

General Motors Company (GM)

\$24.71 (As of 03/13/20)

Price Target (6-12 Months): **\$21.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/12/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:D

Value: B

Growth: D

Momentum: F

Summary

Coronavirus crisis is likely to weigh heavily on the production and sales of the top U.S. carmaker in the upcoming quarters. As it is, the company had been bearing the brunt of overall weak auto industry and expected the EPS to be flat year over year in 2020. General Motors, which commands a strong presence in China, recorded the biggest-ever decline in vehicle sales in the country in 2019. It had already warned that its business in the country is likely to face challenges in 2020 as well and COVID-19 outbreak has only made things worse. Moreover, the firm's massive EV plans are likely to flare up the R&D costs and capex, thereby denting margins and cash flows. Frequent vehicle recalls, unfavorable currency translations and high leverage are also causes of concerns. As such, the stock is viewed as a risky bet.

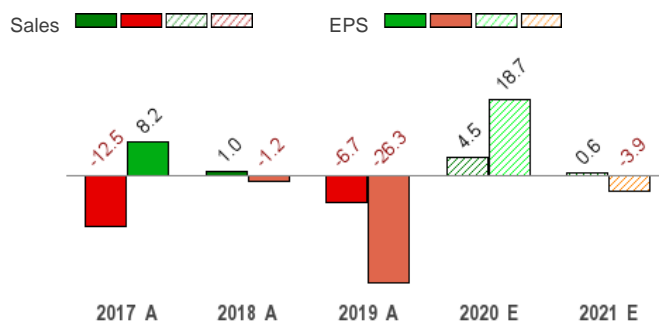
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$41.90 - \$22.50
20 Day Average Volume (sh)	14,882,184
Market Cap	\$35.3 B
YTD Price Change	-32.5%
Beta	1.29
Dividend / Div Yld	\$1.52 / 6.2%
Industry	Automotive - Domestic
Zacks Industry Rank	Bottom 34% (168 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	145.5%
Last Sales Surprise	-12.6%
EPS F1 Est- 4 week change	-5.1%
Expected Report Date	05/05/2020
Earnings ESP	-17.5%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					144,312 E
2020	36,735 E	35,459 E	37,444 E	33,463 E	143,429 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					\$5.50 E
2020	\$0.87 E	\$1.26 E	\$1.62 E	\$1.47 E	\$5.72 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 03/13/2020. The reports text is as of 03/16/2020.

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.

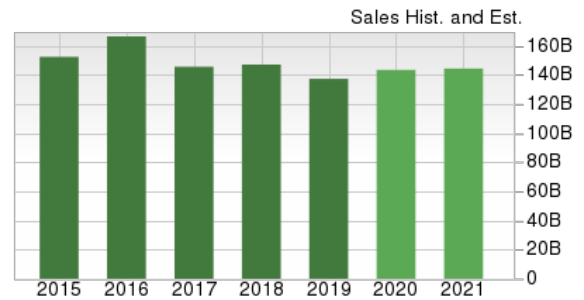
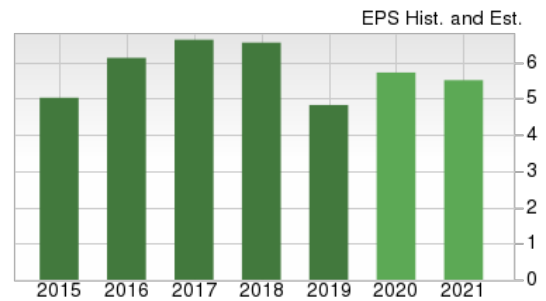
The company filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code on Jun 1, 2009. Pursuant to this, the New GM was formed by acquiring most of the assets and assuming certain liabilities of the Old GM, and some of its direct and indirect subsidiaries.

