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Global Markets Division

EU Automotives

Options in Reverse Gear

Growth Target: +21%

Investment Horizon: 8 months

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Team Overview

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BSc WU BBE 3rd semester



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BSc WU BBE 1st semester

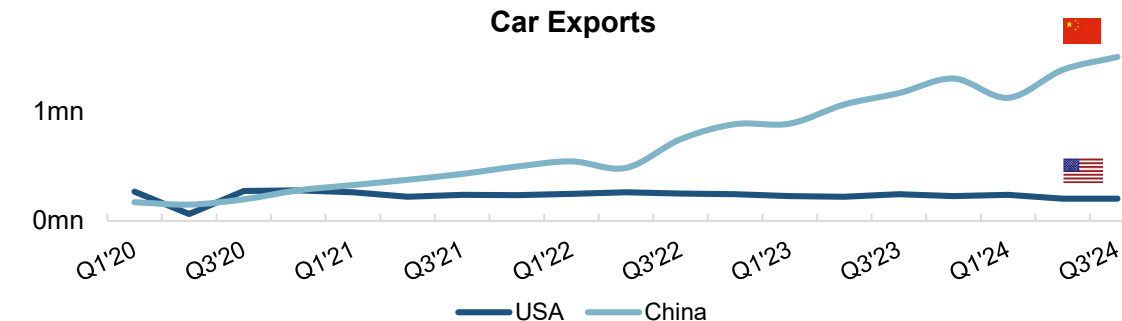
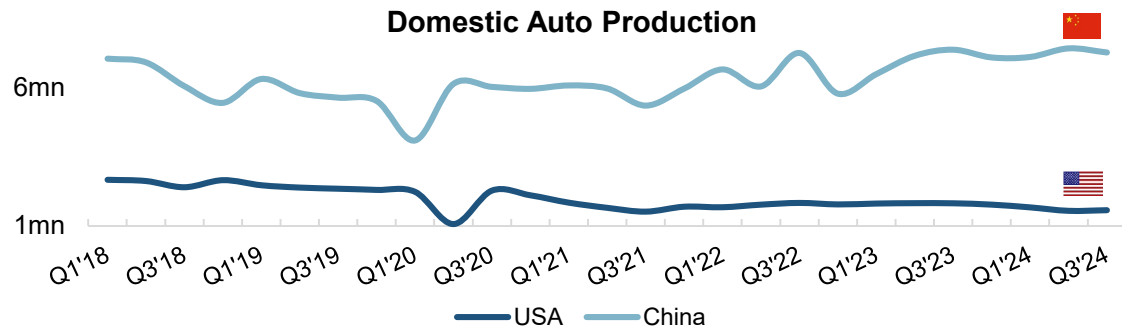
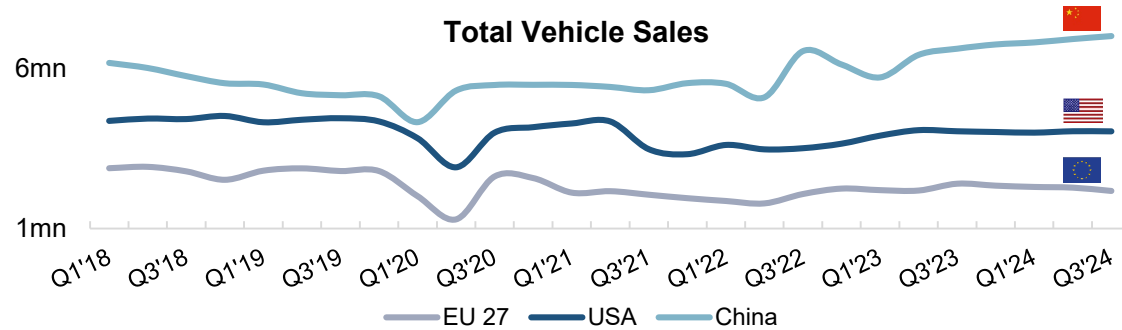
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Market Environment




Market Environment

Trends and key drivers in the biggest markets



Consumer Side


- Strong consumer / **uncertain outlook**.
- Governmental EV **incentives**.
- +\$3.5k** to the price tag from tariffs. 

Producer Side

- Expanded domestic **stock** of cars.
- Uphill **battle** for BEV producers.

Uneasy consumer demand, subject to major market shifts.

Consumer Side


- Continuing **deflationary** pressure.
- Centralized trade-in and EV **incentives**.
- Dampened demand for **luxuries**. 

Producer Side

- Overcapacity** built through years of subsidies.
- Market **consolidation** and battle for consumer.

Incentives drive demand, while price advantage drives consolidation and exports.

Consumer Side

- Cautious spending amid **uncertainty**.
- EV slowdown** due to high prices, subsidies tapering. 

