|  |  |  |  |
| --- | --- | --- | --- |
| **Recommendation:** | **Price** | **12-Mo. Target Price** | **Potential Upside** |
| BUY | **$ 10.05 *(Nov 8,2023)*** | **$ 12.95** | **28.9%** |

|  |  |  |
| --- | --- | --- |
| **GICS Sector** | Autos & Components | **Summary:** F is an Automobile manufacturing company that is based in the United States. The company and its founder Henry Ford created the Model T car popularized worldwide. They currently manufacture sedans, SUVs, EVs, and trucks with a production and supply-chain system that spans the globe. |
| **Sub-Industry** | Auto-Manufacturers |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Key Stock Statistics (Source: Refinitiv, Bloomberg, S&P CapIQ, Company Reports)** | | | | | | | | |
| 52-Wk Range | USD 9.7-15.35 | Market Cap | | | 41.91B | | Beta | 1.76 |
| 6-Month P/E | 6.85 | Shares Outstanding | | | 4B | | 5-day Average Volume | 50,362,968 |
| 12-Month EPS | 1.88 | Dividend Yield | | | 5.73 | | 10-day Average Volume | 51,720,815 |
| EPS 2023**E** | 1.88 | EPS 2024**E** | | | 1.75 | | Revenue/Tot Assets 2023**E** | 0.68 |
|  |  |  | | |  | |  |  |
| **Historical Performance and Volume** | | |  |  | | **Financial Snapshot** | | |
| **relative to 30-week Mov. Avg.** | | |  | | | | |

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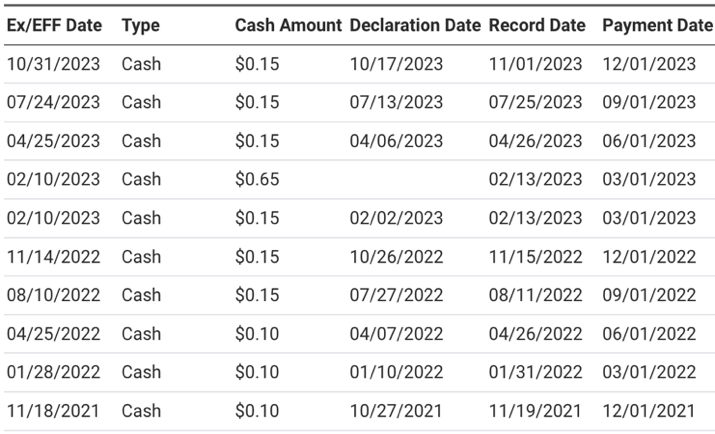
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| Dividend History (2021-2023) |

文本

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文本

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# 1. Introduction

The automotive industry plays an essential role in the global economy due to its impact on trade, employment, and technological innovation. Among the formidable players in the automobile industry is Ford Motor Company, a multinational company that manufactures, sells, and designs trucks, SUVs, and automobiles globally. Ford's outstanding history dates back to 1903 when Henry Ford founded the company and introduced an assembly line and mass production techniques. This report discusses an in-depth analysis of Ford's financial performance, environmental, social, and governance risks and opportunities, as well as industry metrics. In the first section of the report, it compares several financial ratios between Ford Motor Company and other industry averages. This section highlights Ford's performance in terms of earnings per share, sales growth, and valuation metrics like price-to-earnings (P/E) ratio and price-to-sales ratio. It also highlights profitability indicators like return on assets (ROA) and net profit margin.

The other sections of the report examine the analyst's outlook on Ford Motors by outlining its growth trajectory in 2023 with solid SUVs, trucks, and electronic vehicle sales. The report discusses the potential to leverage their existing customer base and the introduction of new E.V. models as factors likely to help the company proposer. A crucial valuation of Ford using the discounted cash flow (DCF) model is also included in the report. The report explains assumptions and derivations linked to EBIT growth rate, depreciation, and amortization as a percentage of revenue, discount rate, effective tax rate, and revenue growth rate. Another significant aspect the report covers is the ESG risks and opportunities. The report outlines the company's social responsibility, environmental impact, and governance practices. Based on the findings, the report offers recommendations to potential investors accounting for Ford's resilience in the market and its competitiveness against other motor companies in the U.S.