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"), Cruise and GM Financial. 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 Sell:

- ▼ The deadly coronavirus has wreaked havoc on the auto industry, with shutdown of factories, dealerships with less customer traffic and supply-chain disruption. COVID-19, originated in China, is spreading fast across various countries including the United States. The virus outbreak has impacted General Motors's daily operations. The pandemic is likely to weigh heavily on the production and sales of the top U.S. carmaker in the upcoming quarters. Notably, the company has cancelled the launch of Cadillac's Lyriq model, which was supposed to debut early next month, over coronavirus concerns. As it is, the company had been bearing the brunt of overall weak auto industry and expected the EPS to be flat year over year in 2020. To add to the concerns, coronavirus is likely to take a massive toll on the firm's revenues and sales at least in the first half of the year.
- ▼ General Motors, which commands a strong presence in China, recorded the biggest-ever decline in vehicle sales in the country in 2019 amid a lackluster Chinese economy and U.S.-Sino trade tensions. General Motors had already warned in the beginning of the year that its business in China is likely to face challenges in 2020 as well. Coronavirus outbreak has only made things worse. Going forward, the company is expected to face headwinds from challenging economic environment in China as well as rising commodity costs.
- ▼ 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. Adjusted automotive free cash flow came in at \$1.1 billion in 2019, representing fall of 71.1% year over year. 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. Moreover, with the firm's operations spread across various nations, it also faces headwinds from unfavorable foreign currency translations.
- ▼ General Motors aims to spend more than \$20 billion through 2025 to launch gen-next EVs powered by new-low cost batteries. As it is, plunging oil prices are likely to make battery-powered EVs less appealing to buyers. While the big EV push will prove beneficial in the long term, it is likely to strain near-term financials of the company. High product launch costs, R&D expenses and capital expenditure are anticipated to weigh on the firm's operating income and cash flows. High leverage ratio of around 70% is also a cause of concern.

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Risks

- 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 around \$2 billion worth of shares, reflects cash generating ability.
 - 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.
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Last Earnings Report

General Motors Delivers Lower Y/Y Earnings & Sales in Q4

General Motors reported adjusted earnings of 5 cents per share in fourth-quarter 2019 against the Zacks Consensus Estimate of loss of 11 cents. Better-than-expected revenues from North America led to the outperformance. However, the bottom line declined 96.5% from the year-ago figure amid the UAW strike. Notably, the work stoppage cost the company \$2.6 billion in earnings before interest and taxes during the quarter.

The top U.S. carmaker reported revenues of \$30,826 million, missing the Zacks Consensus Estimate of \$35,249 million. Moreover, the top line decreased from the year-ago figure of \$38,399 million.

The automaker's global market share was 10.8% in the reported quarter, reflecting a decline from 11.5% in the year-ago period.

Segment Results

GM North America (GMNA) generated net revenues of \$22.7 billion in fourth-quarter 2019, down from \$29.8 billion recorded in the corresponding period of 2018. Nonetheless, revenues from the GMNA unit outpaced the Zacks Consensus Estimate of \$20.6 billion. Profits from the segment tumbled to \$263 million from the year-ago level of \$3,041 million. The results were adversely affected by the UAW strike. Four weeks of vehicle production was lost in the fourth quarter due to the work stoppage, resulting in lower vehicle sales, revenues and profits. Notably, vehicle sales came in at 684,000 units, reflecting a year-over-year decrease of 23.6%.

GM International's (GMI) net revenues were \$4.4 billion, which declined from \$4.9 billion in the year-ago quarter. Revenues from the GMI segment also lagged the Zacks Consensus Estimate of \$4.9 billion. Notably, vehicle sales came in at 268,000 units, reflecting a year-over-year decrease of 15.2%. The unit recorded an operating loss of \$120 million, wider than the loss of \$48 million a year ago. Sagging vehicle sales in China amid economic slowdown and trade tussle negatively impacted the segment.

