ODDO BHF

Automotive Daily

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Good morning,

Invitation – Autos Expert Access - The impact of shifting China-West trade relationships on the Automotive sector – March 20th @3.30pm CET (Last Day To Register)

China, once the land of opportunity for Western automotive OEMs, has recently become a key concern for the sector. The rapid rise of local Chinese competitors with compelling technology/cost offerings and strong expansion ambitions, both locally and abroad, is threatening to challenge Western OEMs' positioning. This threat has been clearly identified by governments in the EU and US, giving rise to an increasingly protectionist rhetoric which adds a political dimension to the debate.

Ilaria Mazzocco, Trustee Chair in Chinese Business and Economics at the Center for Strategic & International Studies (click here for bio), will be joining us to bring her insight into China/EU/US policy to help us determine how shifting trade relationships between China and the West could redefine the automotive competitive landscape.
Click here if you want to register - Institutional clients only

At a glance

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Volkswagen (Neutral; TP €115): a story that is still struggling to convince

While the group had already published preliminary 2023 results and announced its main 2024 outlook, the focus of yesterday's release was mostly on the details of the Q4 performance and, most importantly, on additional colour in terms of this year's targets in the context of the recovery plan VW announced at the end of 2023.

We come out of the conference call with our caution on the stock underpinned. Indeed, short-term momentum is not expected to be particularly favourable (Q1 2024 below the margin range, the bulk of the benefits of cost-cutting measures expected more in H2 vs. H1), with the year still looking very difficult in China and, more generally, we still do not have the feeling that the story of recovery and disruption hoped for by some will be obvious in the coming months with few catalysts in sight. Faced with this, we maintain our Neutral recommendation and our preference for other carmakers (Stellantis, Renault, Ferrari, and even Porsche).
Links to note French | English (On Website)

Vitesco (Neutral; TP €91): Q4 results in line with prelims, 2024 guidance below expectations

Vitesco reported this morning its Q4 results that came in line with preliminary results published on Feb 23rd. In detail Q4 revenues dropped by 3% YoY and +1% organically to €2.2bn (below company-compiled css at €2.3 / Oddo BHF at €2.4), penalised in particular by currencies (FX headwind at 2.3%). Adjusted Ebit came in at €151m, implying a margin of 6.6%, up 2.3ppt from 4.3% last year (above company-complied css at 5.9% / Oddo BHF at 5.0%).

By division, the Powertrain Solutions business (which mainly includes the ICE related activities) sales decreased by 5% to

€1.4bn and almost flat organically (below company-compiled css at €1.5bn), with improved operating margin at 9.5% vs 3.7% last year (above css at 7.0%), driven by cost inflation settlements. In addition, Electrification Solutions sales were flat on YoY basis and increased by 2% organically to €821m (above company-complied css at €604m) with an adjusted Ebit at €19m, including lower level for R&D reimbursements in Core ICE, implying a margin of 2.4%, down from 6.4% last year (above company-complied css at -1.1%).However, EPS came negative at (-€1.55), down from €0.30 last year (below company-compiled css at €2.21). Last, FCF came in at €73.2m, down 17% YoY (above company-compiled css at €53m), due to positive operational performance. Regarding order intake of 2023, the level reached €12bn, of which 70% in electrification business.

Vitesco also reported its 2024 outlook. It is now forecasting sales of between €8.3bn- €8.8bn (VA css at €9.7bn) on challenging market environment and a planned significant decline in contract manufacturing activities with Continental. Adjusted EBIT margin is estimated to be at 4.5% - 5.0% (VA css at 4.9%), on higher anticipated profitability in the electrification business. The company is also forecasting a negative FCF of around €350m (VA css at €175m), owing mainly to negative effects from reduced contract manufacturing activities and the repayment of start-up financing to Continental. It also expects an investment ratio to be around 7% of sales for the year with a full focus on investments in electrification, as it will launch a higher number of products this year, especially in the second half of 2024.

