

GM vs. Ford

GM Wins Gas vs. Yen Arm Wrestle, Should GM Trade at a Prem. to F?

- **What's New?** — The latest round of U.S. auto data continues to refute the “peak auto” bear case (click [here](#) for Citi’s latest “Price Wars” report). Yet two major competitive forces hover over domestic automakers—one a threat to margins (Yen) and the other an opportunity (gas prices). Our recently published sensitivity model (link [here](#)) suggested that, under certain scenarios, these two forces could largely offset each other. To take this one step further, we revisited our GM & Ford capacity models to assess each automaker’s ability to absorb an even larger increase in demand for larger vehicles, say, if gas prices were to continue falling. Our analysis concluded that at a sustained \$2.50 gas price or lower, GM may be considerably better positioned than Ford (almost ~2x) to absorb added volume. While this isn’t our base case, the distinction could become critical if the Yen continues to weaken and gas prices fall. *In our view, GM no longer deserves to trade at a discount to Ford.*
- **Mix & Capacity; Why GM Wins** — When thinking about gas prices vs. Yen, we split the U.S. auto market into two buckets; (1) Detroit 3 dominant segments that stand to benefit from lower gas prices, such as trucks, SUVs, large crossovers, large cars and large vans (collectively ~28% of SAAR); and (2) everything else. By our analysis, GM’s capacity advantage in the first bucket mostly stems from Large Cars/Large CUVs (Ford capacity constrained in Chicago plant, GM appears to have room) and Midsize Pickups (segment was historically popular when gas prices were low, GM has capacity at Wentzville, Ford no offering). For full-size pickups, we calculate similar available capacity in theory though Ford will clearly be constrained for a few more months on the new F-150 ramp. Please see Figures in the report.
- **GM Discount to Ford No Longer Warranted, Taking F Target to \$17 from \$18** — On consensus 2015/16 estimates, GM shares trade at a 21%/8% discount to Ford on P/E. While we continue to view both Ford and GM equities as undervalued and have historically valued GM at a discount to Ford, we no longer believe a discount is warranted. Three reasons: (1) global automakers’ Q3 reports and recent Ford management changes support our initial view that Ford of Europe’s recent ‘14/’15 guide-down was more *company specific*; (2) the F-150 margin debate could remain an overhang into 2015 thereby distinguishing GM’s North America margin trajectory even further; (3) as discussed in this note, GM may be better equipped to handle even lower gas prices by nearly ~2x on volume, or >\$1.5bln in est. annual variable profit. As a result of these, we now value GM and Ford on similar forward multiples, leading us to revise our Ford price target to \$17 from \$18 (4.25x ‘15E EV/EBITDAP). Given Ford’s imminent product cycle and GM’s legal cost overhang from recalls, we have not chosen to value GM at a premium to Ford at this time. However, the case for doing so could build if gas prices fall even further or if F-150 margins fail to reach our expectation. Maintain Buys on both; prefer GM for 12-mos.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Data Summary

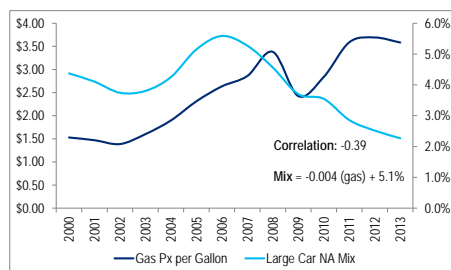
Company	Ticker	Rating		Target Price		Current Year Earnings Estimates	
		Old	New	Old	New	Old	New
Ford Motor	F	1	1	US\$18.00	US\$17.00	US\$1.16	US\$1.16
General Motors Co	GM	1	1	US\$48.00	US\$48.00	US\$2.71	US\$2.71

Figure 1. Citi 2015 Production & Incremental Capacity Estimates

	2015 Citi Production	Incremental Capacity
Ford (Vehicle/Platform)		
TAURUS	73,268	0
EXPLORER	285,397	0
MARK LT	0	0
TRANSIT	107,123	57,877
EXPEDITION	60,210	38,591
NAVIGATOR	12,372	0
F SERIES	921,302	97,526
FLEX	25,042	6,331
Favorable Total	1,484,714	200,325
Ford Total Production	3,125,000	
General Motors (vehicle/platform)		
K2XX	1,188,473	86,527
ENCLAVE	68,268	6,635
TRAVERSE	111,422	10,829
ACADIA	97,837	9,508
IMPALA	147,906	133,063
ESCALADE EXT	0	0
AVALANCHE	0	0
31XX/32XX & T610	170,420	133,780
Favorable Total	1,784,327	380,342
GM Total	3,472,769	

