

INITIAL COVERAGE

Ford Motor Company

Clarity needed over Ford's new diet plan

WHAT'S CHANGED

Lack of transparency around long term plans. The second-largest U.S. automaker turned in below-estimate Q4 earnings. Although revenue increased YoY by 3.3% operating margin fell YoY by 2%. The Q4 conference call did not provide substantive details of the "Fitness Redesign" plans. Instead, the conference highlighted rising steel and aluminum prices (costs of sales increased by \$ 7bn), expensive recall in the North America segment more than offset its gains from sales. We expect to see the continuous pressure from rising commodity prices due to strong commodity demand in the Asia-Pacific, particularly China. In addition to cost headwinds, Ford expects further increases in costs tied with D&A and Engineering. The company expects to invest \$11bn to improve mobility and electrify vehicles by 2022.

Ford's financials are expected to turn around beyond 2020 through combinations of cost cuts, mobility improvement, product-line shifts that will reduce manufacturing complexity, and kill off struggling car models. In addition, new models of classic cars as well as electrified vehicles will boost sales.

IMPLICATIONS

Given pricing pressures in China, continuous increase in commodity and insurance prices, we forecast Ford's EPS to be \$1.39. We expect Ford's operations in the largest new-car market, China, to slip in 2018, due to pricing pressure from fast-improving domestic Chinese automakers. However, as Ford's China growth plan takes effect we expect this to turn around beyond 2019. We forecast Ford's revenues to fall increase in 2018 by \$3.3bn. As Jim Hackett and his team progresses through 2018, we expect to see the results of Ford's new fitness plan. We forecast an increase in total costs by 2.4% compared to 5.5% increase from 2016 to 2017. However, we expect these numbers to improve further as Ford provides transparency around the magnitude, timing, or character of cost savings. For now, our recommendation for Ford is sell.

VALUATION

Price Target \$10.02

Our 12-month price target is \$10.02, based on our base case DCF. Our assumptions are a WACC of 9.61% and a EV/EBITDA multiple of 4.49x.

KEY RISKS

- 1) Failure to restructure Ford's costs and manufacturing complexity
- 2) Lower-than-anticipated acceptance of Ford's new or existing products and services
- 3) Fluctuations in currency exchange rates, commodity prices, and interest rates
- 4) Continued price competition from Chinese manufacturers
- 5) Recall risks on new Ranger, Edge ST, and Mustang models

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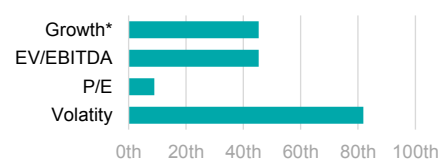
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KEY DATA

F US, F.N

Recommendation	Sell
12-month price target (\$)	10.02
Upside/downside (%)	(6.85)
Price as of January 31 (\$)	10.76
Market cap (\$ mn.)	42,771.00
Enterprise value (\$ mn.)	98,187.20

INVESTMENT PROFILE



Percentile rank within industrial peer group.
*Calculated as 12-month EPS estimate over current EPS

FINANCIALS

\$ MN.	2017A	2018F	2019F	2020F
Revenue	156,776	160,382	162,577	165,705
% Growth	3.28	2.30	1.37	1.92
EPS (\$)	1.91	1.40	2.22	2.56
% Growth	65.40	(26.97)	58.97	15.52
EBIT	4,813	4,745	9,689	11,483
% Margin	3.07	2.96	5.96	6.93
EV/EBITDA (x)	5.62	6.36	4.74	4.33
P/E (x)	6.20	8.13	4.47	3.87
CROCI (%)	50.10	40.53	48.08	46.41
CROCI/WACC	5.22	4.22	5.01	4.83

PRICE CHART



PRICE PERFORMANCE

%	3M	6M	12M
Absolute	(0.13)	0.99	0.97
Relative to S&P 500 Index	(3.17)	22.18	28.45

