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**From:** Richard Kahn [REDACTED]  
**Sent:** Tuesday, February 7, 2017 2:40 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:

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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. =ther 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 =he market on FCF, the pace/scope of structural change and cash =eturn.

4 key thoughts on the 4Q result: 1. The 2016 EBIT and EPS give us =mproved confidence in GM's ability to deliver the top end of =he 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="mailto:[REDACTED]" =lass="">[REDACTED]

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