

General Motors Company (GM)

\$23.78 (As of 04/29/20)

Price Target (6-12 Months): **\$20.00**

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: C

Summary

Coronavirus crisis is likely to weigh heavily on the production and sales of General Motors 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. It has also withdrawn the 2020 guidance citing the uncertainty caused by the coronavirus pandemic. Further, General Motors recorded the biggest-ever decline in vehicle sales in China in 2019 and has warned that its business in the country is likely to face challenges in 2020 as well. 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.

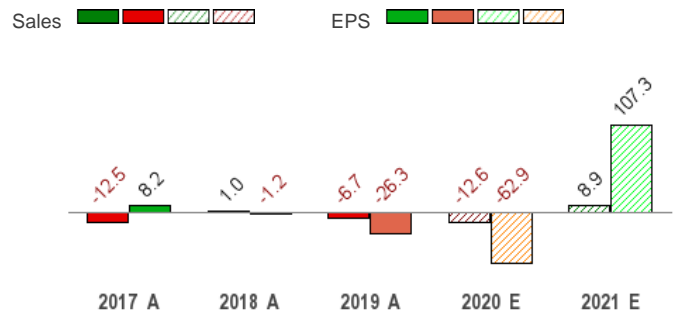
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$41.90 - \$14.33
20 Day Average Volume (sh)	16,362,984
Market Cap	\$34.1 B
YTD Price Change	-35.0%
Beta	1.50
Dividend / Div Yld	\$1.52 / 6.4%
Industry	Automotive - Domestic
Zacks Industry Rank	Bottom 4% (244 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	-47.2%
Expected Report Date	05/06/2020
Earnings ESP	42.6%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					130,612 E
2020	32,587 E	18,429 E	34,743 E	31,283 E	119,895 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					\$3.71 E
2020	\$0.18 E	-\$1.28 E	\$1.28 E	\$1.15 E	\$1.79 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.

P/E TTM	4.9
P/E F1	13.3
PEG F1	1.5
P/S TTM	0.3

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/29/2020. The reports text is as of 04/30/2020.

Overview

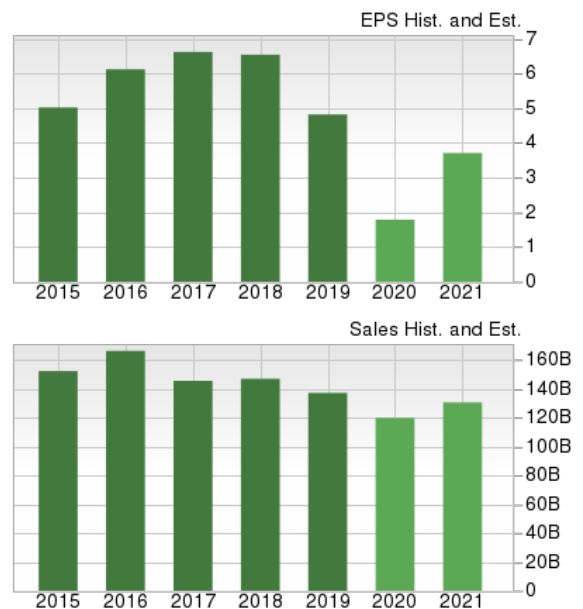
One of the world's largest automakers, General Motors leads the U.S. market share with around 17% of the industry's total sales in 2019. Headquartered in Detroit, the auto giant has had a long and checkered history. Founded in 1908, the company rose to dominate the U.S. industry; however hit by the financial 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 deadly coronavirus has wreaked havoc on the auto industry, with shutdown of factories, dealerships with less customer traffic and supply-chain disruption. The virus outbreak has impacted General Motors's daily operations across United States. 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. It has also withdrawn the 2020 guidance, and suspended its quarterly dividend and existing share repurchase program citing the uncertainty caused by the coronavirus pandemic. 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.
-

General Motors is expected to face headwinds from challenging economic environment in China as well as rising commodity costs.

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.
 - As of Dec 31, 2019, the company had long-term debt of \$12.5 billion, down from \$13.1 billion recorded as of Dec 31, 2018. Its total debt-to-capital ratio stands at 0.69, lower than its industry's 0.79. This favorable reading indicates that the firm is not a very leveraged company. Moreover, the company's times interest earned ratio of 0.09 is also favorable to the industry ratio of 0.02.
 - 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.
-

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

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.

General Motors Ready to Deliver its First Critical Care V+Pro Ventilators

On **Apr 14**, General Motors announced that it has begun mass production of the Ventec Life Systems V+Pro critical care ventilator under contract to the U.S. Department of Health and Human Services. General Motors in partnership with Ventec, along with its manufacturing, logistics, legal, and talent acquisition teams has successfully delivered 30,000 ventilators to combat coronavirus pandemic.

General Motors Delivers Above 461K Vehicles in China in Q1

On **Apr 3**, General Motors reported that the company delivered 461,700 vehicles in China in the first quarter of 2020. The company adopted a variety of measures in the quarter to combat COVID-19. It introduced new sales channels and methods such as live streaming and touch-free vehicle services across the brands to reach out to customers in a secure way. It also shifted its primary focus to supporting control and prevention of the coronavirus while also ensuring the safety of its employees as well as company and dealer operations.