Sources: Company data, Bloomberg; Thomson Eikon

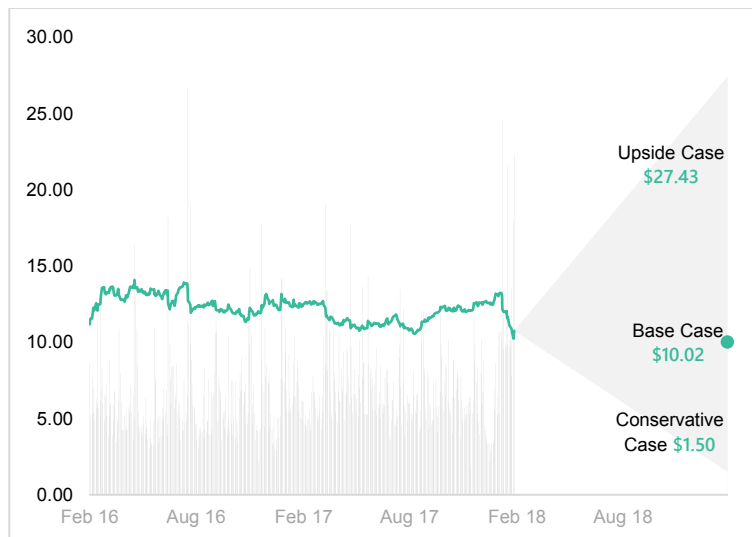
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FORD MOTOR COMPANY

Valuation Outlook

We updated our 2018E base case price target to \$10.02

PRICE TARGET



UPSIDE CASE \$27.43 (+155%)

2018E EV/EBITDA multiple of 5.7x and EPS of \$2.83

Truck fever. EV Juggernaut. Strong demand for SUVs and trucks and Ford's new models expect to bring back former Ford customers and attract new customers. With strong global demand for EV and increasing emission regulations adopted by major markets we expect Ford's new EV models to increase total revenue. We forecast total revenue to rise by \$4bn.

BASE CASE \$10.02 (-7%)

2018E EV/EBITDA multiple of 4.5x and EPS of \$1.39

CONSERVATIVE CASE \$1.50 (-86%)

2018E EV/EBITDA multiple of 3.7x and EPS of \$0.67

Weight gain. Ford's failure to adapt successful transformational strategies will keep their costs high and significant commodity price pressure will increase total costs by \$6bn. Pricing pressure from china and failure to successfully implement china growth plan will limit growth in sales in the Asia-Pacific region.

WHY SELL

- / US auto cycle has peaked in 2016. It saw the first sales decline in 2017, slipping from 17.6 record sales to 17.2m. Further decline expected.
- / Heavy exposure to competition and currency in the Asia-Pacific region, particularly in China.
- / New entrants (TSLA, GOO) to the electric vehicle market.

POTENTIAL CATALYSTS

- / Greater popularity and demand for SUVs and Trucks in NA.
- / Successful introduction and acceptance of new models. Particularly the Ranger, Mustang, and electric vehicles.
- / Continuous building of partnerships with and acquisitions of Silicon Valley tech companies.
- / Strong EV sales. EV sales hit 1m units in 2017. The momentum is expected to carry forward.

POTENTIAL RISKS

- / Poor housing market outlook. Auto sales are highly correlated to US housing sales. Housing sales are expected to cool down due to rising costs and tax-law changes.
- / Failure to implement growth strategies in Asia-Pacific and losing market share to local producers.
- / Increase in recall numbers and costs.

