

General Motors Company (GM)

\$24.69 (As of 05/19/20)

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)

4-Sell

Zacks Style Scores:

VGM:C

Value: B

Growth: C

Momentum: F

Summary

Depressed demand for vehicles and weak consumer confidence amid the coronavirus pandemic are likely to weigh on General Motors' near-term sales. With factory closures and enforcement of shelter-in-place orders in full swing, especially in April, second-quarter results of the firm are expected to be severely hit. Amid the uncertainty, General Motors has withdrawn its 2020 guidance. It has also tapped brakes on quarterly cash dividend and the share-repurchase program. Sagging vehicle sales in China amid sluggish economy are likely to impact sales and earnings of the GMI unit. Moreover, the firm's massive EV plans are likely to flare up R&D costs and capex, thereby denting margins and cash flows. Frequent vehicle recalls and unfavorable currency translations are other headwinds. As such, the stock is viewed as a risky bet.

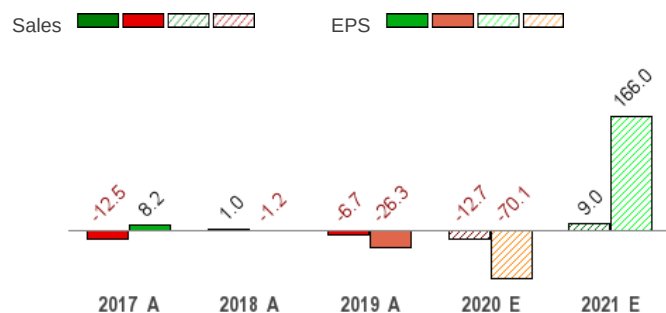
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$41.90 - \$14.33
20 Day Average Volume (sh)	17,529,646
Market Cap	\$35.3 B
YTD Price Change	-32.5%
Beta	1.38
Dividend / Div Yld	\$1.52 / 6.2%
Industry	Automotive - Domestic
Zacks Industry Rank	Bottom 6% (238 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	244.4%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	-42.1%
Expected Report Date	08/06/2020
Earnings ESP	0.0%
P/E TTM	6.1
P/E F1	17.2
PEG F1	1.9
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					130,556 E
2020	32,709 A	18,479 E	34,793 E	31,333 E	119,795 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					\$3.83 E
2020	\$0.62 A	-\$1.88 E	\$1.18 E	\$1.12 E	\$1.44 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 05/19/2020. The reports text is as of 05/20/2020.

Overview

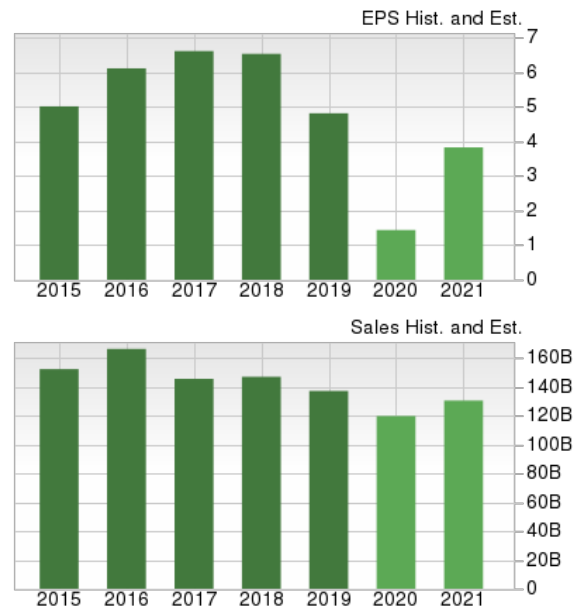
One of the world's largest automakers, General Motors leads the U.S. market share with around 17% of the industry's total sales in 2019. Headquartered in Detroit, the auto giant has had a long and checkered history. Founded in 1908, the company rose to dominate the U.S. industry; however hit by the financial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