Producer Side

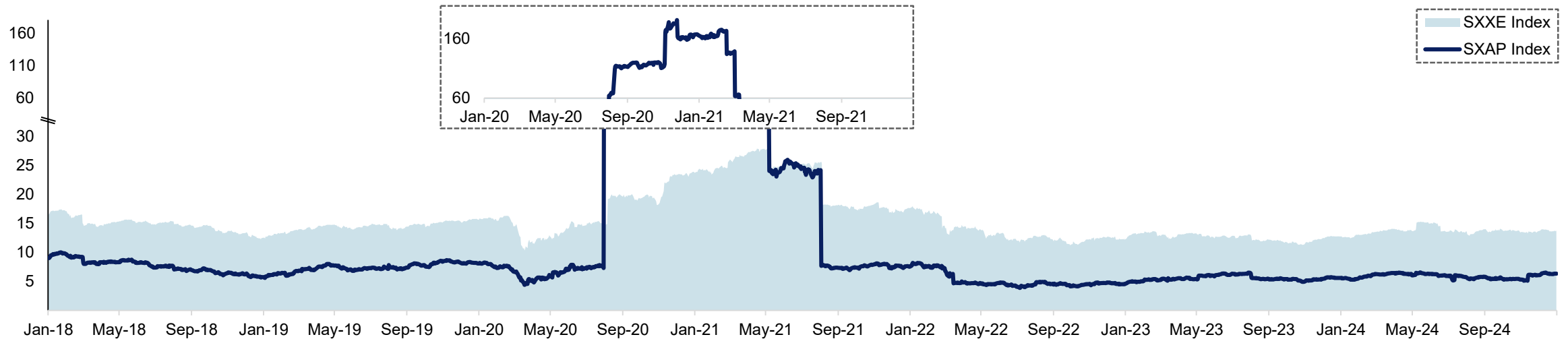
- Strict CO2 rules** challenge OEMs.
- Despite the tariffs, Chinese imports have a **30% price gap**.







Strict CO2 rules strain producers; Chinese imports challenge margins.

Historical Valuation

Setting the timeline scene

P/E Ratios




2018-2019	2020	2021	2022	2023	Now
<p>Trade Tensions</p>  <p>US, China, EU tensions over potential auto tariffs induce moderate volatility to ratios.</p>	<p>Covid Outbreak</p>  <p>Manufacturers shut plants, slash guidance amid the unfolding pandemic, disruptions in supply chains.</p>	<p>Chips & CO2</p>  <p>Chip shortage worsens & affects production. EU imposes hefty CO₂ fines.</p>	<p>Ukraine War</p>  <p>Energy crisis causes inflation. EV production costs rise on expensive inputs.</p>	<p>Competition</p>  <p>European producers start losing market share to Chinese EV makers in foreign and home markets.</p>	<p>Bottomline Slump</p>  <p>European manufacturers face mounting challenges, guidance cuts, declining sales.</p>




Key Current Themes

Introduction




Key Market Themes
Industry backdrop creating a perfect storm




Chinese Demand Slump

Struggling Chinese **macroeconomic environment** introduces demand challenges beyond **losing market share** to the local players.




US Tariffs

President Trump's **determination to levy tariffs** on imports to the US call for a restructuring of supply chain to avoid **margin deterioration**.




EU & ESG Focus


Weak demand for EVs hinder automakers from complying with the inflexible EU regulations, exposing the producers to **potential fines**.




Peer Group
Comparables for benchmarking




BMW AG




Mercedes-Benz Group AG




Renault S. A.




Stellantis N. V.




Volkswagen AG




Dr. Ing. h.c. F. Porsche AG




Notable Exclusions
It's not you, it's us




Volvo Cars
80% Geely stake



Ferrari S. p. A.
Incomparable business lines



Polestar
Pure BEV play






Aston Martin
Size & liquidity

Chinese Demand Slump

Economic headwinds shift focus to affordable EVs

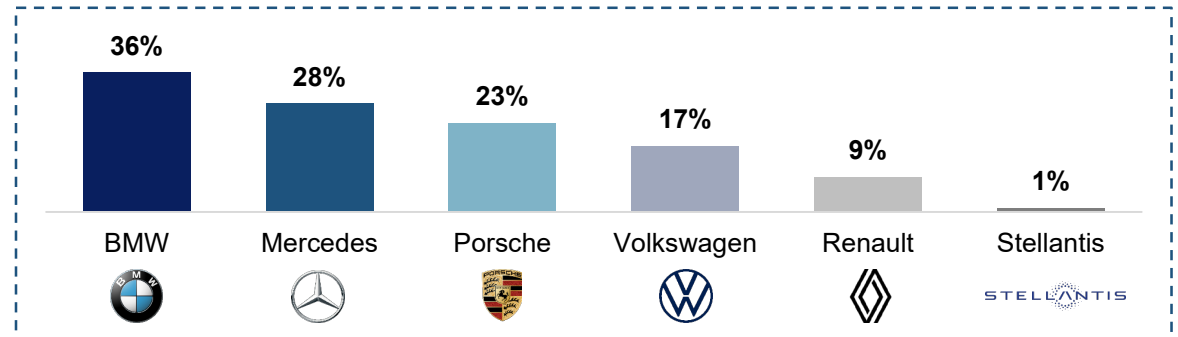
Global Context

- 
Critical export market:
 Chinese demand accounts for **21%** of EU automotive exports.
- 
Rise of domestic brands:
 Sharp decline in sales due to shift towards domestic brands, dominating with **56.1%** market share.
- 
Global EV production leader:
 China dominates the BEV market with **64%** of global production in 2023.