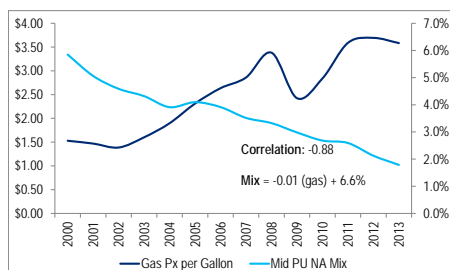
Source: Citi Research, IHS and Wards

Figure 2. Large Car Mix to Gas



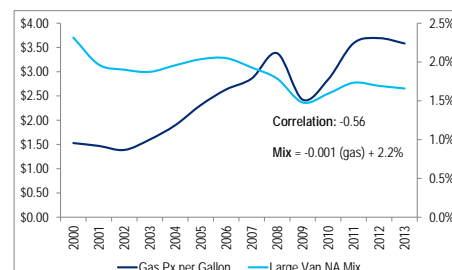
Source: Citi Research, eia.gov, IHS and Wards

Figure 3. Mid Pickup Mix to Gas



Source: Citi Research, eia.gov, IHS and Wards

Figure 4. Large Van Mix to Gas



Source: Citi Research, eia.gov, IHS and Wards

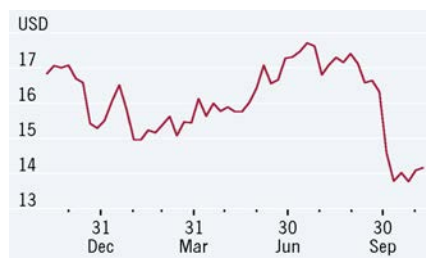
Company Focus

Ford Motor Co (F)

■ Target Price Change

Buy	1
Price (07 Nov 14)	US\$14.17
Target price	US\$17.00
<i>from US\$18.00</i>	
Expected share price return	20.0%
Expected dividend yield	3.7%
Expected total return	23.6%
Market Cap	US\$54,536M

Price Performance (RIC: F.N, BB: F US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2013A	0.41A	0.45A	0.45A	0.31A	1.62A	1.62A
2014E	0.25A	0.40A	0.24A	0.27E	1.16E	1.13E
Previous	0.25A	0.40A	0.24A	0.27E	1.16E	na
2015E	na	na	na	na	1.72E	1.64E
Previous	na	na	na	na	1.72E	na
2016E	na	na	na	na	2.01E	1.96E
Previous	na	na	na	na	2.01E	na

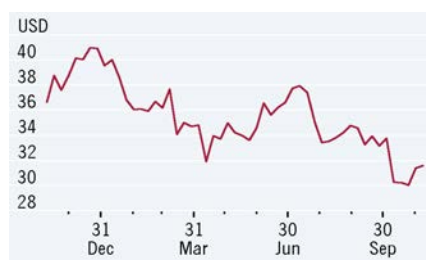
Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Company Focus

General Motors Company (GM)

Buy	1
Price (07 Nov 14)	US\$31.59
Target price	US\$48.00
Expected share price return	51.9%
Expected dividend yield	3.8%
Expected total return	55.7%
Market Cap	US\$50,756M

Price Performance
(RIC: GM.N, BB: GM US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2013A	0.67A	0.84A	0.96A	0.67A	3.19A	3.18A
2014E	0.29A	0.58A	0.97A	0.86E	2.71E	2.64E
Previous	0.29A	0.58A	0.97A	0.86E	2.71E	na
2015E	na	na	na	na	4.65E	4.32E
Previous	na	na	na	na	4.65E	na
2016E	na	na	na	na	5.05E	4.68E
Previous	na	na	na	na	5.05E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Ford Motor Co

Company description

The Ford Motor Company (F) is a global company with two core businesses, Automotive and Financial Services. Automotive consists of the design, development, manufacture, sale, and service of cars, trucks and service parts. Financial Services consists of the operations of Ford Motor Credit Company (FMCC), a provider of vehicle-related financing, leasing, and insurance.

Investment strategy

We rate Ford (F) shares Buy on a valuation-based risk/reward framework. Ford shares are likely to benefit from a strong NA product cycle, including exposure to large pickups, restructuring progress in Europe, and share gain opportunities in the near to medium term in Asia.

Valuation

We derive a \$17 target price for F using an average of EV/EBITDAP and P/E valuation on our 2015E estimates.

We apply a 4.25x multiple to our 2015E EBITDAP of \$10.1 billion. We then add back excess cash, equity JV value, PV of Tax Assets and Ford Motor Credit book Value. After backing out Total Debt and Pension we arrive at an equity value of ~\$70.3bln or \$18/share.

