



European Autos & Parts

A view from the street

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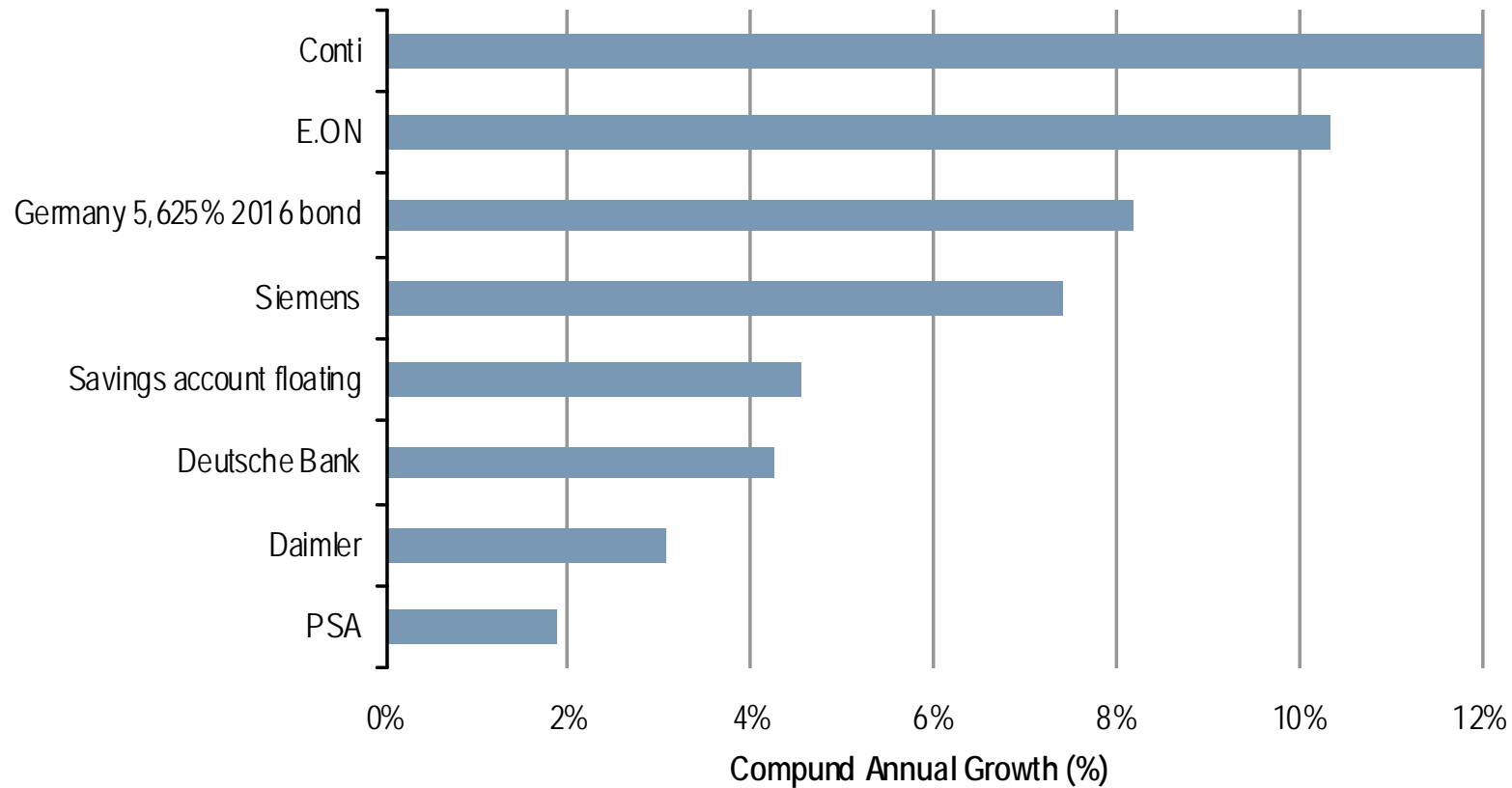
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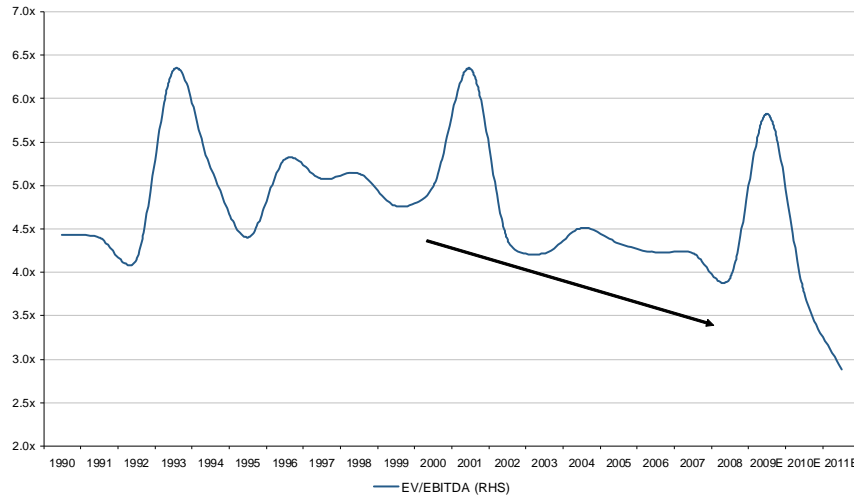
Where do YOU put your kids money?

