chevrolet Silverado, Equinox and GMC Sierra are driving the top line. SUVs and crossover vehicles, which accounts for majority of the firm's sales volumes, are becoming popular on the back of low interest rates and gas prices. Notably, the demand for these brands is expected to grow further. General Motors revamped its crossover lineup and is launching all-new full-size pickups that will be followed by full-size SUVs.
 - ▲ General Motors' shareholder-friendly policy via dividends and stock buybacks further boosts investors' confidence. Its dividend yield of nearly 3.9% is more than the broader industry's yield of around 2.4%. The company's active share repurchase program of \$5 billion, out of which it has already bought back \$1.6 billion worth of shares, reflects cash generating ability.
 - ▲ General Motors is increasing capacity investment in emerging markets to enhance global sales. The company expects half of the global sales growth by 2030 to come from emerging markets. It is trying to gain from growth of emerging countries via product launches and the new Wuling plant. The firm is undertaking several initiatives to make its vehicles more advanced, safer and fuel efficient. The automaker is presently focusing on electric and autonomous vehicle development to adapt to changing dynamics and customer preferences. All the above-mentioned initiatives are likely to bolster the company's prospects, going forward.
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Strong demand for profitable trucks and SUVs is aiding General Motors' revenues.

Reasons To Sell:

- ▼ Going forward, the company is expected to face headwinds from challenging economic environment in China as well as rising commodity costs. Due to increased launch-related costs, the company expects pricing pressure to intensify. Further, the 6-week long UAW-General Motors strike is likely to adversely impact the firm's results in the fourth quarter of 2019.
- ▼ General Motors does not fare well on the free cash flow parameter, which is a key metric to gauge the financial health of a company. It recorded negative free cash flows of \$1.3 billion on a year-to-date basis. Further, elevated leverage of around 88% restricts its financial freedom.
- ▼ Frequent vehicle recalls by General Motors 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. Notably, unfavorable foreign exchange impact of the Argentine peso and Brazilian real adversely affected General Motors' business expectations.

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Last Earnings Report

General Motors Q3 Earnings and Sales Top Estimates

General Motors delivered a comprehensive beat in the third quarter of 2019, with earnings and sales surpassing the Zacks Consensus Estimate. Better-than-expected performance from the North American market led to the outperformance.

General Motors reported adjusted earnings of \$1.72 per share in third-quarter 2019, topping the Zacks Consensus Estimate of \$1.18. However, the bottom line declined 8% from the year-ago figure. The top U.S. carmaker firm reported revenues of \$35,473 million, topping the Zacks Consensus Estimate of \$34,153 million. However, the top line decreased from the year-ago figure of \$35,791 million.

The automaker's global market share was 10.7% in the reported quarter, reflecting a marginal decline from 10.8% in the year-ago period.

Segment Results

GM North America (GMNA) generated net sales and revenues of \$27.9 billion in third-quarter 2019, up from \$27.6 billion recorded in the corresponding period of 2018. Revenues from the GMNA unit also outpaced the Zacks Consensus Estimate of \$25.7 billion. Profits from the segment recorded a year-over-year increase of 7% to \$3 billion in the quarter under review. Moreover, the figure surpassed the Zacks Consensus Estimate of \$2.5 billion. Robust sales of trucks and crossovers drove the results of the unit. Higher year-over-year pricing of all new pickups also aided the performance. Notably, vehicle sales in the United States came in at 739,000 units, reflecting a year-over-year increase of 6%. Deliveries increased across all its brands, with crossovers generating record sales in the quarter.

GMI International's net sales and revenues were \$3.8 billion, declining from \$4.6 billion in the year-ago quarter. Revenues from the GMI segment also lagged the Zacks Consensus Estimate of \$4.2 billion. The unit recorded an operating loss of \$65 million against income of \$139 million a year ago. The Zacks Consensus Estimate for segmental earnings was \$112 million. Sagging vehicle sales in China amid economic slowdown and trade tussle negatively impacted the segment.

GM Financial generated net sales and revenues of \$3.66 billion in the quarter under review, reflecting a rise from \$3.51 billion recorded in the year-ago period. The segment recorded operating profit of \$711 million, significantly beating the Zacks Consensus Estimate of \$469 million. The figure also increased 42.7% year over year.

Dividend & Financials

General Motors recently declared fourth-quarter dividend of 38 cents a share, payable on Dec 19 to its shareholders as of Dec 6, 2019.

General Motors had cash and cash equivalents of \$20.1 billion as of Sep 30, 2019 compared with \$20.8 billion on Dec 31, 2018. Long term automotive debt stands at \$13.1 billion.

Adjusted automotive free cash flow in the reported quarter was \$3.8 billion, representing a massive increase from \$396 million in the prior-year period.

Guidance

General Motors expects full-year capex to come in at \$7.5 billion, lower than the prior projection. Amid the impact of UAW strike, the company has revised its full-year view. It now forecasts adjusted EPS between \$4.50 and \$4.80 per share. The company expects adjusted automotive free cash flow within \$1 billion.