# 2. Company and Industry Metric Comparison

(Data generated from Refinitiv)

|  |  |  |
| --- | --- | --- |
| Ratio | Ford | Industry Average\* |
| Sales Growth (5yr) | 1.83 | 1.95 |
| EPS Growth (Mean) | 1.86 | 13.03 |
| P/E Ratio | 5.57 | 4.52 |
| Price/Sales Ratio (5yr) | 0.30 | 0.31 |
| Price/Book Ratio(5yr) | 1.17 | 0.71 |
| Price/Cash Ratio(5yr) | 7.17 | 4.68 |
| Net Profit Margin | -1.3% | 4.2% |
| Debt/Equity Ratio | 321.4% | 151.7% |
| ROA (Return on Assets) | 14.3% | 13% |
| ROE (Return on Equity) | 3.0% | 3.3% |

\*Industry includes Ford, Stellantis, General Motors, Volkswagen AG, Renault SA, Hyundai Motors, Honda Motors, and Nissan Motors

The company's sales growth of 1.83% is slightly below the industry average of 1.95%. This could indicate that the company is not growing as fast as its industry peers. However, it is also important to note that many companies went through major changes in this 5-year time period. Most companies have had major disruptions in their supply chain management which the Auto manufacturing industry is particularly weak in this regard. Many if not all auto manufacturers rely on long and distant supply chains in an effort to reduce costs. During the covid pandemic, these supply chains suffered from lockdowns and shipping delays. It is also important to note that while all motor companies sell cars in many different countries and regions, Ford is particularly invested in the US where it is based while many of their industry peers have a more diverse customer base. However, when comparing the EPS growth rate, we see major deviations. Ford’s EPS growth of 1.86% is significantly lower than the industry average of 13.03%. This suggests that the company is not performing as well in terms of earnings per share compared to its industry counterparts. To understand this deviation, we must look at other metrics to formulate a hypothesis of the reasons why Ford’s EPS growth was significantly lower than their industry peers.

Ford’s P/E ratio of 5.57 is higher than the industry average of 4.52. The P/E ratio is a valuation metric, and a higher P/E ratio generally indicates that investors are willing to pay a premium for the company's earnings. The reason for such a diversion from industry metrics can be explained in multiple ways. Firstly, Ford has had major renovations in their electric car segment which should put it in the same category as premier car manufacturers. Secondly, Ford is one of the American car manufacturers that received subsidies during the covid years to help keep it afloat which has made it more attractive to investors due to its relative stability. Many of their industry competitors are in fact foreign companies that would not have received help from the US government. It is clear from a KPI point of view, investors are looking at Ford with renewed interest and positive sentiment. In contrast, Ford and the industry have had very similar Price/Sales ratios of 0.30 and 0.31 respectively. The industry had instances of negative growth due to the uncertain nature of the covid pandemics as well as the lockdowns that curtailed the need for a car in much of the world.

A negative net profit margin indicates that the company is experiencing losses rather than generating profits. This could be a cause for concern, as sustaining negative margins over the long term may not be sustainable for a healthy business. A net profit margin of 4.2%, however, is quite positive and suggests that, on average, companies within the industry are able to generate a profit equivalent to 4.2% of their revenue.

A high ROA is a good sign for the investor, it indicates that the company is able to generate profits whilst using their assets correctly. In this instance, Ford has a higher ROA than the industry average. Upon further analysis, the entire auto manufacturing industry has significant assets that they must hold at any given time, but their sales generation can be cyclical. People tend to buy less cars during times of economic distress and uncertainty. While a higher ROA is beneficial, generally speaking this industry is susceptible to economic headwinds.

