



Barron's Take

## Ford Stock Is Cheap With P/E of 6 and a 5% Yield

Ford is delivering excellent results but being unfairly punished by investors who think profit has peaked.

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• January 28, 2016

- Common sense dictates that when a company reports quarterly profit and revenue that beat expectations and promises higher profit in the coming year, the stock price should climb.
- But when it comes to Ford Motor (ticker: [F](#)), Wall Street is exceptionally hard to please.
- Early Thursday, Ford reported fourth-quarter profit of 58 cents per share, seven cents above estimates, as revenue rose 12% to \$40.3 billion. That closed the door on the 2015 calendar year with [Ford achieving record full-year results](#) and reaffirming earlier forecasts for higher profit in 2016.
- Yet Ford fell 2.2% to a recent \$11.59 amid lingering worries that U.S. new car sales have plateaued and Ford's earnings will falter and drag the stock lower. That makes Ford's low earnings multiple – now roughly six times expected 2016 earnings – hard to appreciate.

### Ford Motor Co.

F | NYSE



— US:F

Source: Dow Jones Market Data

- But with the stock down more than 21% over the past year, critics are underestimating Ford. U.S. auto sales may prove far more sustainable than critics expect, and foreign operations that once dragged on Ford's results are set to blossom into profit engines.
- Add a generous dividend yield, and Ford can generate big returns, **says John Petrides, portfolio manager with Point View Wealth Management.**
- "With Ford, it seems that the market is never satisfied," says Petrides. "You are getting a 5% yield on a company trading at around six times earnings. If the market rewards the stock with an eight multiple, which is closer to its historic average, that is a \$15.50 stock price, or a 35% upside. Tack on that 5% yield, and it is a 40% total return which is very attractive."
- The U.S. auto industry had its best year ever in 2015, with vehicle sales totaling 17.5 million, a 5.7% increase. Low interest rates and easy credit fueled sales while low gas prices pumped up demand for pickup trucks and SUVs, areas where Ford has many offerings.
- The launch of the new F-150 pickup [led Barron's to recommend Ford last year](#). Ford said then that the new F-150 remains one of "the hottest vehicles on dealer lots, turning over four times faster than the industry's overall full-size pickup segment."
- But as Ford CFO Bob Shanks said earlier today "this is not just a North America story." Ford's European operations turned a profit last year for the first time since 2010. And profit in the Asia Pacific region was "encouraging," says Citigroup analyst Itay Michaeli.
- Look at Ford's 2015 bottom line. At \$10.8 billion, full-year pretax profit climbed \$3.5 billion over the previous year. Roughly 40% of that profit growth came from outside North American, according to figures from UBS.
- Ford let investors know earlier this month that it sees more good times ahead. At the Detroit Auto Show, the second-largest U.S. car maker announced that it would post record 2015 pretax profit, and declared a \$1 billion one-time supplemental dividend – roughly 25 cents a share – in addition to its regular quarterly payout of 15 cents share.
- Ford also forecasted that 2016 profit would be equal to or better than last year's earnings.
- Investors, however, were annoyed that Ford opted to [pay a one-time special dividend](#) rather than hike its permanent quarterly payout.
- But with a 5% dividend yield and a rock-bottom price-to-earnings multiple, Ford can drive higher.