GM Financial generated net revenues of \$3.63 billion in the quarter under review, reflecting a rise from \$3.59 billion recorded in the year-ago period. The segment recorded operating profit of \$498 million, missing the Zacks Consensus Estimate of \$595 million. Nonetheless, operating income increased 19.7% year over year. Higher average earning assets and improved residual values led to the improved results.

GM Cruise generated net revenues of \$25 million in fourth-quarter 2019. The segment reported operating loss of \$305 million, wider than \$194 million loss in the prior-year quarter.

Dividend & Financials

General Motors recently announced first-quarter 2020 dividend of 38 cents a share, payable on Mar 20 to its shareholders of record as of Mar 6, 2020.

General Motors had cash and cash equivalents of \$19.1 billion as of Dec 31, 2019 compared with \$20.8 billion in the corresponding period of 2018. Long-term automotive debt stands at \$12.5 billion.

The company recorded negative adjusted automotive free cash flow (FCF) of \$1.3 billion in fourth-quarter 2019, comparing unfavorably with FCF of \$4.2 billion in the prior-year period. Labor strike took a heavy toll on free cash flow during the quarter.

2020 Guidance

While macro-economic headwinds will continue to weigh on General Motors' sales, the company is likely to benefit from vehicle launches and cost-cut efforts in 2020. The firm forecasts adjusted EPS between \$5.75 and \$6.25 per share. The company expects adjusted automotive free cash flow within \$6-\$7.5 billion.

Quarter Ending **12/2019**

Report Date	Feb 05, 2020
Sales Surprise	-12.55%
EPS Surprise	145.45%
Quarterly EPS	0.05
Annual EPS (TTM)	4.82

Valuation

General Motors' shares are down 32.4% in the year-to date period and down 34.9% in the trailing 12-month period. Stocks in the Zacks Automotive - Domestic industry and the Zacks Auto-Tires-Trucks sector are down 9.4% and 19.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 8.4% and down 10.5%, respectively.

The S&P 500 index is down 15.8% in the year-to-date period and 5.2% in the past year.

The stock is currently trading at 4.18X forward 12-month earnings, which compares to 12.14X for the Zacks sub-industry, 22.06X for the Zacks sector and 15.74X for the S&P 500 index

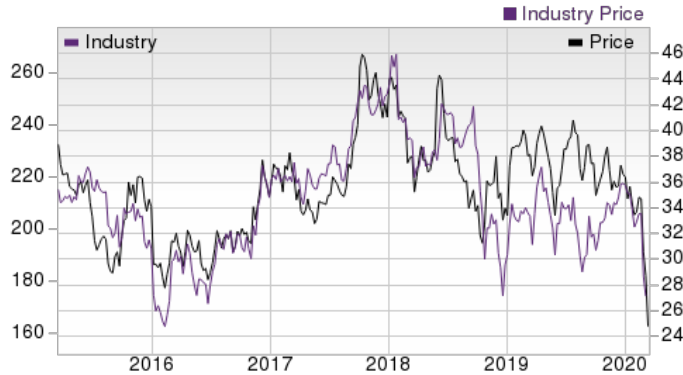
Over the past five years, the stock has traded as high as 8.24X and as low as 3.89X, with a 5-year median of 6X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$21 price target reflects 3.56X forward 12-month earnings per share.

The table below shows summary valuation data for GM:

Valuation Multiples - GM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	4.18	12.14	22.06	15.74
	5-Year High	8.24	14	26.2	19.34
	5-Year Low	3.89	7.95	19.07	15.18
	5-Year Median	6	10.47	23.01	17.42
EV/EBITDA TTM	Current	5.58	13.35	13.66	10.05
	5-Year High	6.89	16.64	16.12	12.87
	5-Year Low	3.81	6.37	10.45	8.31
	5-Year Median	5.49	11.79	12.48	10.78
P/S F12M	Current	0.24	0.7	0.91	2.9
	5-Year High	0.47	0.9	1.11	3.44
	5-Year Low	0.23	0.52	0.8	2.54
	5-Year Median	0.35	0.65	0.92	3