# 3. Analyst outlook

Generally, analysts have a positive outlook when investigating Ford Motor Company. The company has posted more positive growth for 2023 than in 2022. Q1 unit sales is 10% higher than in the previous year with strong sales posted from their truck, SUVs and EV segments. Q2 unit sales also posted a 10% increase from the previous year at 527,905 automobiles but it is still below pandemic levels. Signaling that the company is still in the process of recovering from the pandemic. In Q3 2023, Ford posted a 17.4% increase in their gross profit which is a positive trend that Ford hopes to continue. This is the same period where Ford was experiencing a strike by the workers in the UAW union.

According to community analysis in Motley fool, the company as well as the industry is going through major changes with the introduction of EV models. With gas consumption at a low due to the increase in price, more people are moving towards EVs. Ford as well as GM have just introduced new EV models that they hope will rival Tesla in the US market. They believe that the existent customer base for Ford could be successfully leveraged to increase EV sales. There is also a belief that due to the size of Ford, the company will be able to leverage their economies of scale to reduce the overall price of EVs in the future with further innovations and improvements.

4**. Fundamental Valuation (DCF Model)**

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**(1) Assumptions and Derivation**

**Effective Tax Rate:** The average effective tax rate over the last two years for Ford is 20.3%, reflecting the recent tax environment.

**Discount Rate (WACC (Weighted Average Cost of Capital):** Ford’s WACC is 7.63%, which was calculated using levered and unlevered beta methods.

**Revenue Growth Rate:** Assumption considered the volatility in recent years due to COVID and semiconductor shortages. The prediction for 2023 is based on the company's performance in the first three quarters of this year. 2024 reflected a recovery growth trend. Forecasts for 2025-2027 from estimates in Refinitiv and Bloomberg,

**EBIT Growth Rate Assumption:** The EBIT growth rate was assumed by analyzing historical fluctuations influenced by industry challenges, and the prediction for the 2023-2027 period incorporates a recovery trajectory at first, and then back to normal industry trends.

**Depreciation & Amortization as % of Revenue:** Using the 5 yr. average for this assumption provides a stable estimate that accounts for the company's recent investment trends and asset utilization specific to the automotive industry.

**Change in Working Capital:** The five-year average for changes in working capital is utilized to capture the cyclical nature of Ford's inventory management, accounts receivable, and payable practices, which are influenced by the automotive market dynamics and Ford's operational adjustments.

**Capital Expenditures as % of Revenue:** Employing the five-year average for capital expenditures as a percentage of revenue reflects Ford's consistent investment strategy in technology and manufacturing facilities, crucial for its competitiveness in the evolving automotive sector.

**(2) Sensitivity Analysis**

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**Sensitivity to Terminal FCF Growth Rate vs. Discount Rate:** As the terminal FCF growth rate increases, the implied share price also rises, across all levels of the discount rate. This increase is more pronounced at lower WACC levels, underscoring the combined effect of optimistic growth expectations and lower cost of capital. For instance, at a 6.5% WACC, the implied share price jumps from $25.63 (at a 0.5% FCF growth rate) to an impressive $80.94 (at a 4.0% FCF growth rate). This substantial range in valuation highlights the sensitivity of the DCF model to growth expectations, particularly in a low-interest-rate environment. It suggests that if Ford can sustain higher FCF growth rates, the market may significantly undervalue its stock at the current price of $10.05, especially under favorable cost of capital conditions.

**Sensitivity to Terminal EBITDA Multiple:** The trend indicates that higher EBITDA multiples lead to higher implied share values. This variation implies that market expectations about Ford's profitability and its positioning compared to peers significantly influence its valuation. A higher EBITDA multiple could imply that the market expects Ford to have better future profitability.

**(3) Conclusion:**

The DCF analysis for Ford Motor Company suggests its stock is potentially undervalued, with intrinsic values of $12.95 or $26.26 per share, significantly above the current market price of $10.05. This variation underscores the impact of growth expectations and market perceptions on valuation.

