

General Motors Company (GM)

\$26.62 (As of 08/06/20)

Price Target (6-12 Months): **\$31.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 08/06/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:D

Value: A

Growth: F

Momentum: F

Summary

General Motors' hot-selling brands in America like Chevrolet Silverado, Equinox and GMC Sierra are likely to boost General Motors' prospects. The automaker's focus on electric and autonomous vehicle development bode well. The company aims to spend more than \$20 billion through 2025 to launch gen-next EVs powered by new-low cost batteries. Key launches like the GMC Hummer EV, Cadillac Lyriq crossover EV and Cruise Origin AV remains on track and is expected to boost the firm's long-term prospects. Importantly, General Motors has enough cash on the balance sheet to weather the short-term headwinds. Amid gradual recovery of sales, the company expects cash flows to improve. It also expects EBIT improvement in 2H20 from the 1H20 levels. Given the tailwinds surrounding the firm, the stock is viewed as an attractive bet at the moment.

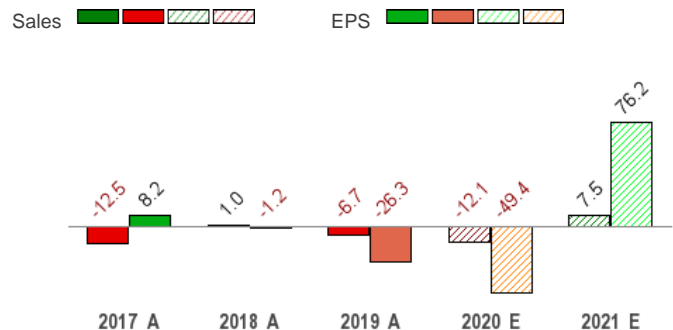
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$40.20 - \$14.33
20 Day Average Volume (sh)	13,631,368
Market Cap	\$38.1 B
YTD Price Change	-27.3%
Beta	1.37
Dividend / Div Yld	\$1.14 / 4.3%
Industry	Automotive - Domestic
Zacks Industry Rank	Top 12% (31 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	70.9%
Last Sales Surprise	-18.1%
EPS F1 Est- 4 week change	61.1%
Expected Report Date	11/03/2020
Earnings ESP	0.0%
P/E TTM	14.1
P/E F1	10.9
PEG F1	1.2
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					129,636 E
2020	32,709 A	16,778 A	37,337 E	34,727 E	120,566 E
2019	34,878 A	36,060 A	35,473 A	30,826 A	137,237 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$4.30 E
2020	\$0.62 A	-\$0.50 A	\$1.35 E	\$1.18 E	\$2.44 E
2019	\$1.41 A	\$1.64 A	\$1.72 A	\$0.05 A	\$4.82 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 08/06/2020. The reports text is as of 08/07/2020.

Overview

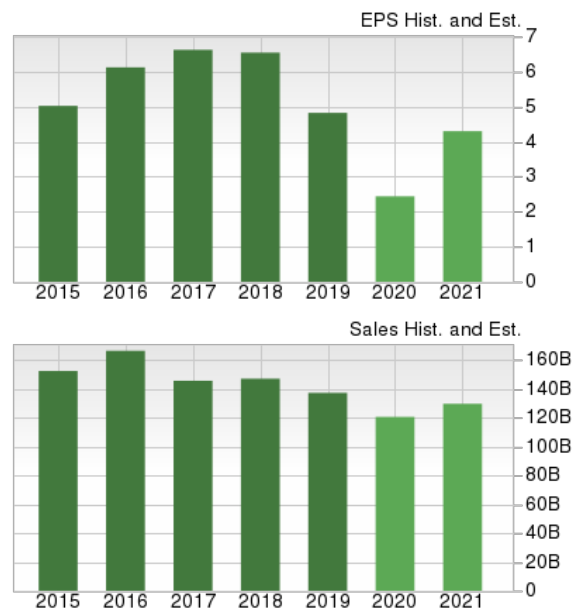
One of the world's largest automakers, General Motors leads the U.S. market share with around 17% of the industry's total sales in 2019. Headquartered in Detroit, the auto giant has had a long and checkered history. Founded in 1908, the company rose to dominate the U.S. industry; however hit by the financial crisis, General Motors filed for bankruptcy on Jun 1, 2009. Just within 40 days, the firm emerged from bankruptcy. In 2010, the company launched its IPO – the biggest in U.S. history at that time – and has been steadily profitable since then. From going bankrupt in 2009 to becoming one of the world's best-run car companies, General Motors has indeed come a long way.

