

## Ford Motor

# Ford would be singing the Kentucky blues with a strike

Maintain Rating: BUY | PO: 21.00 USD | Price: 12.52 USD

## UAW serves strike notice at Ford's largest truck plant

On Friday 2/16/24, the UAW released a statement serving a strike notice for workers at the Ford Kentucky Truck plant in Louisville, KY, where the company's most profitable vehicles are assembled (F-Series Super Duty, Ford Expedition, and Lincoln Navigator). Although the UAW and the Detroit Three came to terms on the Master Contract Agreement in late 2023, local contracts that focus on plant-specific work rules still need to be agreed upon at each facility. The Union set a strike deadline at the plant for 12:01 a.m. on Friday, February 23rd, giving the two parties a week to come to an agreement. According to the statements released by the UAW, the core issues in the Kentucky Truck Plant local negotiations are around health and safety in the plant, and skilled trades.

## Ford faces material profit impact if strike occurs

The Kentucky Truck plant employs around 8,700 UAW workers and is one of Ford's largest plants (~\$25bn of revenue per year). We also note that Ford mentioned during 2023 Master Agreement negotiations that downtime at the plant puts roughly a dozen other Ford operations at risk as well as the operations of many suppliers, which in total account for 100,000+ employees. We estimate that a work stoppage at the Kentucky Truck plant will reduce weekly production by ~9,000 units, resulting in a weekly ~\$270mm EBIT loss, or \$0.05 on an EPS basis. To put these numbers in context, our Ford 2024 EBIT estimate amounts to \$11.6bn with EPS at \$2.05.

## Risk of strike is relatively low

We see the likelihood of a material strike at the Kentucky Truck plant as relatively low, as typically the negotiations for local agreements around plant-specific rules are less contentious than the broader Master Agreement negotiations. We note that along with the local negotiations at the Kentucky Truck Plant, there are 19 other open local agreements across Ford, along with several open local agreements at GM and Stellantis, according to the UAW.

## Maintain Buy on Ford

Despite some incremental risk from this news, Ford continues to leverage its core strength in the Ford Blue and Ford Pro businesses to fund its developing Model e business. There is a long way to go, but with a strong near-term product cadence (Super Duty, Navigator, Expedition) combined with management focus, we expect strong profits and progress. Therefore, we maintain our Buy rating on Ford.

### Exhibit 1: Potential volume and earnings impact to Ford from UAW strike

We estimate a strike at Kentucky truck would have a potential EBIT impact of ~\$270mm or \$0.05 in EPS

#### Potential impact of February 23rd UAW strike

##### Plant: Kentucky Truck

Weekly production volume:	9,137
Weekly EBIT impact (in \$m):	\$ 266.56
Weekly EPS impact:	\$ 0.05

Source: S&P Global, Wards, BofA Global Estimates

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Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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## Stock Data

Price	12.52 USD
Price Objective	21.00 USD
Date Established	7-Feb-2024
Investment Opinion	B-1-7
52-Week Range	9.63 USD - 15.42 USD
Mkt Val (mn) / Shares Out (mn)	50,643 USD / 4,045.0
Free Float	99.8%
Average Daily Value (mn)	760.11 USD
BofA Ticker / Exchange	F / NYS
Bloomberg / Reuters	F US / F.N
ROE (2024E)	4.6%
Net Dbt to Eqty (Dec-2023A)	-5.0%
ESGMeter™	High

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UAW = United Auto Workers

D3 = Detroit Three OEMs

GM = General Motors

**Exhibit 2: Stock Mentioned**

Stock prices and ratings mentioned in this report

<b>BofA Ticker</b>	<b>Bloomberg ticker</b>	<b>Company name</b>	<b>Price</b>	<b>Rating</b>
F	F US	Ford Motor	US\$ 12.30	B-1-7

Source: BofA Global Research

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**Price objective basis & risk****Ford Motor (F)**

Our price objective of \$21 is based on an EV/EBITDAP multiple (EV/EBITDA adjusted for pension) of roughly 4x on our 2024 estimates. This valuation methodology reflects a multiple within Ford's historical range (3-6x). We believe a multiple at this level is warranted considering the timing of the cycle and as the company is on the verge of executing something analogous to our Core to Future transition framework, by which it will strengthen its core business pillars to fund its future business.

Downside risks: 1) a more swift and/or material downturn in US auto sales, 2) a sharp and sustained rise in input costs, 3) disruption in the supply base, 4) significant increase in gas prices, 5) new vehicle pricing deteriorates, 6) market share losses pressure results, 7) unwillingness of dealers to shoulder inventory risk, 8) suppliers gain significant pricing power, 9) stress in capital markets makes borrowing more expensive, 10) Incremental execution risk as management ramps up.

Upside risks: 1) continued strength in US auto cycle, 2) growth in China remains robust, which Ford is able to leverage with product launches, 3) mix and pricing remain favorable, 4) capital allocation is directed towards shareholder returns (special dividend, etc.).

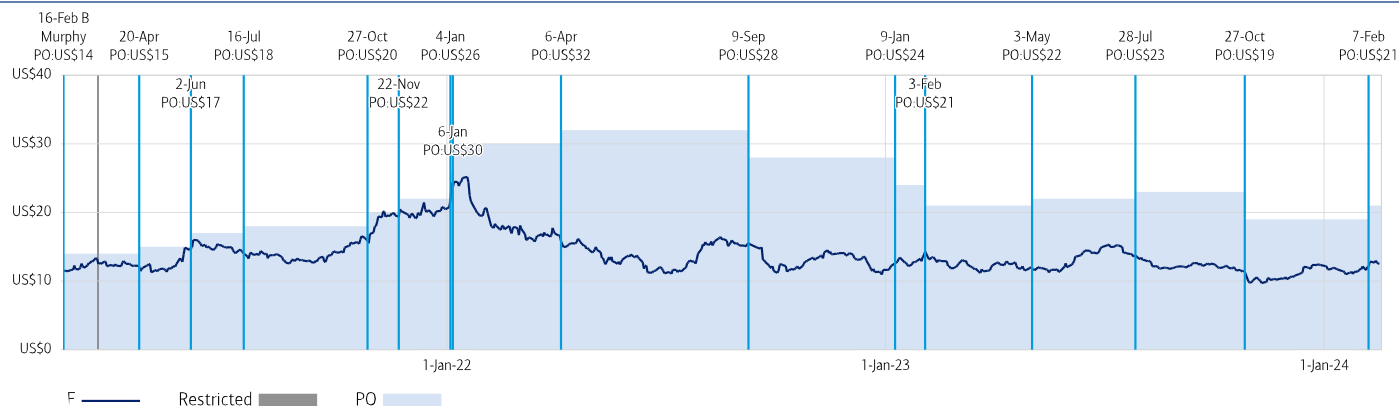
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### Ford Motor (F) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	67	55.83%	Buy	39	58.21%
Hold	30	25.00%	Hold	15	50.00%
Sell	23	19.17%	Sell	12	52.17%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Underperform	N/A	≥ 20%

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