Overall, the supplier performance exceeded expectations in the last quarter but this seems likely due to the lower electrification sales (still loss making) in the past months (~€306m est., €1.3bn over FY) with group confirming a softening of demand for electrification components in the market in Q4 which could not be offset by the project ramp-ups. While we note order intake remained strong in Q4 (~€3bn, FY total at €12bn), it was also more limited on the electrification side with only €1.3bn new orders (€8.3bn over the FY), a lower amount vs previous quarters. The newly announced 2024 guidance comes below expectations (implies an average of -16% downside vs 2024 adj.EBIT consensus at the mid-point), confirming the slower trend on electrification related components which was expected to continue this year as a result of the slower BEV sales momentum.

SAF-Holland (Outperform; TP €19.5): full release of FY-23 shows a strong FCF and dividend. The fresh FY-24 outlook looks overall in-line with expectations

Following the pre-release of very strong FY-23 KPIs down to the adj. EBIT line c. 3 weeks ago SFQ has released the full set of its FY-23 this AM: group sales are +35% y-o-y to € 2.11bn, with an organic growth rate of +11% y-o-y, and group adj. EBIT increased 62% y-o-y to € 202m with an adj. EBIT margin of 9.6%. Reported group EBIT increased 66% YOY to €164m (-2% vs. Oddo-BHF; in-line with cons.) with an EBIT margin of 7.8%. FY-23 reported EPS increased by 31% YOY to €1.76 (Oddo-BHF& cons: €1.91) with the deviation vs. our expectation being driven by a higher negative financial result and higher tax payments. SFQ proposes a dividend of €0.85 for its FY-23 (Oddo-BHF: €0.75; cons.: €0.79). The better-than-expected cash return to shareholders seems to be driven by a strong operational FCF, which increased 19% YOY to €143m (-8% vs. Oddo-BHF; +13% vs. cons.) in the period under review. SFQ thus could reduce its leverage to 1.8x ND/EBITDA at the end of 2023.

SFQ provided a fresh guidance for FY-24 with the following parameters: Group sales are expected ~€2.0bn, which would imply a MSD% YOY decline, and the group adj. EBIT margin in a range of 9.0-9.5% (FY-23: 9.6%), which is in-line with the company's mid-term margin target range. Pre-earnings cons. stands at €2.06bn sales and an adj. EBIT margin of 9.1%.

There are no major surprises from the full release of FY-23 P&L KPIs, but the operational FCF, the reduced leverage and the dividend proposal for FY-23 are quite strong. The fresh FY-24 outlook looks overall in-line with expectations and we would expect only minor adjustments to cons. Following a stellar performance in recent weeks, we would expect that SFQ's shares could take a little breather first thing. The FY-23 analyst call is scheduled for this AM 10:00 CET and we hope to get more insight into the underlying market assumptions for the FY-24 outlook. We reiterate our OP rating as well as our TP of €19.5.

Aston Martin Lagonda (Neutral; TP 180p): closes refinancing

AML announced yesterday evening that it closed the refinancing of its debt. In detail, the group raised $960M of 2029 senior secured notes at 10.0%, £400M of 2029 SSN at 10.375%, as well as securing a new £170M RCF. The offering of the Notes is subject to customary closing conditions and settlement is expected to occur on or around March 21, 2024. The proceeds from the offering of the Notes, if completed, together with cash on balance sheet, will be used to redeem in full the Issuer's existing senior secured notes and second lien split coupon notes, to repay in full the borrowings under its existing revolving credit facility and to pay expenses and fees in connection with the transactions, including the early interest payment in March that was due in April 2024.

The new financing will provide liquidity to allow the group to repay its existing debt due 2025. However, the rates on the new notes end up close to the existing coupon (10.5% on the First Lien SSN of $1.1bn) which will effectively limit the interest expense saving potential for the group.

Iveco (Neutral; TP €10.5): transfers ownership of firefighting business

Iveco Group and Mutares an investment holding focused on special situations transactions, announced today the signing of a definitive agreement for the transfer of ownership of Magirus. As a reminder, MAGIRUS manufactures and sells firefighting vehicles and equipment and employs more than 1,300 employees in Germany, Italy, France and Austria. In 2023, MAGIRUS represented approximately 2% of Iveco Group revenues and recorded an Adjusted EBIT loss of €35 million. Subject to regulatory approval, the transaction is expected to be completed no later than January 2025, therefore in a timeframe that allows for a consistent transition in the interest of all stakeholders. As a result of this transaction, Iveco Group 2024 results will be negatively impacted by approximately €115 million in the first quarter of 2024.