The turnaround has been impressive and the company is stepping up efforts to embrace an electric future and gain a strong foothold in the fast-growing market. The top U.S. carmaker aims to spend more than \$20 billion through 2025 to launch gen-next EVs powered by new-low cost batteries. General Motors plans to roll out 11 new EVs as part of its ambitious plans through 2025, including at least 20 new models by 2023.

More importantly, General Motors' commitment to shareholders returns makes it a safe investment. It is to be noted that the company has paid dividends every single quarter since 2014 and the payout seems pretty safe as of now with respect to earnings and free cash flow.

General Motors, along with its strategic partners, produces, sells and services cars, trucks and parts under four core brands – Chevrolet, Buick, GMC and Cadillac. General Motors 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 ("GMI"), Cruise and GM Financial. While Cruise segment is responsible for the development and commercialization of autonomous vehicle technology, GM Financial provides retail loan and lease lending across the credit spectrum. Notably, GMNA accounted for 77.5% of the firm's total sales in 2019, while GMI, Cruise and GM Financial constituted 11.7%, 10.6% and 0.2%, respectively.



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 also driving the top line. SUVs and crossover vehicles, which accounts for the 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 the crossover lineup and is launching all-new full-size pickups, followed by full-size SUVs.
- ▲ General Motors has enough cash on the balance sheet to weather the short-term headwinds. The firm had cash and cash equivalents of \$28.2 billion as of Jun 30, 2020 compared with \$19.1 billion as of Dec 31, 2019. Its total debt to capital ratio of 0.74 compares favorably with the industry's 0.82. The company's times interest earned ratio of 2.39 is higher than the industry's 0.02, which lowers its default risk.
- ▲ Amid gradual recovery of sales, the company expects cash flows to improve. It expects \$7-9 billion of positive FCF during the second half of 2020, as against \$10 billion of negative FCF during the first six months of 2020. General Motors expects to EBIT to improve to \$4-5 billion during the second half of 2020 as against \$714 million generated in the first half of 2020.
- ▲ The automaker is presently focusing on electric and autonomous vehicle development to adapt to changing dynamics and customer preferences. The top U.S. carmaker aims to spend more than \$20 billion through 2025 to launch gen-next EVs powered by new-low cost batteries. This is likely to bolster the firm's long-term prospects. Key launches like the GMC Hummer EV, Cadillac Lyriq crossover EV and Cruise Origin AV remains on track and is expected to boost the firm's long-term prospects.
- ▲ The company is providing new vehicle financing programs to spur demand during such uncertain times. GMF is offering 0% financing for seven years — two years more than recent programs — and four months deferred payments for those with A+ credit. Amid coronavirus-induced lockdown, General Motors' online selling tool Shop. Click. Drive. is offering some respite.

The company's hot-selling brands in America like Chevrolet Silverado, Equinox and GMC Sierra are likely to boost General Motors' prospects.

Risks

- The coronavirus pandemic has rattled the auto industry amid factory closures, low footfall at dealerships and supply-chain distortions. While the sales have been gradually recovering, spike in coronavirus cases and another round of lockdown are raising concerns. As the unemployment rates are on the rise, consumers might want to delay purchase of discretionary items. Depressed demand for vehicles amid weak consumer confidence may hurt General Motors' prospects.
 - As the coronavirus has resulted in supply-chain disruption, it is likely to result in higher raw material costs, which may in turn put pressure on gross profits. High product launch costs, R&D expenses and capital expenditure are anticipated to weigh on the firm's operating income.
 - General Motors aims to spend more than \$20 billion through 2025 to launch gen-next EVs powered by new-low cost batteries. While the big EV push will prove beneficial in the long term, it is likely to strain the company's near-term financials. Frequent vehicle recalls by General Motors due to safety issues remain a headwind. As the firm's operations are spread across various nations, it also faces headwinds from unfavorable foreign currency translations.
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Last Earnings Report

General Motors' Q2 Loss Narrower-Than-Expected

General Motors reported an adjusted loss of 50 cents per share in second-quarter 2020, narrower than the Zacks Consensus Estimate of loss of \$1.72. Higher-than-expected revenues, primarily from the GMNA and GMI segments, resulted in this narrower-than-anticipated loss.