Valuation

General Motors' shares are down 35% and 38.6% 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 9.9% and down 7.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 33.6% and down 0.1%, respectively.

The S&P 500 index is down 11.4% in the year-to-date period and down 2.5% in the past year.

The stock is currently trading at 9.83X forward 12-month earnings, which compares to 45.31X for the Zacks sub-industry, 18.41X for the Zacks sector and 20.16X for the S&P 500 index

Over the past five years, the stock has traded as high as 9.83X 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 \$20 price target reflects 8.26X 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	9.83	45.31	18.41	20.16
	5-Year High	9.83	45.31	18.41	20.16
	5-Year Low	2.96	7.95	8.23	15.19
	5-Year Median	5.98	10.47	9.93	17.45
EV/EBITDA TTM	Current	5.51	14.36	9.38	10.45
	5-Year High	6.89	16.55	11.34	12.87
	5-Year Low	3.81	6.37	6.97	8.27
	5-Year Median	5.47	11.92	9.26	10.78
P/S F12M	Current	0.28	0.97	0.67	3.21
	5-Year High	0.47	0.97	0.76	3.44
	5-Year Low	0.17	0.52	0.5	2.54
	5-Year Median	0.35	0.65	0.62	3.01

As of 04/29/2020

Industry Analysis Zacks Industry Rank: Bottom 4% (244 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Fox Factory Holding Corp. (FOXF)	Neutral	4
Toyota Motor Corporation (TM)	Neutral	4
Tesla, Inc. (TSLA)	Neutral	3
Tata Motors Ltd (TTM)	Neutral	3
Daimler AG (DDAIF)	Underperform	5
Honda Motor Co., Ltd. (HMC)	Underperform	5
Harley-Davidson, Inc. (HOG)	Underperform	5
PACCAR Inc. (PCAR)	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	Neutral
Zacks Rank (Short Term)	5	-	-	5	5	4
VGM Score	D	-	-	C	F	A
Market Cap	34.06 B	4.16 B	20.82 B	42.04 B	3.73 B	180.56 B
# of Analysts	6	5	14	3	6	3
Dividend Yield	6.39%	0.00%	2.07%	3.47%	6.24%	2.54%
Value Score	B	-	-	B	D	A
Cash/Price	0.74	0.14	0.06	0.56	0.31	0.32
EV/EBITDA	3.64	8.82	12.12	3.76	8.82	6.10
PEG Ratio	1.40	2.13	2.51	3.61	2.88	1.32
Price/Book (P/B)	0.74	2.28	2.74	0.52	2.08	0.93
Price/Cash Flow (P/CF)	1.60	6.95	11.23	3.50	4.43	5.65
P/E (F1)	12.48	23.05	19.26	11.65	23.05	13.23
Price/Sales (P/S)	0.25	0.69	2.16	0.30	0.71	0.64
Earnings Yield	7.53%	4.10%	5.03%	8.58%	4.35%	7.56%
Debt/Equity	1.43	0.73	0.72	0.48	2.87	0.52
Cash Flow (\$/share)	14.84	3.25	7.01	6.82	5.50	22.62
Growth Score	D	-	-	D	F	B
Hist. EPS Growth (3-5 yrs)	6.93%	3.88%	10.88%	8.61%	-2.15%	3.46%
Proj. EPS Growth (F1/F0)	-62.90%	-40.56%	-6.94%	-25.72%	-60.57%	-34.45%
Curr. Cash Flow Growth	-8.62%	6.65%	5.92%	-7.09%	-13.75%	-12.84%
Hist. Cash Flow Growth (3-5 yrs)	9.37%	7.39%	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%	43.90%	32.33%	74.13%	34.21%
Net Margin	4.91%	4.04%	11.15%	3.06%	6.93%	8.09%
Return on Equity	15.19%	10.75%	16.47%	5.53%	24.46%	12.12%
Sales/Assets	0.59	0.87	0.54	0.76	0.50	0.58
Proj. Sales Growth (F1/F0)	-12.64%	-11.64%	-1.52%	-12.73%	-19.02%	-11.90%
Momentum Score	C	-	-	B	D	D
Daily Price Chg	7.21%	4.08%	2.91%	2.40%	11.64%	1.89%
1 Week Price Chg	-2.36%	-1.30%	-1.74%	0.44%	-3.51%	-1.65%
4 Week Price Chg	23.47%	28.07%	21.33%	13.33%	40.89%	9.55%
12 Week Price Chg	-32.12%	-31.07%	-16.28%	-9.20%	-31.07%	-9.78%
52 Week Price Chg	-38.63%	-30.61%	-7.57%	-13.85%	-33.26%	4.02%
20 Day Average Volume	16,362,984	1,322,387	2,658,107	954,504	4,079,241	208,045
(F1) EPS Est 1 week change	-11.91%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-47.17%	-39.00%	-6.32%	-35.94%	-50.84%	-32.82%
(F1) EPS Est 12 week change	-70.72%	-57.52%	-12.93%	-45.33%	-57.52%	-37.41%
(Q1) EPS Est Mthly Chg	-325.00%	-74.74%	-11.84%	NA	-81.01%	NA

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	D
Momentum Score	C
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.