Key Pain Points





<p>Intensifying Competition</p>  <p>Chinese brands are gaining market share with competitive pricing, innovation, and strong government backing.</p>	<p>Shrinking Luxury Demand</p>  <p>High-margin luxury underperforms due to economic slowdown and a shift toward affordable domestic EVs.</p>	<p>China's Export Dominance</p>  <p>China cements its EV leadership, leveraging production scale and efficiency to target European markets.</p>
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Share of Revenue in APAC for the Peer Group, 2024E






Revenue exposure indicates vulnerability to the risks of economic slowdown and falling market share.

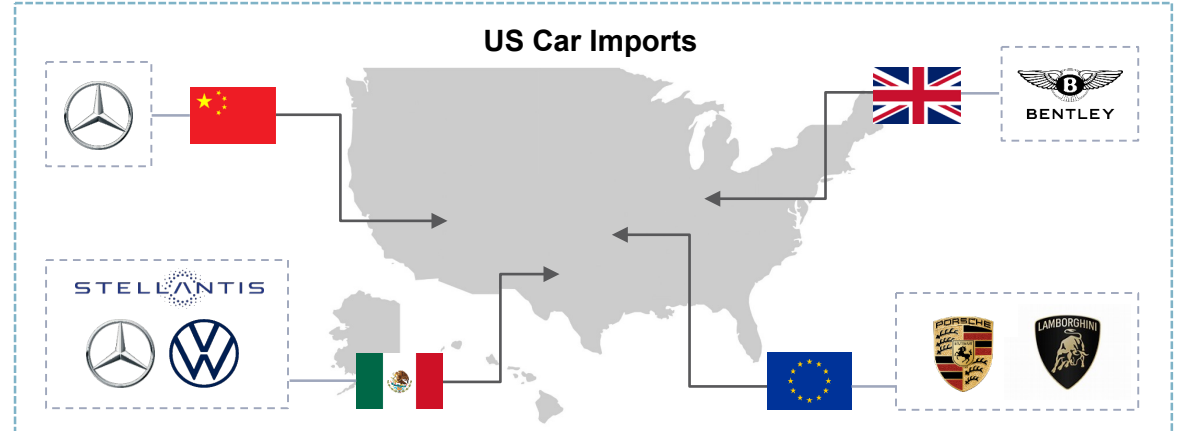
Most Affected Companies

<p>Stellantis </p> <p>Low revenue exposure in the Chinese market.</p>	<p>Porsche </p> <p>Severe decline in luxury demand and profitability.</p>
<p>Renault </p> <p>Minimal China exposure, focus on European markets.</p>	<p>BMW </p> <p>Decline in profitability on luxury market challenges.</p>

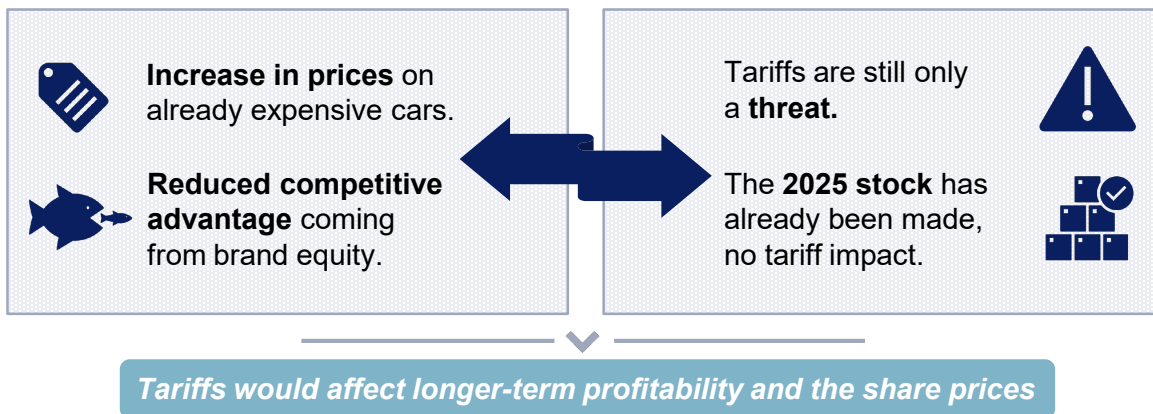
Taxes on the fast lane

Expected Tariffs





- 
0-2.5% to 25% tariff on vehicle parts from Mexico and Canada.
- 
100% tax on manufactured cars, **45%** tax on every imported good.
- 
60% tariffs on all imports from China + additional **10%** on everything, e.g. **110%** tax on manufactured cars.



