
From: Richard Kahn [REDACTED]
Sent: Tuesday, February 7, 2017 2:43 PM
To: jeffrey E.
Subject: Fwd: General Motors Company: 4Q16 Sets a Strong Base for Structural Change: Reiterate GM as Top Pick

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Begin forwarded message:

From: Morgan Stanley [REDACTED]
Subject: General Motors Company: 4Q16 Sets a Strong Base for Structural Change: Reiterate GM as Top Pick
Date: February 7, 2017 at 9:08:01 AM EST
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General Motors Company: 4Q16 Sets a Strong Base for Structural Change: Reiterate =M as Top Pick

Adam Jonas, CFA – Morgan Stanley

February 7, 2017 2:06 PM =MT

GM posted an 18% beat vs. our Adj. EBIT ests, driven by NA and Europe. Other regions in line. GM reiterated its strong 2017 outlook including \$6bn auto FCF (we fcst \$7bn auto FCF). We see GM in position to surprise the market on FCF, the pace/scope of structural change and cash return.

4 key thoughts on the 4Q result: 1. The 2016 EBIT and EPS give us improved confidence in GM's ability to deliver the top end of the range of its 2017 guidance. We already had expected GM to post \$6.32 =f EPS in 2017. This was before the 18% 4Q Adj. EBIT beat and nearly 20 =ents of EPS beat in 4Q. GM forecasts \$6.00 to \$6.50 of EPS in 2017. =onsensus sits at \$6.05. We think consensus needs to come up.2. NA EBIT =eat us significantly. Coming in at \$2.6bn vs. our \$2.3bn forecast. =ositive contributions from Volume and Price more than offset higher =eadwinds from Mix (temporary) and Cost. NA 4Q margin of 8.4% was more =han 100bps above our expectation for the quarter. 3. China missed our =xpectations modestly in the quarter. GM China equity income was =elatively flat YoY at \$0.5bn vs. our forecast of \$0.6bn in the quarter. =his despite wholesale deliveries from the China JVs coming in at 1,261 =illion units vs. our estimate of 1,201 million units. 4. No =ignificant mandatory pension contributions planned for next 5 years. =4% upside to our \$42 target. GM has 63% upside to our \$60 bull case. =ur bull case is supported by potential strategic moves to seed and =eparate its auto tech ventures and a repositioning of Cadillac as a =captive Tesla' and US SAAR potentially supported by accelerated =eplacement demand to purchase 'life saving' cars, potentially driven by =olicy intervention. The bull case is also driven by an assumption of =ricing and mix declining more slowly than expected, in part due to a =ontinuation of interest in the company's most profitable =egments (pickups and full-size SUVs) where we believe GM generates =argin on par with or even in excess of Ferrari.

This =ert is sent from:

=ndrew Atlas, =a href="

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