- ▼ The coronavirus pandemic has rattled the auto industry amid factory closures, low footfall at dealerships and supply-chain distortions. Depressed demand for vehicles amid weak consumer confidence is likely to hurt General Motor's sales and earnings in the near future. With factory closures and enforcement of shelter-in-place orders in full swing, especially in April, the firm's second-quarter results are expected to be severely hit. Amid uncertainty as a result of COVID-19, General Motors has withdrawn its 2020 guidance.
- ▼ General Motors does not fare well on the free cash flow parameter, which is a key metric to gauge a company's financial health. Adjusted automotive free cash flow came in at \$1.1 billion in 2019, representing fall of 71.1% year over year. It recorded negative adjusted automotive FCF of \$903 million in first-quarter 2020. General Motors has tapped brakes on quarterly cash dividend and suspended the share-repurchase program in a bid to preserve cash amid the gloomy scenario. This has further dampened investors' sentiments.
- ▼ 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 China economy and U.S.-Sino trade tensions. Sagging vehicle sales in China impacted the GMI segment in first-quarter 2020 as well. In the beginning of the year, General Motors had already warned that its business in China is likely to face challenges in 2020 as well. The coronavirus outbreak has only made things worse. While the company recorded year-over-year gains in China in April, it still expects to face headwinds amid a challenging economic environment.
- ▼ 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. In addition to elevated costs for repairing defects, frequent recalls and criminal investigation also reduce consumers' confidence in a brand. As the firm's operations are spread across various nations, it also faces headwinds from unfavorable foreign currency translations.

Depressed demand for vehicles amid weak consumer confidence is likely to hurt General Motor's sales and earnings in the near future.

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 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 more than enough cash on the balance sheet to weather the short-term headwinds and its balance sheet is far more capitalized than closest peer Ford. General Motors had cash and cash equivalents of \$38.5 billion on Mar 31, 2020 compared with long-term automotive debt of \$28.6 billion. Its total debt to capital ratio of 0.74 compares favorably with the industry's 0.82. General Motor holds investment-grade credit ratings by Moody's, S&P and Fitch. The company's times interest earned ratio of 7.39 is higher than the industry's 0.02, which lowers its default risk.
 - 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. Production timing of 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.
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Last Earnings Report

General Motors Q1 Earnings & Revenues Decline Y/Y

General Motors reported adjusted earnings of 62 cents per share in first-quarter 2020, surpassing the Zacks Consensus Estimate of 18 cents. Stronger-than-expected contribution from the North American segment led to the outperformance. However, the bottom line declined 56% from the year-ago figure of \$1.41 a share.

The top U.S. carmaker reported revenues of \$32,709 million, topping the Zacks Consensus Estimate of \$32,587 million. However, the top line decreased from the year-ago figure of \$34,878 million.

The automaker's global market share was 7.9% in the reported quarter, reflecting a decline from 8.3% in the year-ago period.

Segment Results

GM North America (GMNA) generated first-quarter 2020 net revenues of \$25,831 million, down from \$27,365 million recorded in the corresponding period of 2019. Nonetheless, revenues from the GMNA unit outpaced the Zacks Consensus Estimate of \$24,981 million. Vehicle sales came in at 775,000 units, reflecting a year-over-year decrease of 9.7%. Profits from the segment rose to \$2,194 million from the year-ago level of \$1,896 million. The metric also surpassed the consensus mark of \$1,577 million. Strong sales of light-duty pickups and SUVs, along with cost-cut efforts led to improved year-over-year profits.

GM International's (GMI) net revenues were \$3,280 million, which declined from \$3,850 million in the year-ago quarter. However, revenues from the GMI segment topped the Zacks Consensus Estimate of \$3,147 million. Vehicle sales came in at 191,000 units, reflecting a year-over-year decrease of 19%. The unit recorded an operating loss of \$551 million against a profit of \$31 million a year ago. Sagging vehicle sales in China amid economic slowdown and the COVID-19 pandemic negatively impacted the segment.