In the year-ago quarter, the company had recorded earnings of \$1.64 per share. The pandemic-induced lower demand and sales weighed on the company's results compared with the second quarter of 2019. The top U.S. carmaker reported revenues of \$16,778 million, missing the Zacks Consensus Estimate of \$20,475 million. Revenues also decreased from the year-ago figure of \$36,060 million.

The automaker's global market share in GM markets was 10.9% in the reported quarter, reflecting a rise from the year-ago period's 10.6%.

Segment Results

GM North America (GMNA) generated second-quarter 2020 net revenues of \$11,604 million, down from the \$28,324 million recorded in the corresponding period of 2019. Nonetheless, revenues from the unit outpaced the Zacks Consensus Estimate of \$9,940 million. Vehicle sales came in at 565,089 units, reflecting a year-over-year plunge of 35.5%. The segment incurred an operating loss of \$101 million as against the year-ago operating profit of \$3,022 million. Results were hurt by lower production as a result of the coronavirus pandemic.

GM International's (GMI) net revenues were \$1,677 million, which declined from the year-ago quarter's \$4,047 million. However, revenues from the segment outpaced the Zacks Consensus Estimate of \$2,540 million. Vehicle sales came in at 130,599 units, reflecting a year-over-year decrease of 10%. The unit recorded an operating loss of \$270 million, wider than the prior year's \$48 million. Dismal wholesales as a result of the COVID-19 crisis negatively impacted the segment.

GM Financial generated net revenues of \$3,423 million in the June-end quarter, down from the \$3,639 million recorded in the year-ago period. The segment recorded operating profit of \$226 million, marking a decline from the \$536 million witnessed in the prior-year quarter. Higher credit provision expense and accelerated depreciation expense due to reduced residual values, both related to the pandemic, acted as dampeners.

GM Cruise recorded net revenues of \$28 million in the second quarter, up from the \$25 million reported in the year-earlier period. The segment posted an operating loss of \$195 million, narrower than the \$279-million loss reported in the prior-year quarter.

GM Corporate delivered net revenues of \$80 million in second-quarter 2020, up from the \$54 million recorded in the year-ago period. The segment reported an operating loss of \$196 million, narrower than the \$219-million loss posted in the year-ago quarter.

Financials

General Motors had cash and cash equivalents of \$28.2 billion as of Jun 30, 2020 compared with \$19.1 billion as of Dec 31, 2019. Long-term automotive debt stands at \$32.2 billion compared with \$12.5 billion as of Dec 31, 2019. The company recorded negative adjusted automotive free cash flow (FCF) of \$9 billion in second-quarter 2020, as against a positive FCF of \$2.5 billion witnessed in the prior-year period.

Quarter Ending 06/2020

Report Date	Jul 29, 2020
Sales Surprise	-18.06%
EPS Surprise	70.93%
Quarterly EPS	-0.50
Annual EPS (TTM)	1.89

Valuation

General Motors' shares are down 27.3% and 33.6% in the year-to date period and in the trailing 12-month period, respectively. Stocks in the Zacks Automotive - Domestic industry and the Zacks Auto-Tires-Trucks sector are up 83.3% and 20% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 118% and 36.7%, respectively.

The S&P 500 index is up 3.3% in the year-to-date period and 13.5% in the past year.

The stock is currently trading at 7.81X forward 12-month earnings, which compares to 46.62X for the Zacks sub-industry, 24.39X for the Zacks sector and 22.69X for the S&P 500 index

Over the past five years, the stock has traded as high as 12.68X and as low as 2.96X, with a 5-year median of 5.98X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$31 price target reflects 9.11X 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	7.81	46.62	24.39	22.69
	5-Year High	12.68	77.05	25.33	22.69
	5-Year Low	2.96	7.95	8.2	15.25
	5-Year Median	5.98	10.53	9.87	17.55
EV/EBITDA TTM	Current	8.12	19.12	11.61	12.89
	5-Year High	8.15	19.85	11.75	12.89
	5-Year Low	3.81	6.11	6.8	8.24
	5-Year Median	5.51	11.88	9.28	10.89
P/S F12M	Current	0.3	1.54	0.87	3.63
	5-Year High	0.47	1.54	0.87	3.63
	5-Year Low	0.17	0.52	0.49	2.53
	5-Year Median	0.34	0.65	0.61	3.04