As of 03/13/2020

Industry Analysis Zacks Industry Rank: Bottom 34% (168 out of 253)



Top Peers

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

Industry Comparison Industry: Automotive - Domestic				Industry Peers		
	GM Underperform	X Industry	S&P 500	HMC Neutral	HOG Underperform	TM Neutral
VGM Score	D	-	-	B	D	A
Market Cap	35.31 B	4.22 B	19.05 B	38.68 B	3.62 B	164.14 B
# of Analysts	6	4.5	13	3	6	3
Dividend Yield	6.15%	0.00%	2.31%	3.77%	6.41%	2.79%
Value Score	B	-	-	A	C	A
Cash/Price	0.57	0.05	0.05	0.51	0.22	0.31
EV/EBITDA	3.70	8.70	11.57	3.54	8.70	5.66
PEG Ratio	0.49	1.21	1.68	0.99	0.99	0.86
Price/Book (P/B)	0.77	2.18	2.56	0.48	2.03	0.85
Price/Cash Flow (P/CF)	1.67	6.50	10.18	3.22	4.31	5.14
P/E (F1)	4.32	10.49	14.94	7.26	7.92	7.40
Price/Sales (P/S)	0.26	0.62	2.02	0.27	0.68	0.59
Earnings Yield	23.15%	9.58%	6.67%	13.79%	12.65%	13.51%
Debt/Equity	1.43	0.73	0.70	0.48	2.87	0.52
Cash Flow (\$/share)	14.84	4.37	7.01	6.82	5.50	22.62
Growth Score	D	-	-	D	D	B
Hist. EPS Growth (3-5 yrs)	6.93%	3.88%	10.85%	8.61%	-2.15%	3.46%
Proj. EPS Growth (F1/F0)	18.57%	11.94%	5.99%	-2.99%	11.82%	33.96%
Curr. Cash Flow Growth	-8.62%	-1.51%	6.15%	-7.09%	-13.75%	-12.84%
Hist. Cash Flow Growth (3-5 yrs)	9.37%	5.42%	8.52%	-2.43%	-5.50%	1.76%
Current Ratio	0.88	1.22	1.24	1.30	1.31	1.06
Debt/Capital	58.92%	59.04%	42.57%	32.33%	74.13%	34.21%
Net Margin	4.91%	4.78%	11.64%	3.06%	7.90%	8.09%
Return on Equity	15.19%	14.52%	16.74%	5.53%	28.87%	12.12%
Sales/Assets	0.59	0.94	0.54	0.76	0.51	0.58
Proj. Sales Growth (F1/F0)	4.51%	3.84%	3.54%	-0.98%	-0.63%	1.35%
Momentum Score	F	-	-	B	C	B
Daily Price Chg	7.25%	3.22%	8.21%	2.47%	16.50%	3.59%
1 Week Price Chg	-5.93%	-3.50%	-0.67%	-2.30%	-14.05%	-2.78%
4 Week Price Chg	-29.98%	-29.12%	-22.67%	-18.83%	-31.37%	-17.63%
12 Week Price Chg	-33.68%	-32.22%	-20.46%	-24.10%	-36.51%	-18.58%
52 Week Price Chg	-35.02%	-22.47%	-10.79%	-19.25%	-34.91%	-1.25%
20 Day Average Volume	14,882,184	970,179	3,061,271	1,035,002	2,154,895	316,048
(F1) EPS Est 1 week change	-4.30%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-5.07%	-0.25%	-0.32%	-3.61%	0.00%	3.52%
(F1) EPS Est 12 week change	-8.60%	-1.99%	-0.65%	-2.84%	-9.82%	1.29%
(Q1) EPS Est Mthly Chg	-14.75%	-0.99%	-0.62%	-25.49%	0.00%	-12.03%

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	B
Growth Score	D
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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