

## General Motors Company (GM)

**\$16.80** (As of 03/18/20)

Price Target (6-12 Months): **\$14.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 03/12/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:C

Value: A

Growth: D

Momentum: C

### 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.

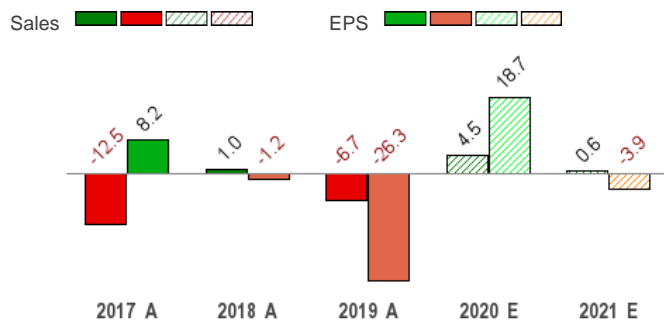
### Price, Consensus & Surprise



### Data Overview

|                            |                                       |
|----------------------------|---------------------------------------|
| 52 Week High-Low           | \$41.90 - \$14.33                     |
| 20 Day Average Volume (sh) | 18,409,528                            |
| Market Cap                 | \$24.0 B                              |
| YTD Price Change           | -54.1%                                |
| Beta                       | 1.29                                  |
| Dividend / Div Yld         | \$1.52 / 9.0%                         |
| Industry                   | <a href="#">Automotive - Domestic</a> |
| Zacks Industry Rank        | Top 43% (110 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 03/18/2020. The reports text is as of 03/19/2020.

## Overview

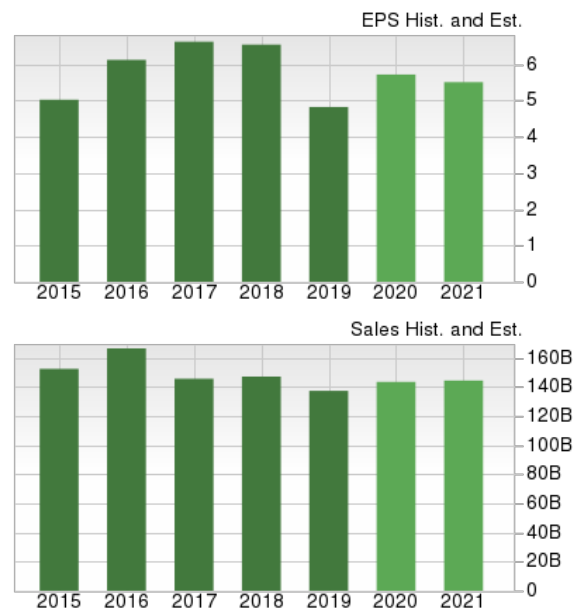
One of the world's largest automakers, General Motors leads the U.S. market share with around 17% of the industry's total sales in 2019. Headquartered in Detroit, the auto giant has had a long and checkered history. Founded in 1908, the company rose to dominate the U.S. industry; however hit by the financial 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.



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## 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 7% is more than the broader industry's yield of around 3.3%. 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      | <b>Feb 05, 2020</b> |
| Sales Surprise   | <b>-12.55%</b>      |
| EPS Surprise     | <b>145.45%</b>      |
| Quarterly EPS    | <b>0.05</b>         |
| Annual EPS (TTM) | <b>4.82</b>         |

## Valuation

General Motors' shares are down 54.1% and 54.6% 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 down 35.6% and 32.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 21.8% and 24.6%, respectively.

The S&P 500 index is down 25.4% in the year-to-date period and 15.8% in the past year.

The stock is currently trading at 2.96X forward 12-month earnings, which compares to 10.1X for the Zacks sub-industry, 7.56X for the Zacks sector and 14.12X for the S&P 500 index

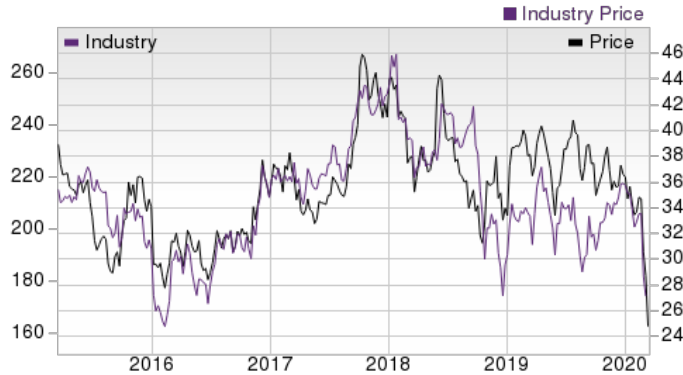
Over the past five years, the stock has traded as high as 8.24X and as low as 2.96X, with a 5-year median of 6X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$14 price target reflects 2.51X forward 12-month earnings per share.