FORD MOTOR COMPANY

Model

Upside case: 5.43x terminal EV/EBITDA multiple

\$ mn. except per share	Actual				Projected (Upside Case)				DCF Terminal Year 6.34x EV/EBITDA
	2015A	2016A	2017A	2018P	2019P	2020P	2021P	2022P	
Fiscal Year Ending	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	
Revenue	149,558	151,800	156,776	161,185	164,944	169,701	176,965	185,441	185,441
% Growth	n/a	1.50%	3.28%	2.81%	2.33%	2.88%	4.28%	4.79%	
EBITDA	18,973	19,597	17,480	22,048	27,735	30,155	31,813	33,559	33,559
% Growth	n/a	3.29%	-10.80%	26.13%	25.79%	8.73%	5.50%	5.49%	
EBIT	8,345	7,695	4,813	11,322	16,590	18,773	19,877	21,154	
% Margin	5.58%	5.07%	3.07%	7.02%	10.06%	11.06%	11.23%	11.41%	
Effective Tax Rate	28.57%	31.90%	6.38%	14.00%	24.00%	24.00%	24.00%	24.00%	
EBIAT (NOPAT)	5,960	5,240	4,506	9,737	12,608	14,268	15,107	16,077	
Depreciation and amortization				8,697	8,900	9,156	9,548	10,005	
Stock based compensation				243	240	244	254	266	
Accounts receivable				-1733	-1469	-1861	-2874	-3354	
Inventory				60	149	-158	-438	-511	
Accounts payable				-434	-333	352	979	1,142	
Accrued expenses & def revenues				-2100	-508	-643	-982	-1146	
Other current assets (inc. non-trade receivables)				0	0	0	0	0	
Deferred tax assets (DTAs)				0	0	0	0	0	
Other assets				0	0	0	0	0	
Unlevered CFO				14,469	19,586	21,358	21,594	22,480	
Less: Capital expenditures				-7,247	-7,416	-7,630	-7,957	-8,338	
Less: Purchases of intangible assets				0	0	0	0	0	
Unlevered FCF				7,222	12,170	13,728	13,638	14,142	190,583
% growth					68.52%	12.80%	-0.66%	3.70%	
Discount factor				90%	190%	290%	390%	490%	490%
Midperiod adjustment factor				0.90	1	1	1	1	
Present value of Unlevered FCF				6,647	10,218	10,515	9,528	9,013	121,469

VALUATION

Enterprise value	167,391
Less: Net debt	(59,857)
Less: Trapped cash	1,510
Equity value	109,043
Equity value per share	\$27.43
Market premium / (discount)	154.9%
Implied TV perpetual growth rate	-2.4%

ASSUMPTIONS

Terminal year exit EBITDA multiple	5.68x
Weighted average cost of capital	9.62%
Risk-free rate	2.8%
Beta	1.64
Effective tax rate	24.0%

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Model

Base case: 4.36x terminal EV/EBITDA multiple

\$ mn. except per share	Actual				Projected (Upside Case)				DCF Terminal Year 5.47x EV/EBITDA
	2015A	2016A	2017A	2018P	2019P	2020P	2021P	2022P	
Fiscal Year Ending	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	
Revenue	149,558	151,800	156,776	160,382	162,577	165,705	171,973	179,283	179,283
% Growth	n/a	1.50%	3.28%	2.30%	1.37%	1.92%	3.78%	4.25%	
EBITDA	18,973	19,597	17,480	15,436	20,713	22,654	23,873	25,155	25,155
% Growth	n/a	3.29%	-10.80%	-11.69%	34.18%	9.37%	5.38%	5.37%	
EBIT	8,345	7,695	4,813	4,745	9,689	11,483	12,203	13,079	
% Margin	5.58%	5.07%	3.07%	2.96%	5.96%	6.93%	7.10%	7.30%	
Effective Tax Rate	28.57%	31.90%	6.38%	15.24%	25.00%	25.00%	25.00%	25.00%	
EBIAT (NOPAT)	5,960	5,240	4,506	4,022	7,267	8,612	9,152	9,810	
Depreciation and amortization				8,653	8,772	8,941	9,279	9,673	
Stock based compensation				252	247	250	259	269	
Accounts receivable				-1413	-839	-1205	-2476	-2893	
Inventory				-140	239	-66	-388	-452	
Accounts payable				14	-535	148	867	1,010	
Accrued expenses & def revenues				-1992	-297	-423	-848	-988	
Other current assets (inc. non-trade receivables)				0	0	0	0	0	
Deferred tax assets (DTAs)				0	0	0	0	0	
Other assets				0	0	0	0	0	
Unlevered CFO				9,396	14,855	16,256	15,845	16,429	
Less: Capital expenditures				-7,211	-7,310	-7,450	-7,732	-8,061	
Less: Purchases of intangible assets				0	0	0	0	0	
Unlevered FCF				2,185	7,545	8,805	8,113	8,368	113,015
% growth					245.32%	16.71%	-7.86%	3.14%	
Discount factor				90%	190%	290%	390%	490%	490%
Midperiod adjustment factor				0.90	1	1	1	1	
Present value of Unlevered FCF				2,011	6,336	6,747	5,672	5,337	72,083
VALUATION									
Enterprise value				98,187					
Less: Net debt				(59,857)					
Less: Trapped cash				1,510					
Equity value				39,840					
Equity value per share				\$10.02					
Market premium / (discount)				(6.9%)					
Implied TV perpetual growth rate				-4.9%					
ASSUMPTIONS									
Terminal year exit EBITDA multiple						4.49x			
Weighted average cost of capital						9.61%			
Risk-free rate						2.8%			
Beta						1.64			
Effective tax rate						25.0%			

