

Ford motor company stoc report sample

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Abstract

In order to make a sound investment, it is important to evaluate the available opportunities and come out with a proper investment decision based on the past, present and future market trends. This calls for thorough analysis of both the industry and the individual investment in order to ascertain its viability and profitability. This paper focuses on Ford Motor Company stock, which for quite some time, had been left for dead. The paper gives a brief background of the problems that the company was faced with, which resulted in its poor performance. It further highlights how the company turned around from an almost collapsed status to profitability. The main aim of this work is to determine the soundness in investing in Ford Motor Company stock. To achieve this, the stock, the dividends, the balance sheet of the company, and the risks, have been analyzed. The analysis predicts a better future for the company and the investors. The balance sheet, however, shows some weakness as the debt is substantially large compared to the equity. Based on all the evidence, it's found that investing in Ford Motor Company stock is a potentially good investment, especially in the long-term.

Stock performance highly depends on the company's products and services. If the company has products that are desired in the market, the stocks are most likely to perform better and the chances of share prices stagnating or falling are unlikely. Investing in such a company is the best option for investors since the returns are expected to be great. A company with poorly performing stocks, however, does not attract investors. This work is focused

on Ford Motor Company (NYSE: F) stock which, in 2005, was just about to collapse; thanks to the new CEO Alan Mulally, and whether it is sound to invest in the stock.

Background

Ford Motor Company is an American company that manufactures automobiles. During the financial collapse, the company avoided bankruptcy and has currently resumed its dividends payment (Dividend Monk, 2012). According to the vehicle sales in 2010, the company was ranked fifth in the world and second in U. S. The company's problems started way back in early 1990s when the company's vehicles caused 150 deaths and hundreds of injuries in USA alone. Poor management decisions of the then CEO Jacques Nasser coupled with poor communications strategies resulted in \$11. 78 drop in share price per share and the company's reputation was highly damaged. Introduction of a new CEO did not change much and the company's market share was gradually overtaken by the rivals. In 2005 and 2006, the company's market credit rating was highly downgraded and the side effect was an increase in borrowing costs (Seeking Alpha, 2012). This weakened the company's financial stability even further. More so, William Clay Ford Jr., the then CEO made very poor decisions for the company. One of the poorest decisions was to kill the company's Taurus model which was previously one of the top selling cars in America.

Introduction of Alan Mulally as the new CEO in 2006 turned the company around from an almost collapsed status to where it is now. Mulally, an engineer and experienced executive from Boeing, used his engineering

management skills and experience to reorganize Ford. Mulally reinstated the Taurus model and ensured that the management's main focus was the Ford branded vehicles. The CEO argued that the company diverted into numerous models and makes to an extent that it was losing focus on the Ford branded vehicles. He sold off the company's Land Rover, Aston Martin, Jaguar and Volvo (Seeking Alpha, 2012). In the attempt to save the company's balance sheet, Mulally mortgaged every asset of the company, arguing that funds would be available to protect the company from recession. Financial misery occurred in the following years and the rest is history.

The CEO continued realigning the visions of the company, repairing the balance sheet, and revitalizing the company's Ford and Lincoln brands. Mulally believes that the company must surely become what it once was: a truly American company. It must therefore prove to investors that it has returned from the grave. After witnessing the company's great profits, the CEO announced that the dividends would be paid once again to the investors after a break of five years, though at half the original amount (Seeking Alpha, 2012).

Currently, the dividend yield is 1.61% and the strength of the balance sheet is improving. The turnaround overseen by Alan Mulally made the company realize a net profit of \$20.2 billion in 2011. The company's results for 2011 reported an increase of 6% in the pre tax operating profit to \$8.8 billion and revenue increase of 13% to 136.3 billion.

Sales and Profit Description

The Company managed to sell approximately 5.3 million vehicles in 2010. Automotive operations contributed to about 92% of the total revenue while financial services contributed to 8%. The profits earned from automotive operations amounted to 58% and financial services contributed to 42% profits. The company's financial services are given in terms of vehicle loans. Therefore, when vehicle sale is made via this service, the company receives profit and an additional interest from the loan.