The group had been vocal about its entire to dispose the firefighting business so this should not come as a surprise. We will look for more details on cash impact beyond the -€135 M P&L impact expected for 2024.

Schaeffler (Outperform; TP €7.7)/ Vitesco (Neutral; TP €91): Schaeffler and Vitesco entered into merger agreement – deal continues to progress as planned

Overnight SHA and VTSC announced that they have entered into a merger agreement, following the approval of their respective Supervisory Boards. The agreement sets out the legally binding terms and conditions for the merger of Vitesco Technologies Group AG into Schaeffler AG. The previously published preliminary exchange ratio of 5 to 57 was confirmed as binding in the signed agreement. Thus, VTSC shareholders will receive 11.4 new SHA shares in exchange for one VTSC share. The exchange ratio has been confirmed as appropriate by a joint valuation expert appointed by both parties and the court-appointed merger auditor. The effectiveness of the merger agreement is subject to the approval of the respective AGMs of both companies, which are scheduled for April 24 (VTSC) and April 25 (SHA), as well as the subsequent registration in the respective commercial registers. The completion of the transaction continues to be expected in Q4-24.

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Nissan (NR) / Honda (NR): to consider an EV partnership, according to Nikkei

Nikkei reported yesterday that Nissan is considering an EV partnership with Honda that could include joint battery procurement and development. The report mentioned that Nissan is looking at moving to a common EV powertrain or e-axle. Thus, the two OEMs could reportedly team up on purchasing, as well as designing and developing a shared EV platform. However, discussions within Nissan remain in the early stage while Honda's stance on the partnership is currently unclear. The partnership aims to better absorb high EV costs (e.g. batteries). As a reminder, Nissan already shares platforms with Renault, e.g., the next Nissan electric Micra which will share the same architecture as the new Renault Five and be built in the same plant in northern France. Nissan has also committed to invest up to €600m in Renault's new EV entity Ampere.

This comes amid a pursuit for high scale in EVs in an attempt to cover higher fixed and variable costs on these vehicles. We have seen several of such moves from camarkers in the last months (e.g., Renault saying it was open to partnerships, VW taking a stake in Xpeng to codevelop EVs, etc.).

Italy / Chery (NR): are reportedly in talks over a car plant in the country

According to Reuters, the Italian government is reportedly holding talks with China's Chery Auto as part of efforts to attract another major automaker to the country in addition to Stellantis. Press said that Chery was considering either refurbishing an existing plant or building a new one in Italy, but was also assessing other options in Europe, including a former Nissan plant in Barcelona. As a reminder, Italy wants to raise national car production to 1.3m vehicles a year from below 800k in 2023 and is already in discussion with Stellantis to increase the group's output to 1 million units annually by the end of this decade. It also wants a second manufacturer to add around 300k vehicles to national output.

As a reminder, Italy's Industry Minister Adolfo Urso said last month that Italy held talks with Tesla and with three undisclosed Chinese carmakers, including BYD and Great Wall Motor. It comes amid increased scrutiny regarding Chinese carmaker imports, with the EU studying a potential increase in import tariffs for these cars. If the increased tariffs do go through, this will increase pressure on Chinese carmakers to localize production if they want to deliver on their European expansion ambitions.