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Model

Conservative case: 4.47x terminal EV/EBITDA multiple

\$ mn. except per share	Actual				Projected (Upside Case)				DCF Terminal Year 4.47x EV/EBITDA
	2015A	2016A	2017A	2018P	2019P	2020P	2021P	2022P	
Fiscal Year Ending	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	
Revenue	149,558	151,800	156,776	159,595	161,425	163,361	168,356	173,825	173,825
% Growth	n/a	1.50%	3.28%	1.80%	1.15%	1.20%	3.06%	3.25%	
EBITDA	18,973	19,597	17,480	12,125	17,644	18,107	20,736	19,946	19,946
% Growth	n/a	3.29%	-10.80%	-30.64%	45.52%	2.62%	14.52%	-3.81%	
EBIT	8,345	7,695	4,813	1,472	6,679	7,058	9,262	8,167	
% Margin	5.58%	5.07%	3.07%	0.92%	4.14%	4.32%	5.50%	4.70%	
Effective Tax Rate	28.57%	31.90%	6.38%	18.00%	27.00%	27.00%	27.00%	27.00%	
EBIAT (NOPAT)	5,960	5,240	4,506	1,207	4,875	5,153	6,761	5,962	
Depreciation and amortization				8,611	8,710	8,814	9,084	9,379	
Stock based compensation				256	251	253	258	268	
Accounts receivable				-1098	-695	-732	-1969	-2158	
Inventory				-213	259	-123	-185	-478	
Accounts payable				179	-579	274	413	1,070	
Accrued expenses & def revenues				-1885	-247	-262	-675	-740	
Other current assets (inc. non-trade receivables)				0	0	0	0	0	
Deferred tax assets (DTAs)				0	0	0	0	0	
Other assets				0	0	0	0	0	
Unlevered CFO				7,055	12,573	13,378	13,686	13,302	
Less: Capital expenditures				-7,176	-7,258	-7,345	-7,570	-7,816	
Less: Purchases of intangible assets				0	0	0	0	0	
Unlevered FCF				-120	5,315	6,033	6,116	5,486	74,419
% growth					-4515%	13.51%	1.38%	-10.30%	
Discount factor				90%	190%	290%	390%	490%	490%
Midperiod adjustment factor				0.90	1	1	1	1	
Present value of Unlevered FCF				-111	4,466	4,627	4,281	3,504	47,535
VALUATION									
Enterprise value	64,303				3.73x				
Less: Net debt	(59,857)				Weighted average cost of capital				9.57%
Less: Trapped cash	1,510				Risk-free rate				2.8%
Equity value	5,955				Beta				1.64
Equity value per share	\$1.50				Effective tax rate				27.0%
Market premium / (discount)	(86.1%)								
Implied TV perpetual growth rate	-7.7%								
ASSUMPTIONS									