**5. Relative Valuation (Multiples Model)**

P/E and EPS Forecast Table

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Ford FY24 Estimates: Stock Price** | | | | |
| **Current Price:** | $10.05 | **Estimated EPS** | | |
|  | | **Low** | **Average** | **High** |
| **P/E Estimates** | | $1.07 | $1.75 | $2.40 |
| **Pessimistic** | 5.7 | $6.10 | $9.96 | $13.68 |
| **Zero Growth** | 6.95 | $7.44 | $12.14 | $16.68 |
| **Expected** | 7.98 | $8.54 | $13.95 | $19.16 |
| **Optimistic** | 8.2 | $8.77 | $14.33 | $19.68 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Ford FY24 Estimates: Stock Returns  (% Return from Current Price)** | | | | |
| **Current Price:** | $10.05 | **Estimated EPS** | | |
|  | | **Low** | **Average** | **High** |
| **P/E Estimates** | | $1.07 | $1.75 | $2.40 |
| **Pessimistic** | 5.7 | -39.31% | -0.92% | 36.12% |
| **Zero Growth** | 6.95 | -26.00% | 20.81% | 65.97% |
| **Expected** | 7.98 | -14.99% | 38.80% | 90.68% |
| **Optimistic** | 8.2 | -12.70% | 42.54% | 95.82% |

Price to Sales Multiple Valuation





**6. ESG Risks**

Any company operating in the automotive industry understands the importance of environmental, social, and governance risks. As a global corporation with a significant environmental impact, Ford Motor Company is vulnerable to several ESG risks likely to impact its reputation, financial performance, and long-term sustainability. The company's most notable risk is climate change and how the automotive industry impacts climate change due to carbon emissions. As the company continues to increase the production and sales of its automobiles and SUVs, it faces the challenge of reducing its carbon footprint and transitioning to sustainable alternatives, such as electric vehicles. Suppose Ford Motor Company fails to address this risk effectively. In that case, it will likely experience reputational damage and face regulatory penalties from the global structure emission standards imposed by governments.

Ford Motor Company also faces governance risks. Any company must maintain transparent and effective corporate governance practices, which are essential for maintaining investor trust and guaranteeing that decisions are made ethically. The company should demonstrate strong accountability to shareholders, independence, and board oversight, as this will guarantee transparency. The company should also ensure that it maneuvers the technological advancements and shifts in the automotive industry, helping grant it a governance structure permitting strategic decision-making and effective risk management. The company is also likely to face social risks, especially in relation to human rights and labor practices. The company has experienced criticism regarding how it treats its workers, evidenced by allegations of harassment, discrimination, and unsafe working conditions. Therefore, Ford must implement various initiatives and policies to address these issues and focus on work safety.

**7. Recommendation**

Based on the analysis of Ford Motor Company's financial and ESG performance, investors should consider Ford as a buy because of the company's resilience and its likelihood of competing in the U.S. with other existing and future SUV models. While the company has experienced notable problems in the past, such as financial burdens and supply chain disruptions, it has shown remarkable resilience by adapting to the shifting market conditions. Its resilience makes it a worthy competitor in the U.S. market with future electric vehicles (E.V.) and SUV models. Ford has identified the rising need for electronic vehicles and used this gap to strategically position itself to leverage innovative capabilities and economies of scale by bringing new and affordable electronic vehicle models into the market. This has enabled the capture of a significant share of the rapidly growing electronic vehicle market, more so in the U.S., where E.V.s have gained publicity.

Ford’s share price is substantially undervalued as the potential for undervaluation, with a likely undervaluation of 2.9 USD. This indicates that the automotive market has yet to fully recognize the company's intrinsic value, offering investors a chance to benefit from probable future price appreciation. To bolster the above point, projections from the discounted cash flow (DCF) model illustrate that there is likely a robust future performance and profitability for Ford Motors. While the company faces challenges from tech companies that are new to the market, supply chain risks and increases in interest rates, the company's commitment to sustainability and innovation, strong brand recognition, and economies of scale have ensured that it can overcome these challenges and continue growing in the long term. Considering the anticipated upward trajectory of Ford's share price in the next year, coupled with its ability to compete in the electronic vehicle market and its undervalued status, the company offers a promising opportunity for growth. Therefore, investors must take their time to monitor Ford’s progress, performance, industry dynamics, and likely risks, as Ford is a compelling investment option.