Consequences of Tariffs in 2025

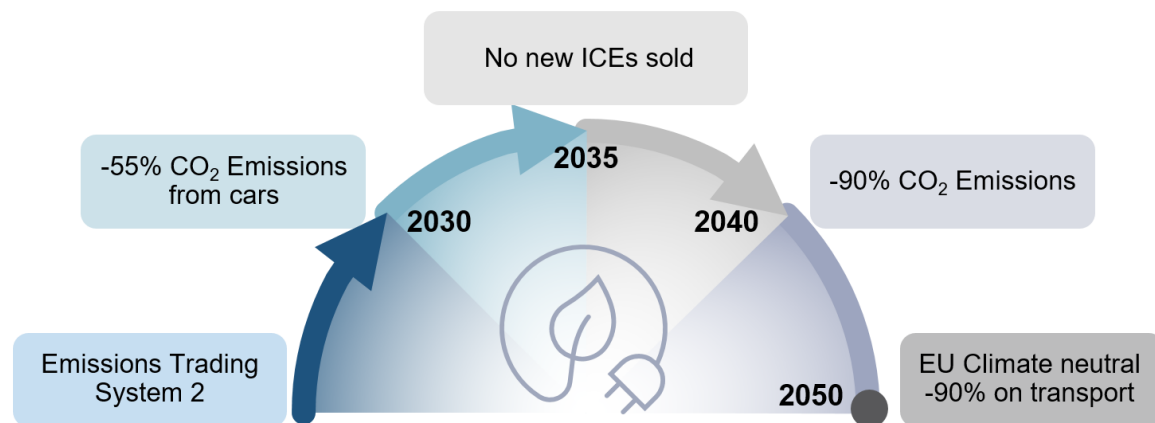


Most Vulnerable Producers

- Stellantis**

 Operates two **assembly plants** making high-margin vehicles **in Mexico**.
- Volkswagen**

The Puebla factory is Mexico's largest and one of the biggest in VW.
- Porsche**

 Lamborghini, Porsche, Bentley **manufactured in Europe**, sold **35%** to the US.
- Mercedes**

 Manufactures vehicles **in China and Mexico** to be sold in the US.

The road ahead for European automakers

Overview ESG scores



EU Climate Roadmap

Company	BBG ESG Score	% of sold BEV + PHEVs	Percentile Autom. acc. Sustainalytics
BMW	5.6	22%	26%
Mercedes	6.1	17%	14%
Renault	5.6	8%	24%
Stellantis	4.7	10.5%	27%
Volkswagen	4.8	11%	58%
Porsche	2.8	13%	19%

Investment Dynamics

Investor Positioning

European equities are **mostly held by European-based investors**. Furthering in 2025 due to the markets being heavily long USD.

ESG Trends

European institutional investors are increasingly positioning in alignment with ESG metrics, which **excludes most automakers by design**.

Goodbye to Buys

The **capital outflows** happening during the industries' headwinds are **not fully recoverable** once the “perfect storm” passes.

Most Affected Companies

- All passenger car plants operate on a net carbon-neutral.
- From 2025 onward will introduce three electric-only platforms.

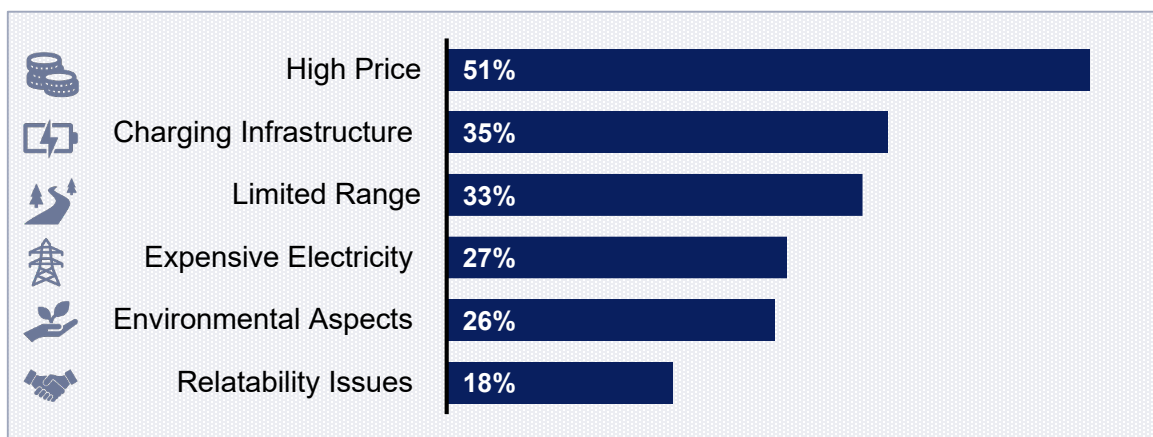
- Net carbon-neutral across value chain by 2030.
- 80%** of new vehicles electric by 2030.

- Net carbon-neutral only by 2050.
- EV sales fell **2.5%** in 2024.