GM Financial generated net revenues of \$3,561 million in the quarter under review, down from \$3,620 million recorded in the year-ago period. The segment recorded operating profit of \$230 million, representing a decline from \$359 million recorded in the prior year quarter. Increase in loan loss reserve related to coronavirus acted as a dampener.

GM Cruise generated net revenues of \$25 million in first-quarter 2020. The segment reported operating loss of \$228 million, wider than \$169-million loss in the prior-year quarter.

Financials

General Motors had cash and cash equivalents of \$38.5 billion as of Mar 31, 2020 compared with \$19.1 billion as of Dec 31, 2019. Long-term automotive debt stands at \$28.6 billion compared with \$12.5 billion as of Dec 31, 2019. The company recorded negative adjusted automotive free cash flow (FCF) of \$903 million in first-quarter 2020 compared with a negative FCF of \$3,876 million in the prior-year period.

Quarter Ending 03/2020

Report Date	May 06, 2020
Sales Surprise	0.37%
EPS Surprise	244.44%
Quarterly EPS	0.62
Annual EPS (TTM)	4.03

Recent News

General Motors Suspends Quarterly Dividends & Share Repurchases

On **Apr 27**, General Motors announced that it intends to extend \$3.6 billion under its three-year revolving credit agreement to April 2022, in order to deal with the downturn caused by production shutdowns. The move is in line with the extension of the \$2-billion 364-day revolving credit agreement to April 2021 that the company and its GM Financial (GMF) arm renewed earlier this month. Moreover, General Motors has also tapped brakes on quarterly cash dividend as well as suspended its share-repurchase program citing the uncertainty caused by the coronavirus pandemic.

Valuation

General Motors' shares are down 32.5% 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 17.6% and down 8.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 44.6% and 4.9%, respectively.

The S&P 500 index is down 8.2% in the year-to-date period and up 2.9% in the past year.

The stock is currently trading at 10.47X forward 12-month earnings, which compares to 78.61X for the Zacks sub-industry, 19.33X for the Zacks sector and 21.51X for the S&P 500 index

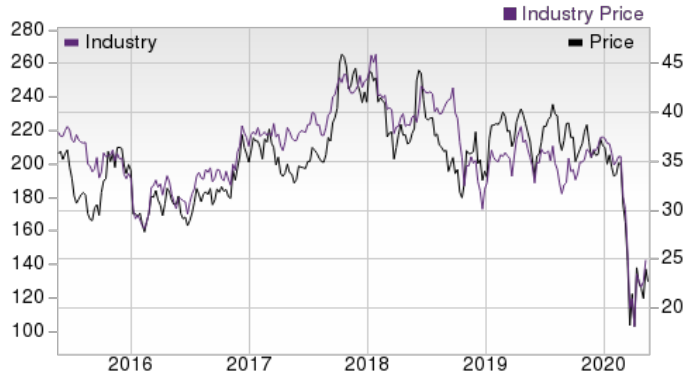
Over the past five years, the stock has traded as high as 10.58X and as low as 2.96X, with a 5-year median of 5.98X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$21 price target reflects 8.9X forward 12-month earnings per share.

The table below shows summary valuation data for GM:

Valuation Multiples - GM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.47	78.61	19.33	21.51
	5-Year High	10.58	78.61	19.33	21.51
	5-Year Low	2.96	7.95	8.23	15.23
	5-Year Median	5.98	10.47	9.93	17.49
EV/EBITDA TTM	Current	5.95	15.3	10.43	10.91
	5-Year High	6.89	16.59	11.37	12.86
	5-Year Low	3.81	6.37	6.97	8.26
	5-Year Median	5.48	11.97	9.29	10.78
P/S F12M	Current	0.29	1.03	0.68	3.34
	5-Year High	0.47	1.03	0.76	3.44
	5-Year Low	0.17	0.52	0.5	2.53
	5-Year Median	0.34	0.65	0.62	3.01