A keen analysis of the stock predicts a better future for the company and the investors. The recovery of the company's stock has been experienced since 2009, though slow, as the company continues to properly manage its operations and limit financial risks. In early 2009, the company's stock reached a record low of less than \$2 per share. However, this has been slowly improving. In 2011 the stock was traded for as high as \$16 per share, though some drops were experienced before the stock could recover in the third quarter of the year. Currently the stock is traded at \$12.70 per share (figure 3), with gradual increase depicting the great opportunity of further increase as indicated by the company's positive financial results.

The positive driving factors behind the stock investment are very attractive price to earnings (P/E) ratio of 6.5907 in the last year, with estimation of highly attractive P/E ratio of 8.4687 in 2012 (table 5). Ford Motor Company market capitalization is \$48 billion (table 4) compared to \$40 billion of General Motors, its closest competitor in U. S. The company currently targets a stock price of \$15.87. This gives room for considerable growth due to

company's greater success. The company's opportunities for growth in the future far much outweigh the threats, thus buying the company's stock now is considered as a sound investment in the long run.

Analysis of the Dividends

Currently, the company's dividend yield is 1.61% and the payout ratio is between 10% and 15%. For this analysis, I find it irrelevant presenting the dividend table due to the fact that the company only started paying the dividends recently after its termination in 2006. From management's perspective, dividend payment provides stock price floor bringing the notion that the company is ahead of the competitors and is there to stay. The CEO, when reinstating the dividend, stated that the company plans to pay the dividend through the economic cycles, whether bad or otherwise.

According to Mulally, there are possibilities that the dividends might be increased and the company might consider repurchasing the outstanding shares (buybacks) as dictated by various variables. The prime concern, though, is investing in the company's products (Dividend Monk, 2012).

The company's history of dividends is erratic. For the most part of the company's existence, it has paid the dividends, though without regular increases annually and with occasional discontinuation. This trend is the worst for investors, who look forward to generating income, besides, the ultimate aim of investing is to earn income.

Analysis of the Balance Sheet

The company's balance sheet is generally weak. The total reported debt is about \$95 billion which is outstandingly large and can be misinterpreted. The truth however, is that the debt is not used for the purposes of operation, rather is part of the financial operations. As stated earlier, the company manufactures and sells vehicles, and at the same time offers financial services. So, the debt herein is used for the financial services and not the operating purposes. Instead of letting the buyer takes loan from outside, the company provides this loan. Therefore, just like any other financial entity, Ford borrows money at a lower interest rate and lends it to the vehicle buyers at a higher interest rate. Investors should therefore not view the company as one that relies on the debt in order to keep operating.

The automotive debt of the company is about \$13 billion, a remarkable decrease from about \$30 billion and over where the company's debt was in the past few years. The company avoided bankruptcy or direct bailout through taking substantial debt. A debt of \$13 billion, as compared to shareholder equity of \$6 billion, is large, even though the company is solvent.

Analysis of the Risks

The company's risks are generally large. The automotive industry is generally cyclical. Besides, the company's labor costs - such as salary, pensions, and health care - are very high. The company's financial services are heavily influenced by macro-economic factors. The profit from these

services is subjected to changing interest rates, commodity price risks, currency risks, among others.

The company has not built its brand image. This poses the greatest barrier in the company's efforts to explore markets. The company needs to produce desired vehicles in terms of safety, efficiency, and comfort, and this requires substantial capital investment. In addition, customers would not wish to make mistakes when purchasing cars. Cars are not clothes you know and making that five-digit purchase with a company whose trust you can't establish is the greatest risk for consumers. For cars, customers prefer to purchase a brand that they have had, and have been happy with for years.

Ford Motor Company, as a result of decades of poor performance and poor management, remains defenseless. The company's inefficient manufacturing techniques, coupled with the substandard vehicles, have eroded its image. What the company needs now, more than ever before, in my opinion, is a good image and brand loyalty. This is achievable.

Finally, the greatest risk that the company is most likely to be faced with is management vacuum. The company heavily relies on the leadership of the current CEO who is old enough (66 years) and might retire soon, though he hasn't announced any plans to retire. Finding his perfect replacement may not be easy.

It should, however, be noted that the company's F-150 has greatly conquered the American market and has retained its position as the best selling vehicle for decades.