For our P/E methodology, we apply a 9.5x multiple to our 2015E EPS forecast of \$1.72, and add \$1 to that value to account for the present value of NOLs, to arrive at \$17. Our 9.5x multiple is somewhat higher than the historical trading range to reflect the stage of the recovery cycle, Ford's lower cash taxes vs. book taxes, as well as industry restructuring and resulting margin gains.

Risks

Risks to F shares underperforming our target price include a weakening in the U.S. economy, slower progress in cost cutting initiatives, and weaker free cash performance. If any of these have greater or less impact than predicted, the shares could underperform or materially outperform our target price.

General Motors Company

Company description

Globally headquartered in Detroit, Michigan, General Motors Co. is a global automotive manufacturing company, with operations and sales in over 120 countries. GM assembles passenger cars, crossover vehicles (CUVs), light trucks (pick-up trucks), sport utility vehicles (SUVs), hybrids, vans and other vehicles in 71 assembly facilities globally and has an additional 88 global manufacturing centers worldwide. GM sells and services its vehicles through a global network of over 21,000 independent dealers.

Investment strategy

We rate GM shares Buy. GM fits well within our auto stock selection framework and bullish sector view, which is anchored by our sector "re-birth" theme and positive outlook for global demand. Unlike the auto supplier stocks, OEM investing requires forming conviction on that specific OEM's ability to outperform by way of profitable market share gains and superior regional exposure. We believe GM offers both at a low valuation. In particular, the North America product cycle and brand revitalization stories appear underappreciated based on our proprietary survey work, recent dealer checks and detailed product cycle analysis. Combined with favorable industry dynamics (SAAR recovery, renewed price discipline, transition to global platforms) and GM's #1 presence in emerging markets, GM may be the most compelling auto turnaround stories in our universe.

Valuation

We value GM shares at \$48, which is based on 4.25x our 2015 adjusted EBITDAP of \$12.1 billion. Arriving at a total EV of \$93.9bln and equity value of \$80.6bln. The relative multiples are somewhat higher than the 1990s averages to account for the earlier part of the SAAR recovery cycle, GM's above-average exposure to emerging markets, the upward shift in industry profitability, our OnStar valuation, and, in our view, brighter market share recovery prospects ahead of the product cycle and greater confidence in our "Go Long Pickups" truck thesis.

Risks

Risks to the stock not achieving our target price include a slower-than-expected auto sales recovery or double-dip recession scenario, market share/pricing erosion, adverse product mix shifts, worse-than-expected product launch execution, global regulatory/political risks and worse-than-expected cost execution, particularly in Europe.

Appendix A-1

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IMPORTANT DISCLOSURES

Ford Motor Co (F)

Ratings and Target Price History

Fundamental Research

Analyst: Itay Michaeli



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	20-Nov-11	1H	*15.00	10.10
3	29-Jun-12	1H	*14.00	9.59
4	10-Jan-13	1H	*15.25	13.83

* Indicates change

	Date	Rating	Target Price	Closing Price
5	28-May-13	*1	*18.00	15.28
6	24-Jul-13	1	*20.00	17.37
7	24-Oct-13	1	*21.00	17.76
8	18-Dec-13	1	*19.00	15.65

	Date	Rating	Target Price	Closing Price
9	21-Jul-14	1	*21.00	17.70
10	30-Sep-14	1	*18.00	14.79

Rating/target price changes above reflect Eastern Standard Time

Ford Motor Co (F)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Itay Michaeli



	Date	Rating	Target Price	Closing Price
1	24-Jan-12	*ADD MP	-	12.82

* Indicates change

	Date	Rating	Target Price	Closing Price
2	26-Jul-12	*REM MP	-	8.96

Rating/target price changes above reflect Eastern Standard Time

General Motors Company (GM)

Ratings and Target Price History

Fundamental Research

Analyst: Itay Michaeli



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	10-Nov-11	1H	*37.00	22.70
3	20-Nov-11	1H	*35.00	21.68
4	5-Jan-12	1H	*34.00	22.17
5	17-Feb-12	1H	*36.00	27.34

* Indicates change

	Date	Rating	Target Price	Closing Price
6	13-Jul-12	1H	*34.00	19.62
7	19-Dec-12	1H	*35.00	27.18
8	14-Apr-13	1H	*38.00	29.62
9	6-May-13	1H	*40.00	31.82
10	25-Jul-13	*1	*45.00	37.08

	Date	Rating	Target Price	Closing Price
11	31-Oct-13	1	*48.00	36.95
12	20-May-14	1	*47.00	33.07
13	21-Jul-14	1	*48.00	37.43

Rating/target price changes above reflect Eastern Standard Time

General Motors Company (GM)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Itay Michaeli



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of General Motors Co

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<i>Data current as of 30 Sep 2014</i>	12 Month Rating			Relative Rating		
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