Europe : EU Parliament approves Euro 7 compromise on vehicle pollution limits

On Wednesday, Members of the European Parliament gave their green light to new EU rules to reduce emissions from passenger cars, vans, buses, trucks and trailers. With 297 votes in favour, 190 against and 37 abstentions, Parliament adopted the deal reached with the Council on the Euro 7 regulation (type-approval and market surveillance of motor vehicles). Vehicles will need to comply with the new standards for longer, ensuring they remain cleaner throughout their lifetime. For passenger cars and vans, the current Euro 6 test conditions and exhaust emissions limits will be maintained. For buses and trucks, stricter limits will be applied for exhaust emissions measured in laboratories and in real driving conditions, while maintaining the current Euro VI testing conditions. For the first time, EU standards will include brake particles emissions limits (PM10) for cars and vans and minimum performance requirements for battery durability in electric and hybrid cars. An Environmental Vehicle Passport will be made available for each vehicle and contain information on its environmental performance at the moment of registration (such as pollutant emission limits, CO2 emissions, fuel and electric energy consumption, electric range, battery durability). Vehicle users will also have access to up-to-date information about fuel consumption, battery health, pollutant emissions and other relevant information generated by on-board systems and monitors.

As expected, this deal weakens the initial 2022 European commission proposal, following objections from some member states. The new rules maintain the status quo for limits on pollutants including NOx and CO (carbon monoxide) for cars and vans but set tougher limits for buses and trucks. As a reminder, European carmakers and countries including France, Italy and the Czech Republic had pushed to weaken Euro 7, highlighting that the focus should be on boosting EV production to meet that future demand, arguing the risk would be to misallocate capital to ICE vehicles, with too little impact on emissions of pollutants. The European Commission originally proposed tougher limits to start in from mid-2025 for cars and mid-2027 for trucks and buses. However, the new rules, which still need final formal approval from the Council, will apply to cars and vans from July 2030, and for buses and trucks 12 months later. Note that in a press release published yesterday, the ACEA said that the regulation "cements Europe's place as the global pacesetter for emission standards for cars, vans, trucks, and buses".

Polestar (NR): cuts starting prices for the Polestar 3 by 12%, launches new variants

Polestar announced yesterday that it has reduced the starting price for the Polestar 3 range of vehicles by 12% to $73.4k, from $83.9k. The company has also added two new variants, expanding the range to four. Thus, all Polestar 3 variants will include the company's "Pilot Pack", which has the driver assistance system, as standard in the U.S.

In terms of specs, it seems that there are no major changes. The Polestar 3 Long Range is equipped with a 111-kilowatt-hour battery and a dual-motor, all-wheel drive powertrain. However, Polestar revealed new estimated EPA Combined range values, which are higher than before. The base version will have a driving range of 315 miles (507km), i.e., 5% more than initially outlined (483km). In the case of the Performance version, the range is now estimated at 279 miles (449km), i.e., 3.3% more than before (434km).

Deliveries are set to begin in the Q2-24. At the time of the launch of the Polestar 3 model in October 2022, the company had aimed to begin deliveries in Q4-23. Moreover, additional production of the Polestar 3 model is poised to start in South Carolina in the middle of 2024.

The company has been struggling with weak demand for its vehicles FY deliveries came at 54.6k units, below expectations and even below the company's trimmed 2023 forecast at 60.0k units (vs 60.0k-70.0k units). It follows other price cuts seen on BEVs in the sector (Tesla, GM) amid waning demand. The company previously said that it plans to cut around 450 jobs globally (i.e., 15% of its workforce) amid challenging market conditions. As a reminder, because the Polestar 3 is imported from Chengdu, China, where series production started in February, the model does not qualify for the $7,500 federal tax credit. However, the incentive will be available through leasing (Polestar Clean Vehicle Incentive of $7,500).

Trucks: February Class 8 retail sales decreased by 13% YoY, -5% MoM, -10% YTD

Wards Intelligence reported that February U.S. Class 8 retail sales reached the level of 17.6k units, marking a drop of 13% YoY and -5% MoM, leading to 40.0k units YTD i.e., down 10% YoY. By brand, Daimler truck group sales decreased by 13% to 6.5k units with sales down 18% at Freightliner to 6.0k units, still accounting for the highest market share of 34.2%, while Western Star sales (another Daimler Truck brand) increased by 52% to 814 units with 5% market share. Regarding Volvo group, sales also dropped by 13% to 3.4k units with sales down 18% at Mack Trucks to 1.1k units with a share of 6% while Volvo Trucks sales decreased by 9% 1.4k units with a share of 12%. For Paccar group, deliveries were flat at 5.7k units, with a growth of 3% at Peterbilt sales to 2.9k units, accounting 16.5% market share while Kenworth Truck was down 2% to 2.7k units, marking a share of 15.8%. In addition, International, a brand of Navistar dropped by 35% in sales to 1.8k units covering 10.3% of the market.

