Should You Buy General Motors Company Before its Earnings Report?

Description

From its high of U$39, **General Motors Company** (TSX:GMM.U)(NYSE:GM) has dropped to U$31, a decline of 21%. The company is reporting its second-quarter earnings results on Thursday. Should you buy the automaker today? First, let's take a look at its business.

The business

GM has 11 brands: Chevrolet, Buick, GMC, Cadillac, Opel, Vauxhall, Holden, Autobaojun, Wuling, and Faw Jiefang. Furthermore, in 2014 it was a market leader in the United States with about 18% of market share.

Valuation

Currently, at under U$31 per share GM is priced at a price-to-earnings ratio (P/E) of eight. That's very cheap for a company of its size, having a market cap of close to U$49 billion.

Since GM was reborn after its bankruptcy in 2009, it has normally traded at a P/E of 10.8 with the potential of hitting a P/E of 12 if demand picks up. There may be signs of a growing demand as GM earned its highest retail market share since 2011 last month.

As a result, its forward P/E sits at 5.8, which is very cheap. If GM shares get back to its normal P/E of 10.8, it should trade at U$56 in a couple years. That equates to an annualized return of roughly 38%, including the dividend.

Sales growth and earnings growth

From 2011 to 2014 GM's sales hardly grew. However, its earnings could grow at a double-digit rate for the next two years partly due to low oil prices and the growing number of aging cars. For example, at the end of 2014 the average age of a United States car is over 11 years old.

Year	Sales Growth
2011	

2012 1.3%
2013 2.1%
2014 0.3%

Dividend safety

GM started paying a dividend again in the first quarter of 2014. The quarterly dividend came to $0.30 per share, annualized at $1.20 per share. In the second quarter of 2015, GM hiked the dividend by 20% to $0.36 per share.

Since that hike, its shares have retreated over 11% and are now at a compelling yield of 4.7%. GM's dividend looks safe with a payout ratio of 56%. Compare that with **Ford's** yield of 4.1% and payout ratio of 68%.

Follow the smart money

Warren Buffett and George Soros both bought more shares of GM in the last quarter of 2014. Buffett's **Berkshire Hathaway** increased its holdings by one million shares, while Soros Fund Management raised its position by roughly 729,000 shares. Today the shares are trading at or below the levels these smart money managers bought more shares at.

In conclusion

I'm not encouraging the timing of the market, but around earnings report time the market can get especially emotional about a company. GM could go up or down 5-7% in one day.

Because General Motors looks very cheap already, investors looking to buy a value company could buy half a position now and finish the position after the earnings report. That is, if you plan to buy $5,000 in GM, you could buy $2,500 today and buy more after the earnings report.

If the price goes up, it means the company is doing better than expected. If not, then you might be able to spend the same $2,500 and buy more shares at a lower price.

If you decide GM is a good fit for your portfolio, you should buy shares on the New York Stock Exchange because it's much more liquid there than it is on the Toronto Stock Exchange.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:GM (General Motors Company)

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