The Future of the Company

In a recent interview by Seeking Alpha, the CEO Mulally revealed the following transformation strategies to steer the company to greater profitability. The company would increase its global auto sales by 2016 to 8 million vehicles from the current 5.3 million vehicles. The operating margins would also be increased to 10% from the current 6%. In addition, Ford would put much focus on the simplicity and commonality on its products, and allow the production to match the demand, instead of the current fixed volume production. This would call for more flexibility during demand booms.

Conclusion

The rewards from an investment directly depend on the degree of its risks. A high risk investment is highly rewarding. Based on this, I believe that Ford Motor Company is undervalued. The global economic situation is uncertain, with slow improvements in the American economy as the European economy still experiences some problems. With the company's cyclical operations, achieving its set objectives may not be easy, though possible.

The recent growth of Ford Motor Company is significant. The company looks forward to a brighter future as it focuses on environmental friendly and energy efficient vehicles. The company's closest competitor in US, the General Motor Company, currently trades at \$25 per share, almost double the value of Ford's share price.

Going by the current valuation, the company's shares trade at around \$12.7 (Figure 3) and both the price-to-earnings ratio and price-to-free cash flow ratio are low. This is an indication that the company's stock has factored in

considerable margin of safety. By all evidence; the stock is undervalued. This is a great opportunity for investors. Even if there were no cash flow growth, the stock still remains undervalued. Buying Ford stocks now is a great investment, especially in the long-term. This investment can only be poor if there are substantial and sustained declines in free-cash-flow in addition to negative cyclical declines. The current stock price also seems to have accounted for chances of reduced profitability, especially from the finance section, and the possibilities of losses especially from another economic recession. In simple terms, the stock price clearly shows that the business is moving towards the peak and no longer in the trough.

Based on all the evidence discussed herein, the good management of Alan Mulally, the company's transformation and streamlining strategies and efforts, in addition to the macro-economic uncertainties and problems, investing in Ford Motor Company stock is a potentially good investment, especially in the long-term. Such an investment comes with unique opportunities resulting from the numerous positive aspects described above.

Recommendation

The company should consider paying growing dividends annually to prove its reliability even through economic recessions. This shows that the company's business model is sound. It also shows that there is a long-term balance between the operating costs and the sales; and, there are strong and sustained cash flows. Investing income can greatly grow if the company's dividends grow annually. Such companies highly attract investors.

The company should strive at bringing the debt down. In addition, it should invest in high quality, energy efficient, and technologically up-to-date vehicles.

The new approach according to the company's CEO, I believe, is workable and the results immense. In fact, the company ought to have implemented it long ago. With more consolidation of the brands and models, streamlined manufacturing, and the emphasis on small cars, car sales can substantially increase. This is good news to the investors. For the company to realize the expected sales increase, it needs to diversify more in other markets like Africa and Asia Pacific, and customize its production based on the market demand. I fully recommend Ford Motor Company stock as a long-term investment.

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Appendix 1: Tables

Source: Dividend Monk, (2012). Ford Revenue. Retrieved from <http://dividendmonk.com/ford-motor-company-f-stock-worth-the-risk/>

Source: Dividend Monk, (2012). Ford Earnings. Retrieved from <http://dividendmonk.com/ford-motor-company-f-stock-worth-the-risk/>

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Source: Bloomberg, (2012). Key Statistics for Ford. Retrieved from <http://www.bloomberg.com/quote/F:US/key-statistics>)

Appendix 2: Figures

Figure 1: Ford Revenue

Source: Dividend Monk, (2012). Ford Revenue. Retrieved from <http://dividendmonk.com/ford-motor-company-f-stock-worth-the-risk/>

Figure 2: Ford Earnings per Share

Source: Dividend Monk (2012). Ford Earnings per Share. Retrieved from <http://dividendmonk.com/ford-motor-company-f-stock-worth-the-risk/>

Figure 3: Stock Chart

Source: Bloomberg (2012). Ford 1 Year Stock Chart. Retrieved from <http://www.bloomberg.com/quote/F:US>

Figure 4: Revenue Chart

Source: Bloomberg, (2012). Ford Revenue Chart. Retrieved from <http://www.bloomberg.com/quote/F:US>

Figure 5: Balance Sheet

Source: Bloomberg, (2012). Ford Balance Sheet. Retrieved from <http://www.bloomberg.com/quote/F:US>

Figure 6: Cash Flow

Source: Bloomberg, (2012). Ford Cash Flow. Retrieved from <http://www.bloomberg.com/quote/F:US>