

# General Motors Company

US Satellite\*

Recommended since 19.01.2022

02.08.2022



<b>Country</b> US	<b>Market capitalization (bn)</b> USD 54.7	<b>Perf. since reco. (%)</b>
<b>Sector</b> Automobiles & Parts	<b>Free float</b> 95.1%	General Motors Company -34.6
<b>Factset</b> GM-US	<b>Closing price</b> USD 36.77	Sector -14.3
<b>ISIN</b> US37045V1008	<b>ESG Risk score*</b> 30.9 High risk	

## Profile

Founded in 1908, GM is a US automotive manufacturer – world number one from 1931 to 2005 – that develops, makes and sells cars and light trucks (SUVs, pickups and minivans) under brands including Chevrolet, Cadillac, Buick, GMC, etc. After it was placed under Chapter 11 bankruptcy protection (2009) and sold off Saab and Opel, GM began to move forward again under the leadership of CEO Mary Barra, with a focus on its most buoyant markets (the Americas) and segments (pickups/SUVs/premium). The formation of Stellantis knocked it off its world number four spot in 2021.

## Strengths/opportunities

- US leader in the most buoyant segments.
- Considerable economies of scale and a price leader.
- First US auto manufacturer to come up with an electrification and digitalisation plan; GM's range also offers the greatest potential.

## Weaknesses/threats

- Very limited presence in the European market.
- Exposed to the semiconductor shortage.
- Weak post-Covid demand and lower prices.

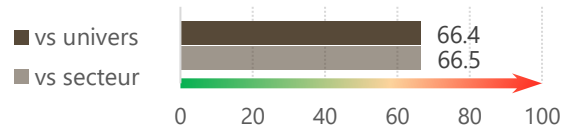
## Investment case

- GM has set a deadline of 2035 to eliminate its combustion engine vehicles and move to an all-electric lineup, aiming for carbon neutrality by 2040. This plan marks a striking transition from its current model, with its pickups (Chevrolet Silverado, GMC Sierra) and SUVs (Chevrolet Tahoe, Suburban, GMC Yukon, Cadillac Escalade) being fuel-intensive and the most polluting. Such a sales mix shows how much its switch to electric will reduce emissions. 35 billion will be spent on this electrification strategy by 2025 along with Ultium technology that will reduce battery costs by 60%. Several models are coming: GMC Hummer SUVs, Cadillac Lyriq, Chevrolet Equinox/Blazer and Chevy Silverado pickup. GM is launching its driverless Cruise AV fleet, a technology that will help it double its revenue and improve margins by 2030.
- After a strong Q1, GM had warned that Q2 would see an adjusted EBIT of barely \$2.3bn due to disruptions in component supply (non-delivery of 100,000 profitable vehicles). However, GM reiterates its 2022 guidance (sales +20/25% and EBIT of \$13/15bn) and is optimistic about its ability to deliver these vehicles in Q3: the chip shortage will fade quickly and production will increase sharply in H2. Market conditions are favorable: demand in the US remains strong, with rising prices, especially for high-margin SUVs and pickups. While cost inflation will bring a \$2.5 billion charge in 2022, GM will be able to compensate through volume and price increases, as well as new models and a better supply. The consolidation of Cruise (autonomous vehicles) will also generate a lower tax rate. In the end, GM reiterates its 2022 adjusted EPS forecast of \$6.50-\$7.50 (vs. consensus of \$6.89). This near-term improvement outlook and the implementation of its Electrification of the range/Auto 2.0 strategy allows GM to offer an attractive equity story.

## Valuation

GM's valuation looks attractive (in P/E, EV/EBITDA and P/B terms), translating into a deep discount to its US auto sector peers while offering the security of a group with zero debt.

## ESG risk vs. universe & sector (percentile)\*



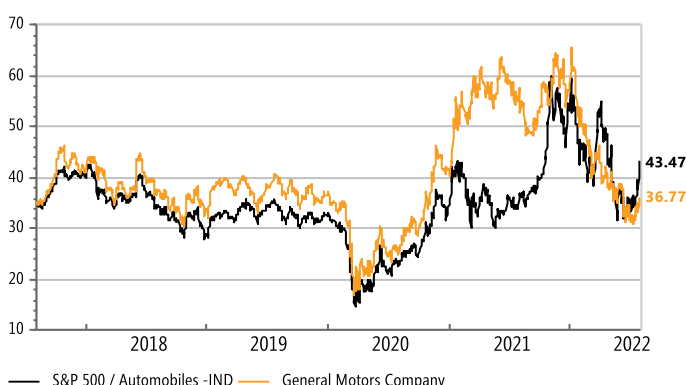
USD	12/2021	2022e	2023e
Sales revenue (mio)	127'004	151'944	162'113
Sales growth	3.7%	19.6%	6.7%
EBIT adjusted (mio)	9'324	13'380	11'820
% of sales	7.3%	8.8%	7.3%
Net income (mio)	10'019	9'990	9'388
Net income growth	55.9%	-0.3%	-6.0%
FCF/Sales	-5.5%	4.6%	3.7%
Net debt/Ebitda	3.7x	-0.5x	-0.8x
Dividend yield	0.0%	0.5%	1.0%
PE	8.7x	5.4x	5.9x
P/BV	0.8x	0.8x	0.7x

Factset estimates

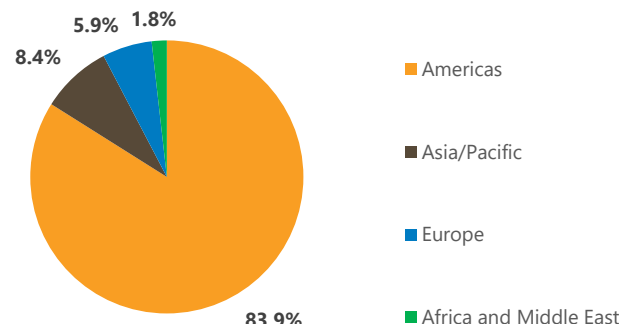
## ESG - risks and key points

- GM's ESG risk is high despite its sound governance.
- The group has in the past been involved in high levels of controversy, notably including major risks over the safety of its vehicles in 2014 and quality-related recalls.
- GM's range of vehicles has among the highest levels of emissions in the industry.

## 5-year performance vs sector



## Sales breakdown - 12/2021



Source: Factset, Sustainability

# Glossary

## Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

## ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

## b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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