Buy some bonds or car suppliers...



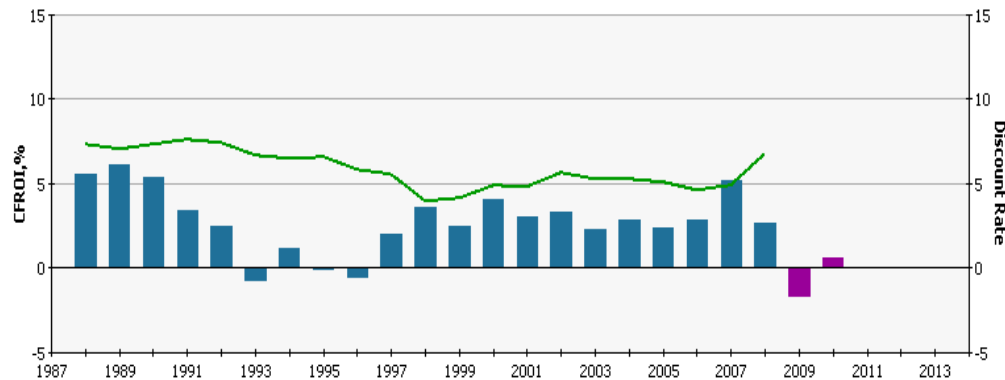
The longer term story remains a sad one

Auto stocks destroy value...



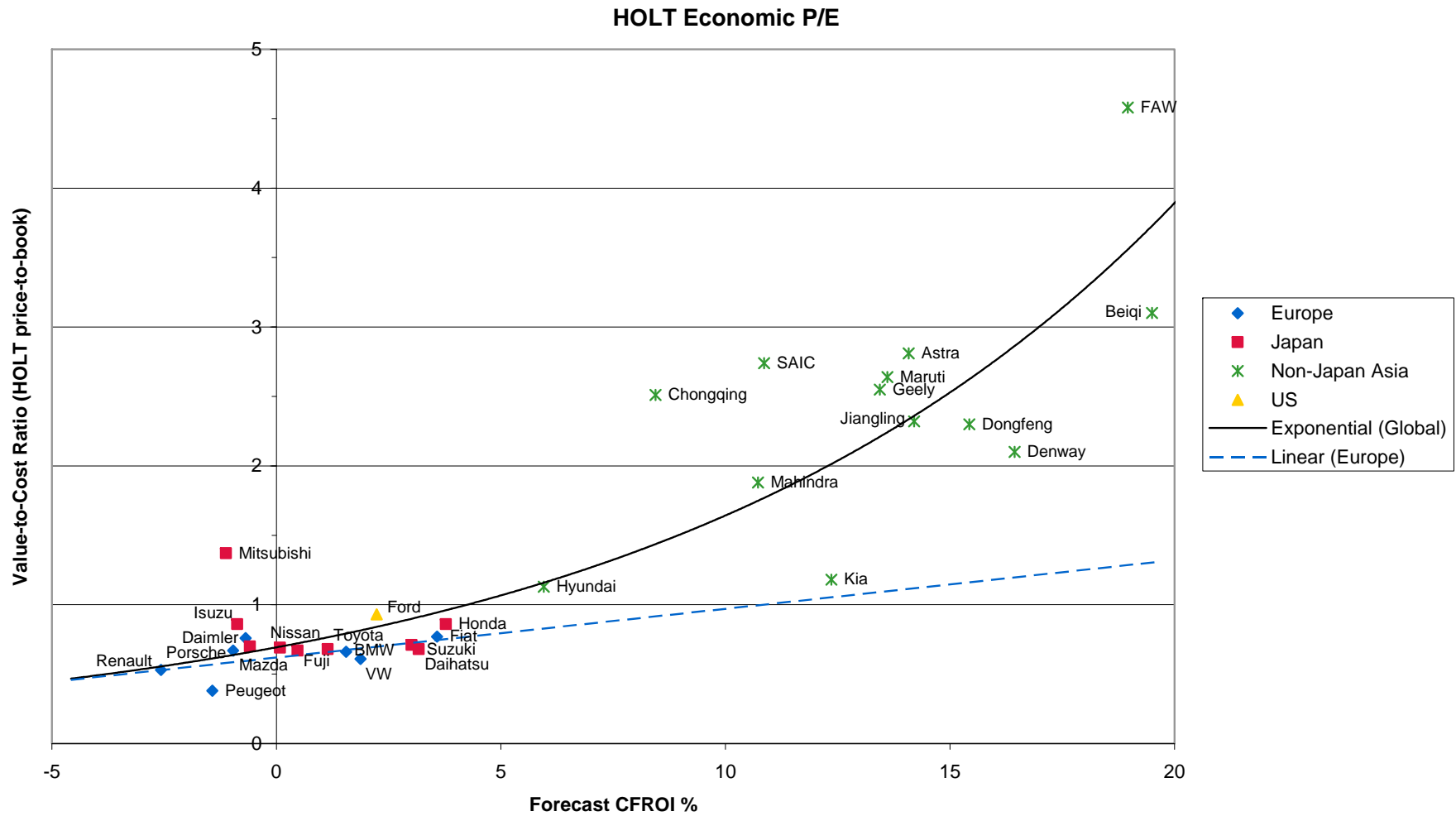
- Investors take a clear view: The Auto industry in operating with diminishing returns, which is reflected in a constant **de-rating of EU automotive stocks**
- Low profitability** (margins) in conjunction with a **high capital intensity** (low asset turnover) lead to falling capital returns (RoCE).
- Over the cycle, the industry is **not earning its cost of capital** and thus destroying value.
- The **lack of consolidation** is driving negative net pricing (too many irrational players) and thus hindering even the 'good' players' generating sufficient returns.