As of 05/19/2020

Industry Analysis Zacks Industry Rank: Bottom 6% (238 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Ford Motor Company (F)	Neutral	3
Tesla, Inc. (TSLA)	Neutral	2
Tata Motors Ltd (TTM)	Neutral	3
Daimler AG (DDAIF)	Underperform	5
Honda Motor Co., Ltd. (HMC)	Underperform	5
HarleyDavidson, Inc. (HOG)	Underperform	5
PACCAR Inc. (PCAR)	Underperform	4
Toyota Motor Corporation (TM)	Underperform	5

Industry Comparison Industry: Automotive - Domestic				Industry Peers		
	GM	X Industry	S&P 500	HMC	HOG	TM
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Underperform	Underperform
Zacks Rank (Short Term)	4	-	-	5	5	5
VGM Score	C	-	-	A	D	B
Market Cap	35.33 B	4.79 B	19.91 B	41.70 B	3.35 B	166.95 B
# of Analysts	6	5.5	14	3	6	3
Dividend Yield	6.16%	0.00%	2.14%	3.51%	6.96%	2.74%
Value Score	B	-	-	A	B	B
Cash/Price	1.42	0.11	0.07	0.61	0.52	0.32
EV/EBITDA	3.35	9.07	12.09	4.02	6.94	5.52
PEG Ratio	1.98	2.28	2.68	0.63	2.59	3.54
Price/Book (P/B)	0.80	2.22	2.75	0.55	1.98	0.88
Price/Cash Flow (P/CF)	1.66	6.84	10.68	3.93	3.97	4.93
P/E (F1)	17.60	22.37	19.96	11.77	20.70	12.35
Price/Sales (P/S)	0.26	0.68	2.01	0.30	0.63	0.61
Earnings Yield	5.83%	3.88%	4.83%	8.48%	4.81%	8.10%
Debt/Equity	1.84	1.07	0.76	0.51	2.67	0.52
Cash Flow (\$/share)	14.84	3.24	7.01	6.04	5.50	23.99
Growth Score	C	-	-	B	F	D
Hist. EPS Growth (3-5 yrs)	1.65%	1.90%	10.87%	7.38%	-2.92%	3.60%
Proj. EPS Growth (F1/F0)	-70.12%	-44.02%	-10.48%	-15.76%	-60.63%	-28.66%
Curr. Cash Flow Growth	-8.62%	6.65%	5.51%	-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	1.07	1.28	1.28	1.26	1.09	1.04
Debt/Capital	64.76%	58.92%	44.46%	33.75%	72.75%	34.02%
Net Margin	3.60%	3.82%	10.59%	3.06%	6.93%	6.94%
Return on Equity	12.73%	6.54%	16.27%	5.35%	24.99%	10.06%
Sales/Assets	0.57	0.82	0.55	0.73	0.49	0.57
Proj. Sales Growth (F1/F0)	-12.71%	-12.61%	-2.49%	-12.35%	-19.29%	-12.09%
Momentum Score	F	-	-	B	D	B
Daily Price Chg	-0.48%	-0.69%	-1.38%	-0.71%	-3.02%	-1.05%
1 Week Price Chg	-5.43%	-5.43%	-4.56%	-4.30%	-8.35%	-5.04%
4 Week Price Chg	16.24%	16.95%	6.08%	8.82%	23.11%	-2.03%
12 Week Price Chg	-22.24%	-22.33%	-13.96%	-8.35%	-33.33%	-11.80%
52 Week Price Chg	-33.50%	-33.50%	-7.85%	-7.82%	-38.76%	-0.03%
20 Day Average Volume	17,529,646	1,694,283	2,586,392	846,480	4,489,563	200,125
(F1) EPS Est 1 week change	1.77%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-42.13%	-16.22%	-4.62%	-1.79%	-21.94%	-0.97%
(F1) EPS Est 12 week change	-76.08%	-57.60%	-16.58%	-46.31%	-61.27%	-38.30%
(Q1) EPS Est Mthly Chg	-154.51%	-37.84%	-10.10%	0.00%	-78.41%	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	B
Growth Score	C
Momentum Score	F
VGM Score	C

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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