Quarter Ending **09/2019**

Report Date	Oct 29, 2019
Sales Surprise	3.87%
EPS Surprise	45.76%
Quarterly EPS	1.72
Annual EPS (TTM)	6.20

Valuation

General Motors' shares are up 12.1% in the trailing 12-month period. Stocks in the Zacks Automotive - Domestic industry and the Zacks Auto-Tires-Trucks sector are up 23% and up 16.2% over the past year, respectively. The S&P 500 index is up 26.3% over the past year.

The stock is currently trading at 7.78X forward 12-month earnings, which compares to 12.05 for the Zacks sub-industry, 11.03X for the Zacks sector and 19.07X for the S&P 500 index

Over the past five years, the stock has traded as high as 8.35X and as low as 4.85X, with a 5-year median of 6.05X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$39 price target reflects 8.04X forward 12-month earnings per share.

The table below shows summary valuation data for GM:

Valuation Multiples - GM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.78	12.05	11.03	19.07
	5-Year High	8.35	12.94	11.75	19.34
	5-Year Low	4.85	7.95	8.23	15.17
	5-Year Median	6.05	10.44	9.91	17.44
EV/EBITDA TTM	Current	5.84	10.37	8.85	12.01
	5-Year High	6.89	16.37	11.33	12.86
	5-Year Low	3.82	6.48	7.05	8.49
	5-Year Median	5.49	11.17	9.27	10.66
P/S F12M	Current	0.38	0.76	0.66	3.46
	5-Year High	0.47	0.76	0.76	3.46
	5-Year Low	0.28	0.52	0.5	2.54
	5-Year Median	0.35	0.65	0.62	3

As of 01/02/2020

Industry Analysis Zacks Industry Rank: Top 17% (43 out of 253)



Top Peers

Daimler AG (DDAIF)	Neutral
Fox Factory Holding Corp. (FOXF)	Neutral
Honda Motor Co., Ltd. (HMC)	Neutral
Harley-Davidson, Inc. (HOG)	Neutral
PACCAR Inc. (PCAR)	Neutral
Toyota Motor Corporation (TM)	Neutral
Tesla, Inc. (TSLA)	Neutral
Tata Motors Ltd (TTM)	Neutral

Industry Comparison Industry: Automotive - Domestic				Industry Peers		
	GM Neutral	X Industry	S&P 500	HMC Neutral	HOG Neutral	TM Neutral
VGM Score	A	-	-	B	A	A
Market Cap	53.41 B	5.72 B	23.76 B	50.39 B	5.72 B	200.87 B
# of Analysts	8	5	13	2	4	3
Dividend Yield	4.07%	0.00%	1.78%	2.84%	4.04%	2.28%
Value Score	A	-	-	A	A	A
Cash/Price	0.51	0.12	0.04	0.43	0.16	0.29
EV/EBITDA	4.65	8.09	13.97	4.31	8.79	6.48
PEG Ratio	0.67	1.42	2.02	1.23	1.36	1.05
Price/Book (P/B)	1.10	2.97	3.38	0.63	3.17	1.05
Price/Cash Flow (P/CF)	2.27	8.58	13.70	4.20	6.13	6.29
P/E (F1)	5.98	12.82	18.83	9.19	10.86	9.18
Price/Sales (P/S)	0.37	0.94	2.68	0.35	1.05	0.72
Earnings Yield	16.72%	7.90%	5.30%	10.89%	9.22%	10.90%
Debt/Equity	1.43	0.67	0.72	0.47	2.53	0.50
Cash Flow (\$/share)	16.46	4.72	6.94	6.82	6.05	22.62
Growth Score	C	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	12.25%	5.43%	10.56%	8.63%	-2.04%	2.44%
Proj. EPS Growth (F1/F0)	30.36%	8.65%	7.41%	-0.16%	28.41%	32.25%
Curr. Cash Flow Growth	4.80%	6.06%	14.83%	-7.09%	7.31%	-12.84%
Hist. Cash Flow Growth (3-5 yrs)	12.08%	5.91%	9.00%	-2.43%	-0.25%	1.76%
Current Ratio	0.96	1.13	1.23	1.24	1.11	1.06
Debt/Capital	58.83%	61.11%	42.92%	32.11%	71.68%	33.53%
Net Margin	6.19%	4.74%	11.08%	3.34%	7.55%	6.25%
Return on Equity	19.78%	17.66%	17.10%	6.14%	28.84%	9.58%
Sales/Assets	0.63	0.97	0.55	0.78	0.51	0.60
Proj. Sales Growth (F1/F0)	3.92%	3.99%	4.20%	0.10%	0.12%	2.03%
Momentum Score	B	-	-	D	A	C
Daily Price Chg	2.13%	1.29%	0.33%	1.17%	-0.27%	1.21%
1 Week Price Chg	-1.85%	0.04%	0.13%	-1.14%	0.88%	-0.49%
4 Week Price Chg	5.86%	5.49%	3.31%	-0.10%	3.37%	-0.41%
12 Week Price Chg	7.85%	9.73%	9.70%	11.18%	9.73%	7.23%
52 Week Price Chg	15.91%	18.49%	30.28%	9.65%	11.92%	24.07%
20 Day Average Volume	7,440,456	928,580	1,603,615	390,109	1,264,940	91,038
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	-0.78%	0.00%
(F1) EPS Est 12 week change	0.10%	-3.79%	-0.57%	-9.97%	-4.31%	2.29%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-1.21%	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	C
Momentum Score	D
VGM Score	B

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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