

Forget Tesla. Here's Why Ford Motor May Be the Best Auto Stock

With the electric vehicle and autonomous vehicle markets forecast to reach \$1.5 trillion, Ford is well-positioned to capture a significant slice of the global market.

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After 20 years of going nowhere fast, Ford Motor (**NYSE:F**) stock appears to be revving back up. While it remains well off its split-adjusted high of \$31.42 from April 2001 it has moved higher in eight of the last 10 months amid a brighter outlook for the **old-school automaker**.

With the advent of electric vehicles upon us and a **boisterous CEO** in charge, Tesla understandably garners much of the market's attention. But in terms of which stock price will likely be first to double from here, Ford may have the inside track.

How Did Ford Stock Perform in 2020?

Ford is well into a restructuring plan that began in 2018. It is designed to put the company's woeful financial performance in reverse. The multifaceted plan involves reinventing its automotive operations, creating new "must-have" vehicles, and modernizing across the business.

COVID-19 put a wrench in this transformation as new vehicle

sales fell sharply industrywide. Ford's revenue declined 18.5% to \$127 billion last year and **earnings per share (EPS) of \$0.41 were dramatically lower** than the \$1.19 recorded in 2019. Much of the loss was driven by a \$1.3 billion shortfall in the Mobility division which involves the company's recent foray into self-driving vehicles. A huge \$1.6 billion interest expense also weighed heavily and compounded the downturn in vehicle sales.

Looking ahead to Ford's 2021 performance, the outlook is much brighter. Management sees a major improvement in operating earnings from \$2.8 billion to a range of \$8 billion to \$9 billion. The turnaround is expected to be driven by not only the absence of COVID-19 shutdowns but improving industry trends in new vehicle sales. Car buyers' reception of Ford's latest launches—Bronco Sport, Mustang Mach-E, and the new F-150—will have a material impact on 2021 results.

To reach its profit goals, Ford will, however, have to navigate the current semiconductor shortages that are plaguing global automakers. This situation threatens to lower Ford's production volumes during at least the first half of the year.

Where is Ford Stock Headed in 2021?

It's not often that a company is forced to disrupt its own business to move forward but that's exactly the case with Ford. As part of its strategic plan, it has explicitly stated the need to "disrupt ourselves".

As more and more countries establish low or no carbon emission targets, the auto industry is clearly moving past its traditional roots. And in recognition of the fact that electric vehicles are the future, Ford is planning to manufacture its own EVs into high gear. It is aiming to not simply be a tagalong, but to lead the electrification revolution in the areas it is strongest—pickups, utilities, and commercial vehicles.

Last year Ford invested approximately \$7 billion in electrification in route to ramping its investment to roughly \$22 billion by 2025. Although Tesla, Nio, and **others have a noticeable head start in the electric car space**, Ford's biggest chance of success lies in the van and truck market. It was the first to announce plans to produce an all-electric van called E-Transit in addition to a plan to develop an all-electric version of its popular F-150 pickup truck.

Ford is also getting into the autonomous vehicle (AV) game to find a second major growth engine to complement its core gas and hybrid business. The company is also hoping the launch of new connected services sparks some growth. If it does, it would provide a nice annuity-like revenue stream that investors would find attractive and help offset some of the cyclicalities in the auto business.

Is it a Good Time to Buy Ford Stock?

So, while Ford is late to the EV and AV parties, they are better late than never. With the electric vehicle and autonomous vehicle markets forecast to reach \$800 billion and \$700 billion, respectively, by 2027 there remains plenty of opportunity for Ford to capture a significant slice of a combined \$1.5 trillion global market.

But while the road to growth is clear, Ford's financial picture remains murky. Of course, the company had to invest in these new growth areas to stay relevant in the rapidly evolving automotive industry—and that has entailed adding to its already hefty debt balance. At the end of 2020 it carried a \$24 billion debt burden that will need to be addressed over time.

And time will indeed be needed for Ford's core business to return to pre-pandemic levels not to mention for its investments in EV and AV to bear fruit. Investors that jump in now would be doing so with the understanding that the

restructuring still has a way to go. But taking that leap of faith here with the \$1.5 addressable market opportunity in mind may put the investor in the driver's seat to some substantial long-term capital appreciation if Ford stock continues to recover.

Will Ford or Tesla shares be the first to double from their present levels? In this David versus Goliath race, Ford's late start versus Tesla's atmospheric rise may actually earn it the checkered flag.

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