As of 08/06/2020

Industry Analysis Zacks Industry Rank: Top 12% (31 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Daimler AG (DDAIF)	Neutral	3
Ford Motor Company (F)	Neutral	2
Honda Motor Co., Ltd. (HMC)	Neutral	4
HarleyDavidson, Inc. (HOG)	Neutral	3
PACCAR Inc. (PCAR)	Neutral	3
Tesla, Inc. (TSLA)	Neutral	3
Tata Motors Ltd (TTM)	Neutral	3
Toyota Motor Corporation (TM)	Underperform	4

Industry Comparison Industry: Automotive - Domestic				Industry Peers		
	GM	X Industry	S&P 500	HMC	HOG	TM
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	1	-	-	4	3	4
VGM Score	D	-	-	A	B	C
Market Cap	38.10 B	6.25 B	23.20 B	43.58 B	3.98 B	181.24 B
# of Analysts	6	5	14	3	7	3
Dividend Yield	4.28%	0.00%	1.78%	3.25%	0.31%	3.09%
Value Score	A	-	-	A	A	B
Cash/Price	1.05	0.10	0.07	0.58	1.01	0.31
EV/EBITDA	4.17	10.13	13.21	4.15	7.08	5.89
PEG Ratio	1.23	4.53	2.94	1.05	8.23	5.61
Price/Book (P/B)	0.88	3.09	3.12	0.57	2.45	0.95
Price/Cash Flow (P/CF)	1.79	9.42	12.27	4.10	4.72	5.35
P/E (F1)	10.91	33.96	21.69	18.03	49.38	17.89
Price/Sales (P/S)	0.33	0.94	2.48	0.36	0.88	0.66
Earnings Yield	9.17%	2.04%	4.39%	5.55%	2.04%	5.59%
Debt/Equity	2.00	0.76	0.77	0.51	4.00	0.52
Cash Flow (\$/share)	14.84	3.23	6.94	6.15	5.50	23.99
Growth Score	F	-	-	C	C	D
Hist. EPS Growth (3-5 yrs)	-6.47%	-1.64%	10.46%	7.38%	-9.11%	3.60%
Proj. EPS Growth (F1/F0)	-49.41%	-40.23%	-6.80%	-41.42%	-80.38%	-46.55%
Curr. Cash Flow Growth	-8.62%	7.98%	5.39%	-11.48%	-13.75%	1.93%
Hist. Cash Flow Growth (3-5 yrs)	9.37%	7.39%	8.55%	1.06%	-5.50%	1.78%
Current Ratio	1.12	1.34	1.33	1.26	1.46	1.04
Debt/Capital	66.71%	50.80%	44.50%	33.75%	79.98%	34.02%
Net Margin	1.46%	1.59%	10.13%	1.56%	1.72%	6.94%
Return on Equity	6.27%	4.19%	14.39%	2.38%	9.55%	10.06%
Sales/Assets	0.49	0.74	0.51	0.64	0.40	0.57
Proj. Sales Growth (F1/F0)	-12.15%	-12.80%	-1.51%	-15.11%	-21.09%	-15.18%
Momentum Score	F	-	-	C	C	C
Daily Price Chg	1.10%	0.15%	-0.04%	-1.44%	-2.52%	2.82%
1 Week Price Chg	-5.18%	0.00%	0.14%	-5.36%	-10.46%	-4.69%
4 Week Price Chg	13.66%	13.22%	7.78%	0.88%	0.82%	3.64%
12 Week Price Chg	19.32%	41.23%	17.48%	11.34%	32.79%	9.74%
52 Week Price Chg	-33.62%	-11.72%	0.68%	4.38%	-24.43%	-0.78%
20 Day Average Volume	13,631,368	1,939,846	2,057,775	647,953	3,901,075	182,202
(F1) EPS Est 1 week change	6.94%	0.00%	0.00%	-18.45%	0.00%	0.00%
(F1) EPS Est 4 week change	61.12%	4.76%	1.36%	-21.64%	-27.45%	-2.58%
(F1) EPS Est 12 week change	72.32%	4.94%	1.57%	-31.71%	-27.55%	-25.79%
(Q1) EPS Est Mthly Chg	-6.42%	4.75%	0.54%	0.00%	6.64%	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	F
Momentum Score	F
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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