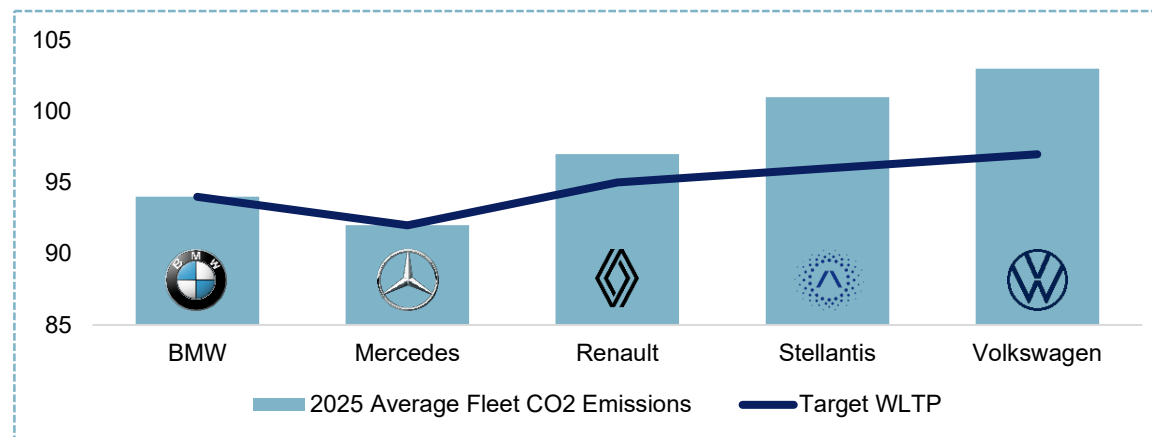
- Significantly increased scope 3 GHG emissions over last year.
- Less demand for BEV+PHEV.

Producers made responsible for the macro backdrop outside of their control

Consumer Reasoning Against EVs



CO2 Legislation Compliance Projections



Impact on OEMs

Strict regulation

- Worldwide Harmonised Light Vehicle Test Procedure (WLTP)**
- Caps average-fleet CO2 emissions in 2025 at **93.6g/km** (adj. for vehicle mass), down from 95g/km.
- Non-compliance incurs a **€95 fine** per g/km above target for each EU-registered vehicle.

Subdued demand

- Infrastructure issue:** The lack of charging infrastructure is quoted as one of the main causes of **weak BEV demand in Europe**.
- Pricing issue:** BEVs are on average **35% pricier** than ICEs, limiting price action and **pressuring margins** amid weak consumer.

Additional bottom-line pressure

Automaker	Estimated Fine
BMW	Compliant
Mercedes	Compliant
Renault	€237 mn
Stellantis	€1092 mn
VW	€1920 mn
Porsche	No estimate

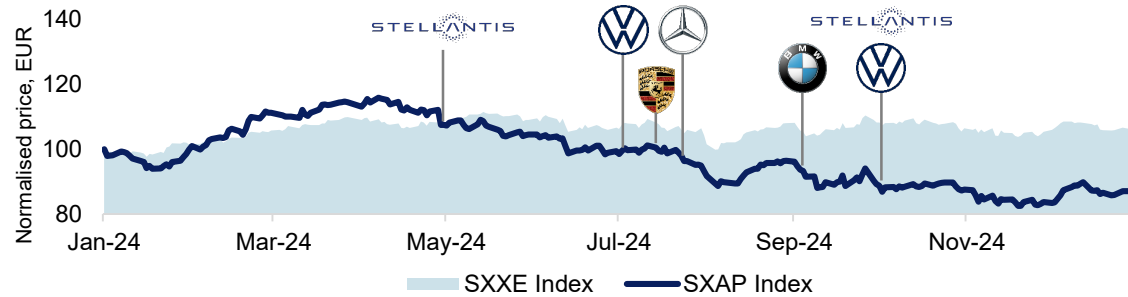


Financials

Cash is King

Cash flow-driven valuation reveals a worsening outlook on OEMs

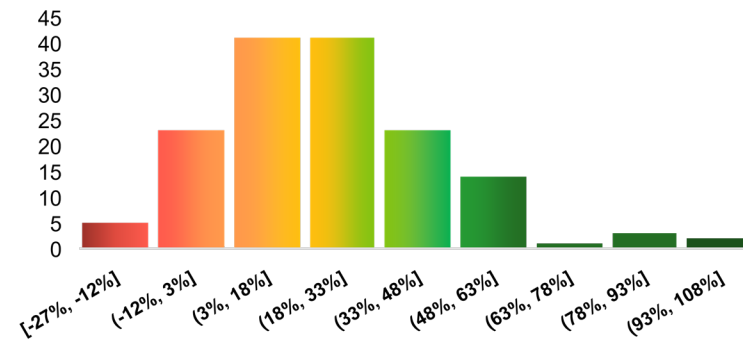
Valuation Challenges



A lot of the industry headwinds, which led to a sizeable 2024 correction, are already **priced in**. However, it is **hard to value** the real potential of the equities having floored given the **unlikely turnaround of the negative investor sentiment**.