The table below shows summary valuation data for GM:

| Valuation Multiples - GM |               |       |              |        |         |
|--------------------------|---------------|-------|--------------|--------|---------|
|                          |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                 | Current       | 2.96  | 10.1         | 7.56   | 14.12   |
|                          | 5-Year High   | 8.24  | 14           | 11.75  | 19.34   |
|                          | 5-Year Low    | 2.96  | 7.95         | 7.56   | 14.12   |
|                          | 5-Year Median | 6     | 10.41        | 9.88   | 17.42   |
| EV/EBITDA TTM            | Current       | 5.03  | 12.25        | 8.81   | 9.35    |
|                          | 5-Year High   | 6.89  | 16.64        | 11.34  | 12.88   |
|                          | 5-Year Low    | 3.81  | 6.37         | 6.97   | 8.31    |
|                          | 5-Year Median | 5.49  | 11.8         | 9.32   | 10.79   |
| P/S F12M                 | Current       | 0.17  | 0.58         | 0.45   | 2.58    |
|                          | 5-Year High   | 0.47  | 0.9          | 0.76   | 3.43    |
|                          | 5-Year Low    | 0.17  | 0.52         | 0.45   | 2.54    |
|                          | 5-Year Median | 0.35  | 0.65         | 0.62   | 3       |

As of 03/18/2020

## Industry Analysis Zacks Industry Rank: Top 43% (110 out of 253)



## Top Peers

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

| Industry Comparison Industry: Automotive - Domestic |                 |            |           | Industry Peers |                  |            |
|---|-----------------|------------|-----------|----------------|------------------|------------|
|   | GM Underperform | X Industry | S&P 500   | HMC Neutral    | HOG Underperform | TM Neutral |
| <b>VGM Score</b>                                    | <b>C</b>        | -          | -         | <b>C</b>       | <b>D</b>         | <b>A</b>   |
| Market Cap  | 24.01 B         | 3.08 B     | 16.02 B   | 36.90 B        | 3.08 B           | 163.91 B   |
| # of Analysts                                       | 6               | 4.5        | 13        | 3              | 6                | 3          |
| Dividend Yield                                      | 9.05%           | 0.00%      | 2.66%     | 3.95%          | 7.54%            | 2.79%      |
| <b>Value Score</b>                                  | <b>A</b>        | -          | -         | <b>B</b>       | <b>C</b>         | <b>B</b>   |
| Cash/Price  | 0.66            | 0.15       | 0.06      | 0.58           | 0.25             | 0.34       |
| EV/EBITDA   | 3.17            | 7.19       | 10.21     | 3.43           | 8.10             | 5.65       |
| PEG Ratio   | 0.33            | 1.03       | 1.46      | 0.94           | 0.84             | 0.86       |
| Price/Book (P/B)                                    | 0.52            | 1.86       | 2.18      | 0.46           | 1.72             | 0.85       |
| Price/Cash Flow (P/CF)                              | 1.13            | 4.74       | 8.79      | 3.07           | 3.66             | 5.13       |
| P/E (F1)  | 2.94            | 7.20       | 12.92     | 6.93           | 6.73             | 7.39       |
| Price/Sales (P/S)                                   | 0.17            | 0.45       | 1.74      | 0.26           | 0.57             | 0.58       |
| Earnings Yield                                      | 34.05%          | 13.89%     | 7.70%     | 14.45%         | 14.88%           | 13.53%     |
| Debt/Equity   | 1.43            | 0.73       | 0.70      | 0.48           | 2.87             | 0.52       |
| Cash Flow (\$/share)                                | 14.84           | 3.25       | 7.01      | 6.82           | 5.50             | 22.62      |
| <b>Growth Score</b>                                 | <b>D</b>        | -          | -         | <b>D</b>       | <b>D</b>         | <b>B</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%          | 11.01%     | 5.12%     | -2.99%         | 11.82%           | 33.96%     |
| Curr. Cash Flow Growth                              | -8.62%          | -1.51%     | 6.03%     | -7.09%         | -13.75%          | -12.84%    |
| Hist. Cash Flow Growth (3-5 yrs)                    | 9.37%           | 5.42%      | 8.55%     | -2.43%         | -5.50%           | 1.76%      |
| Current Ratio                                       | 0.88            | 1.22       | 1.23      | 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%      | 11.57%    | 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%           | 3.52%      | 3.22%     | -0.98%         | -0.63%           | 1.35%      |
| <b>Momentum Score</b>                               | <b>C</b>        | -          | -         | <b>D</b>       | <b>B</b>         | <b>B</b>   |
| Daily Price Chg                                     | -17.32%         | -10.18%    | -6.77%    | -1.46%         | -11.54%          | -2.37%     |
| 1 Week Price Chg                                    | -13.87%         | -15.44%    | -11.01%   | -12.33%        | -9.43%           | -8.56%     |
| 4 Week Price Chg                                    | -51.89%         | -43.71%    | -34.65%   | -22.56%        | -42.17%          | -15.79%    |
| 12 Week Price Chg                                   | -54.07%         | -50.00%    | -32.08%   | -26.83%        | -46.79%          | -17.88%    |
| 52 Week Price Chg                                   | -54.60%         | -44.74%    | -23.52%   | -23.63%        | -42.37%          | -3.01%     |
| 20 Day Average Volume                               | 18,409,528      | 1,343,385  | 3,834,688 | 1,303,287      | 2,717,098        | 388,547    |
| (F1) EPS Est 1 week change                          | 0.00%           | 0.00%      | -0.06%    | 0.00%          | 0.00%            | 0.00%      |
| (F1) EPS Est 4 week change                          | -5.07%          | -0.96%     | -0.74%    | -3.61%         | 0.00%            | 3.52%      |
| (F1) EPS Est 12 week change                         | -8.60%          | -8.17%     | -1.38%    | -2.84%         | -9.34%           | 1.29%      |
| (Q1) EPS Est Mthly Chg                              | -14.75%         | -1.20%     | -0.85%    | -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>A</b> |
| Growth Score   | <b>D</b> |
| Momentum Score | <b>C</b> |
| VGM Score      | <b>C</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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