Note that Wards reports retail figures which do not include fleets and thus represent a small part of the overall market. However, the retail market decline in February and YTD is consistent with guidance for an overall market down -5/-10% this year (i.e. more resilient than EU which is expected at -15/-25%).

Trucks: Cass Transportation Index figures increased sequentially in February

The Cass Transportation Index, a measure of all intra-continental North American freight, came out with its February report yesterday. In detail, the shipments component of the Cass Freight Index was up 7.3% MoM (+2.0% Seasonally Adjusted) and -

4.5% YoY. In fact, operations recovered from weather effects and with a Leap Day, which was the main factor behind the MoM increase in seasonally adjusted terms. The outlook suggests that the shipments component of the Cass Freight Index is set to rise about 3% in Q1-24 from Q4-23 in SA terms, less than 1 p.p of which can be attributed to Leap Day.

Separately, the expenditures component of the Cass Freight Index, which measures the total amount spent on freight, increased by 4.0% MoM, (+1.8% SA) and down 20% YoY. As a reminder, the expenditures component of the Cass Freight Index rose 23% in 2022, after a record 38% increase in 2021, and another 23% increase in 2022. It is set to decline about another 14% in 1H'24, assuming normal seasonal patterns from here. Lastly, the Cass Truckload Linehaul Index, which measures changes in truckload linehaul rates, including both spot and contract freight – independent of fuel costs – slightly increased by 0.1% on a MoM basis and -5.4% YoY to 140.5. The index has been in a very tight range from 140.4 to 142.0 over the past eight months as the market rebalances.

All in all, the Cass Truckload Linehaul index and the shipments component of the Cass Freight Index both increased sequentially this month, supporting the view that we are seeing a gradual recovery in North American freight after almost 2 years of decline.

Other news

- **China car market:** from Mar 1-10 PC retail sales stood at 355.0k units, up 4% YoY, -4% MoM, including 154.0k NEVs up 39% YoY and +64% MoM, leading to a penetration rate of 43.4% - CPCA
- **EVs:** February global EV sales reached 800.0k units, up 12% YoY, i.e., + 31% in the U.S. and Canada, -12% in China with annual volumes expected to rise between 25% and 30% this year – Rho Motion
- **VW:** said that its first VW-Anuhi JV model the ID. UNYX has been registered with and approved by China's industry ministry – RT
- **Porsche AG:** raised bonuses for employees to €9,960, up from €9,050 in 2022 - HB
- **Nissan:** agreed to increase Japanese workers monthly wages by ¥18,000 on average ($122), representing the biggest rise for the company since 2005 – RT
- **Toyota:** approved the demands of monthly pay increases of ¥ 28,440 ($193) and record bonus payments for Japanese workers, representing the highest pay hike in 25 years – RT
- **Nio:** CEO William Li said that the company has completed 40 million battery swaps so far – RT
- **Lexus:** a driver-assistance system offered on the Lexus LS sedan is the only one of 14 deemed "acceptable" by the Insurance Institute for Highway Safety," - ANE
- **Xpeng:** Xpeng's 2 remaining co-founders exit from core management team – CNVEPOST
- **Fisker:** has reportedly hired restructuring advisers to assist with a possible bankruptcy filing – WSJ
- **Waymo:** to start offering free driverless robotaxi services in Los Angeles starting today – RT

Recent reports

Date	Company	Publication
13/03/2024	Renault	Feedback from the Ampère road show: ambitions intact and bolstered confidence (4p)
13/03/2024	Porsche AG	A more favourable setup (4p)
12/03/2024	Porsche AG	Q4 results ahead, FY 24 guidance slightly below on lower margin (4p)
08/03/2024	Continental	Major catalysts still missing near term (4p)
07/03/2024	Continental	Still not much to get excited about at this point (4p)

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