2024 Profit Warnings

Histogram of consensus target returns on EU Automotive peers



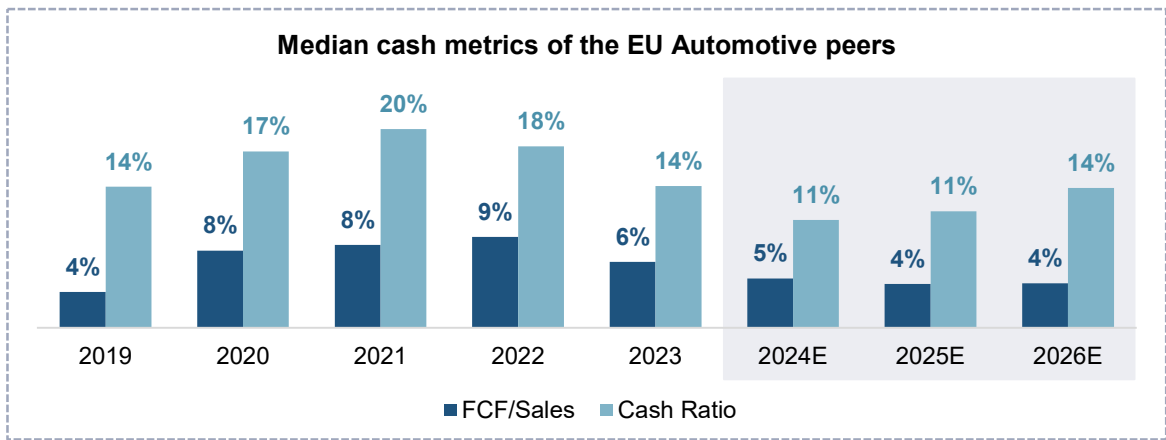
Street Conviction

Still mostly based on P/E and EV/EBIT, assumptions often unrealistic.

Macro Aspects

The number of moving parts makes it **hard to navigate uncertainty**.

Cash









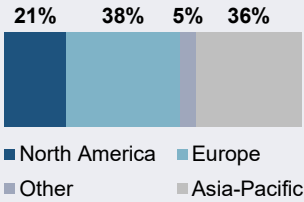
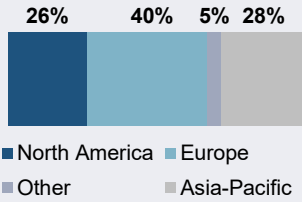
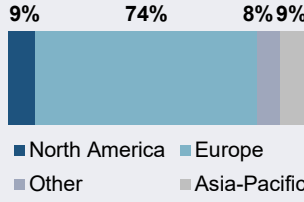
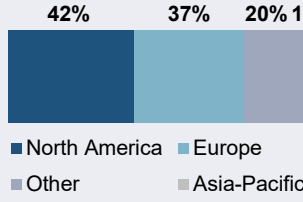
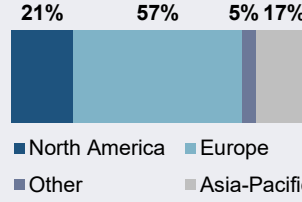
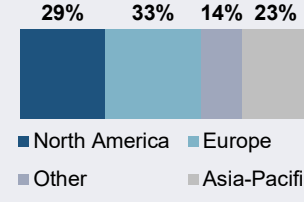





Resilience: Cash metric dynamics provide a proxy to a company's ability to navigate the many headwinds.

Return contribution: Dividends account for **43%** of total return in Europe as growth disappoints. US price returns, in comparison, are **93%** of total.

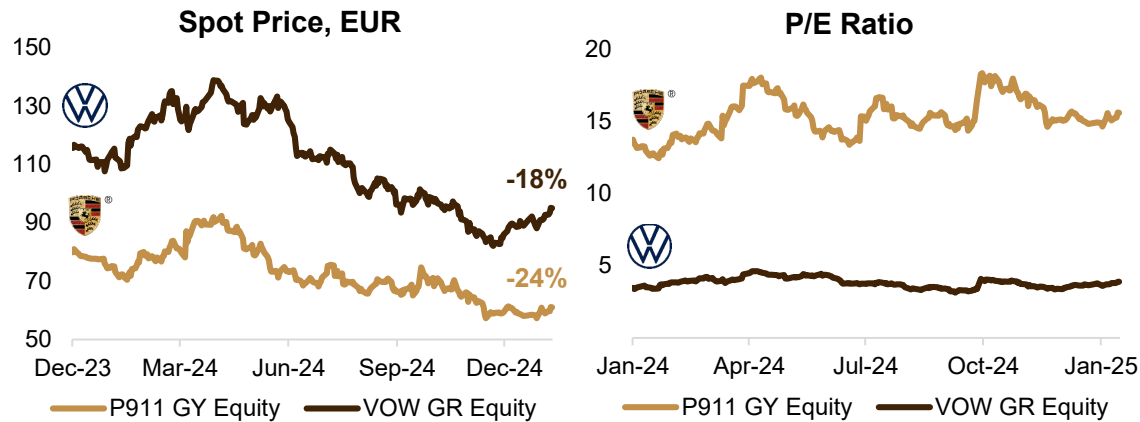
Metric validity: Cash and cash return are historically emphasised as key matters for valuation in the automotive industry.

Peer Comparison

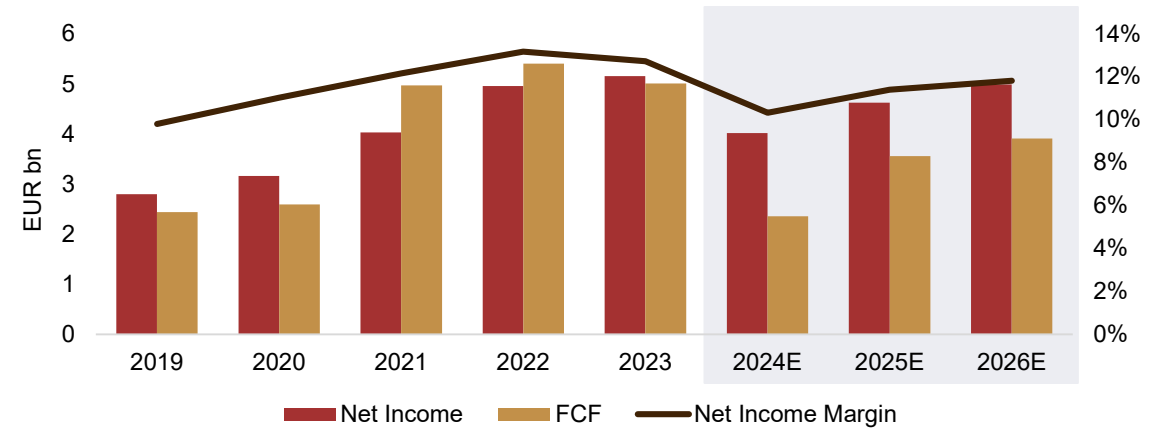
Driving comparisons

Brand	 Bayerische Motoren Werke AG	 Mercedes-Benz Group AG	 RENAULT Renault S. A.	 Stellantis N. V.	 Volkswagen AG	 Dr. Ing. h.c. F. Porsche AG
Multiples	P/E 15.6x EV/EBIT 9.5x	P/E 5.2x EV/EBIT 1.6x	P/E 9.5x EV/EBIT 4.9x	P/E 2.4x EV/EBIT 1.6x	P/E 3.8x EV/EBIT 2.3x	P/E 5.9x EV/EBIT 3x
Revenue Breakdown	 <p>21% 38% 5% 36%</p> <p>■ North America ■ Europe ■ Other ■ Asia-Pacific</p>	 <p>26% 40% 5% 28%</p> <p>■ North America ■ Europe ■ Other ■ Asia-Pacific</p>	 <p>9% 74% 8% 9%</p> <p>■ North America ■ Europe ■ Other ■ Asia-Pacific</p>	 <p>42% 37% 20% 1%</p> <p>■ North America ■ Europe ■ Other ■ Asia-Pacific</p>	 <p>21% 57% 5% 17%</p> <p>■ North America ■ Europe ■ Other ■ Asia-Pacific</p>	 <p>29% 33% 14% 23%</p> <p>■ North America ■ Europe ■ Other ■ Asia-Pacific</p>
Cash metrics	Cash ratio 10.8% FCF/Sales 4.1%	Cash ratio 7.4% FCF/Sales 4.5%	Cash ratio 17.4% FCF/Sales 4.3%	Cash ratio 15.4% FCF/Sales 2.8%	Cash ratio 6% FCF/Sales 2.3%	Cash ratio 11.4% FCF/Sales 8.8%
Tariff exposure	Sites Location: 	Sites Location: 	Sites Location: No US sales except for Nissan	Sites Location: 	Sites Location: 	Sites Location: 
CO2 Fines	Compliant	Compliant	€237 mn	€1092 mn	€1920 mn	No estimate, VW stake

P911 vs. VW



Key Financials



Market Themes Exposure

Chinese Demand:

- Single **largest market** for Porsche's vehicles.
- Slowed demand for luxury vehicles reduced the sales by **-38%** since 2023.
- Market exposure heavily skewed towards only 2 models.



US tariffs:

- 100% of US sales** manufactured in the EU and imported.
- Stock fell **-11%** after the elections.
- Additionally exposed through the **53% VW stake**.



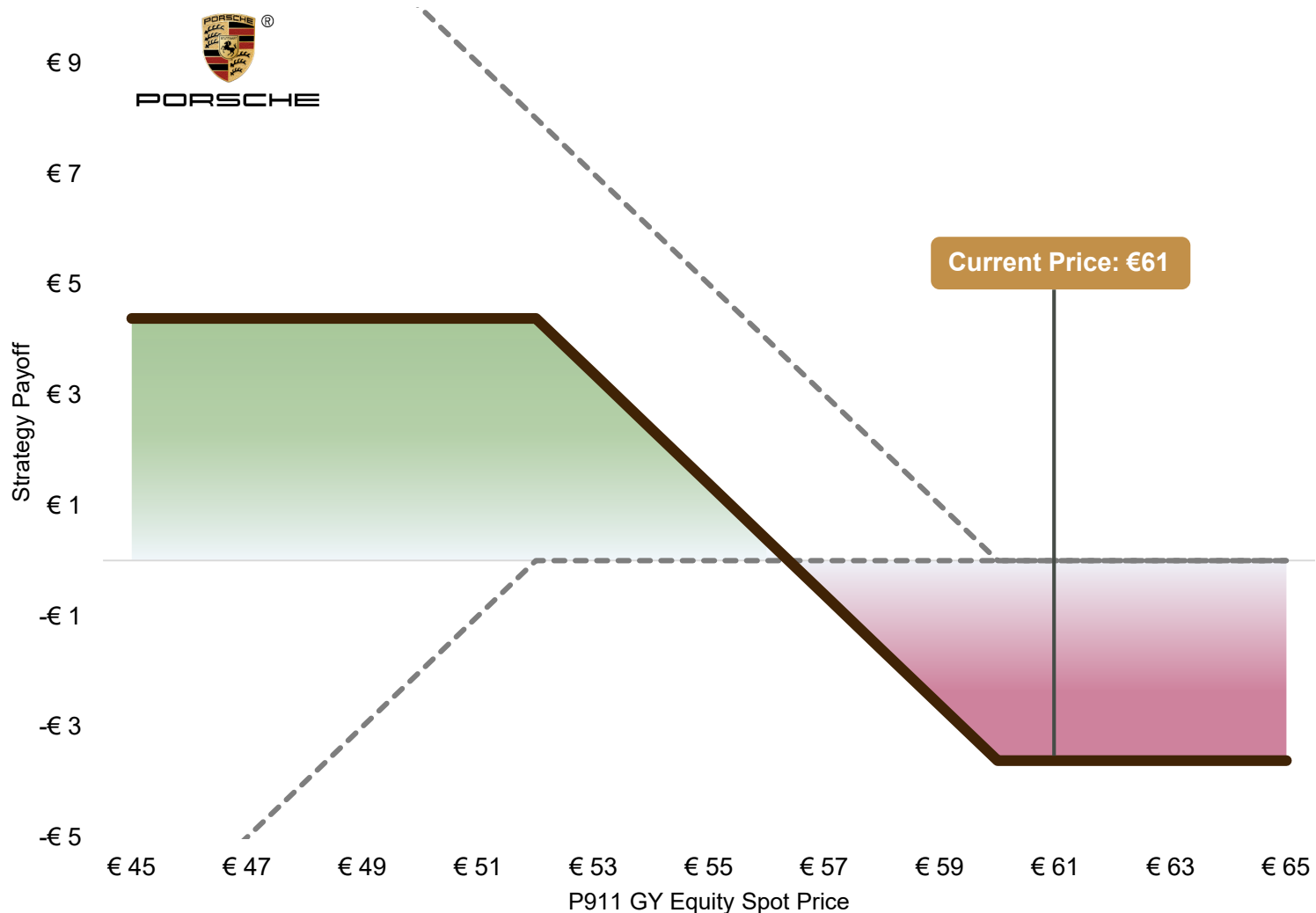
CO2 Regulation:

- Screens low on the basic **ESG criteria**.
- No available estimate of the **expected fine**, but exposed to shortfalls of VW.



Options Strategy

European Bear Put Spread on P911 GY Equity



Strategy Details



Bear Put Spread – simultaneously buy and sell put options on the same underlying at different strike prices.

As of 17.01.2025 close:

Position	Strike	Expiry	CF
SELL PAG 9/19/25 P52	€ 52	Sep 19, 2025	+€ 2.38
BUY PAG 9/19/25 P60	€ 60		-€ 6

Strategy Cost (Maximum Loss): **€3.62**

At t=1 (on 19.09.2025):



Break-even Price: ~€56.5



Break-even Point: -7.4%



Target Return: +21%

Maximum payoff of **€4.38** is reached at the price of **€52**

Maximum loss of **€3.62** is reached at the price of **€60**



Appendix

Source Name	Link	Date of Retrieval	Used for
Interactive Brokers		18.01.2025	Quotes on option prices
Pinterest	link		Title slide picture
Bloomberg Finance L. P.	Bloomberg Terminal		Numerical data for charts, Bloomberg Intelligence Research
MSCI Europe Automobiles and Components Index	link	18.01.2025	US tariffs
Road Genius	link	18.01.2025	US tariffs
Statista(a)	link	18.01.2025	US tariffs
Straits Research	link	18.01.2025	US tariffs
Logos World	link	18.01.2025	US tariffs, EU CO2 Regulations, Peer Comparison, China Demand Slump
Flag Icons	link	18.01.2025	US tariffs
Statista(b)	link	20.01.2025	EU & ESG Focus –I & II
Statista(c)	link	20.01.2025	EU & ESG Focus –I & II
European Commission	link	20.01.2025	EU & ESG Focus I

Source Name	Link	Date of Retrieval	Used for
Unsplash	link		Pictures for filler slides
Pinterest	link		Title slide picture
Euronews	link	13.01.2025	Historical Valuation
FT	link	13.01.2025	Historical Valuation
US News	link	13.01.2025	Historical Valuation
Yahoo finance(a)	link	13.01.2025	Historical Valuation
Yahoo finance(b)	link	13.01.2025	Historical Valuation

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