EU Auto industry does not earn its cost of capital



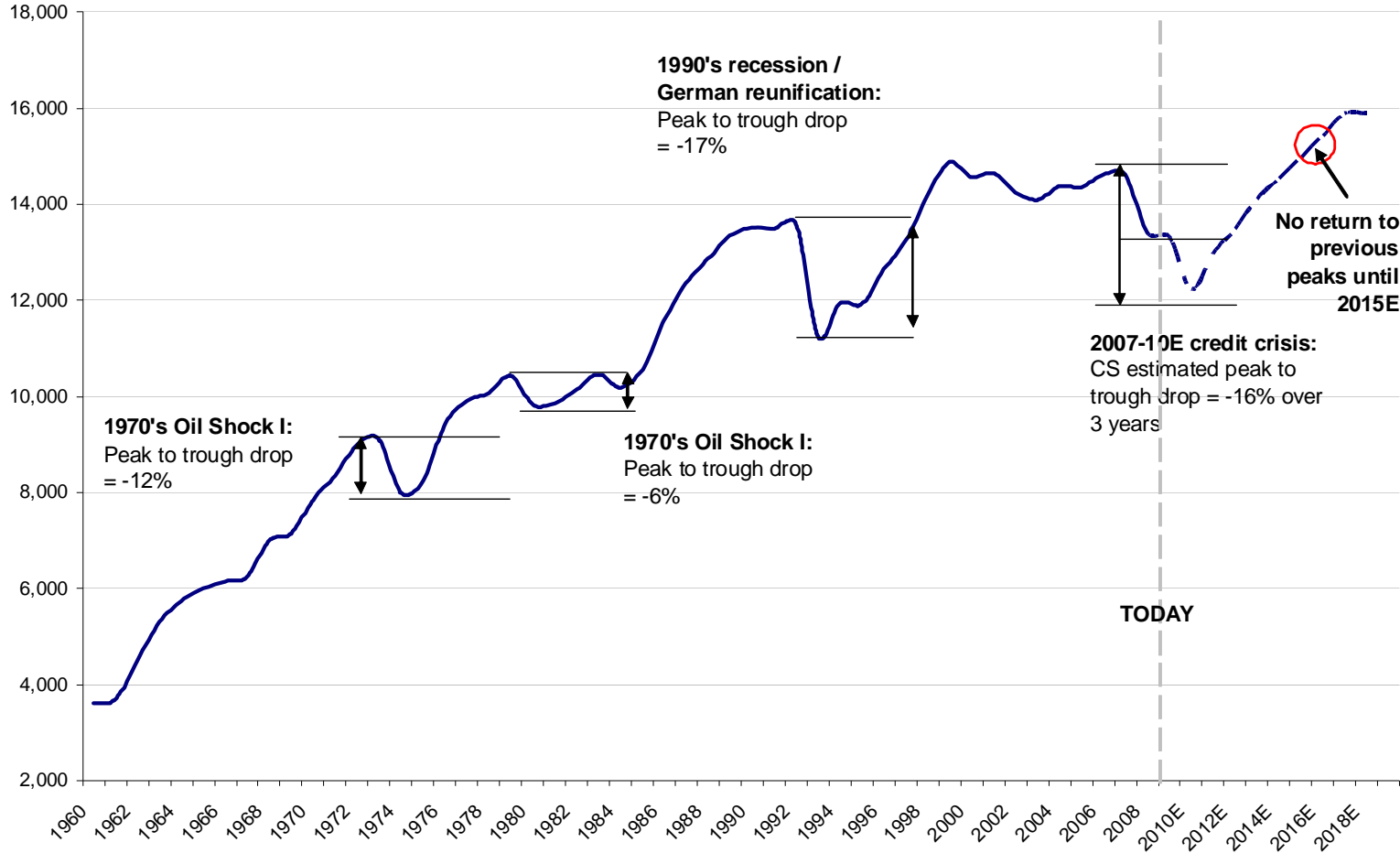
Tightening fuel efficiency regulations, an ageing population in Western markets and limited incremental support from Financial Services add to the pressure.

Asian OEMs are rewarded for their higher returns and growth



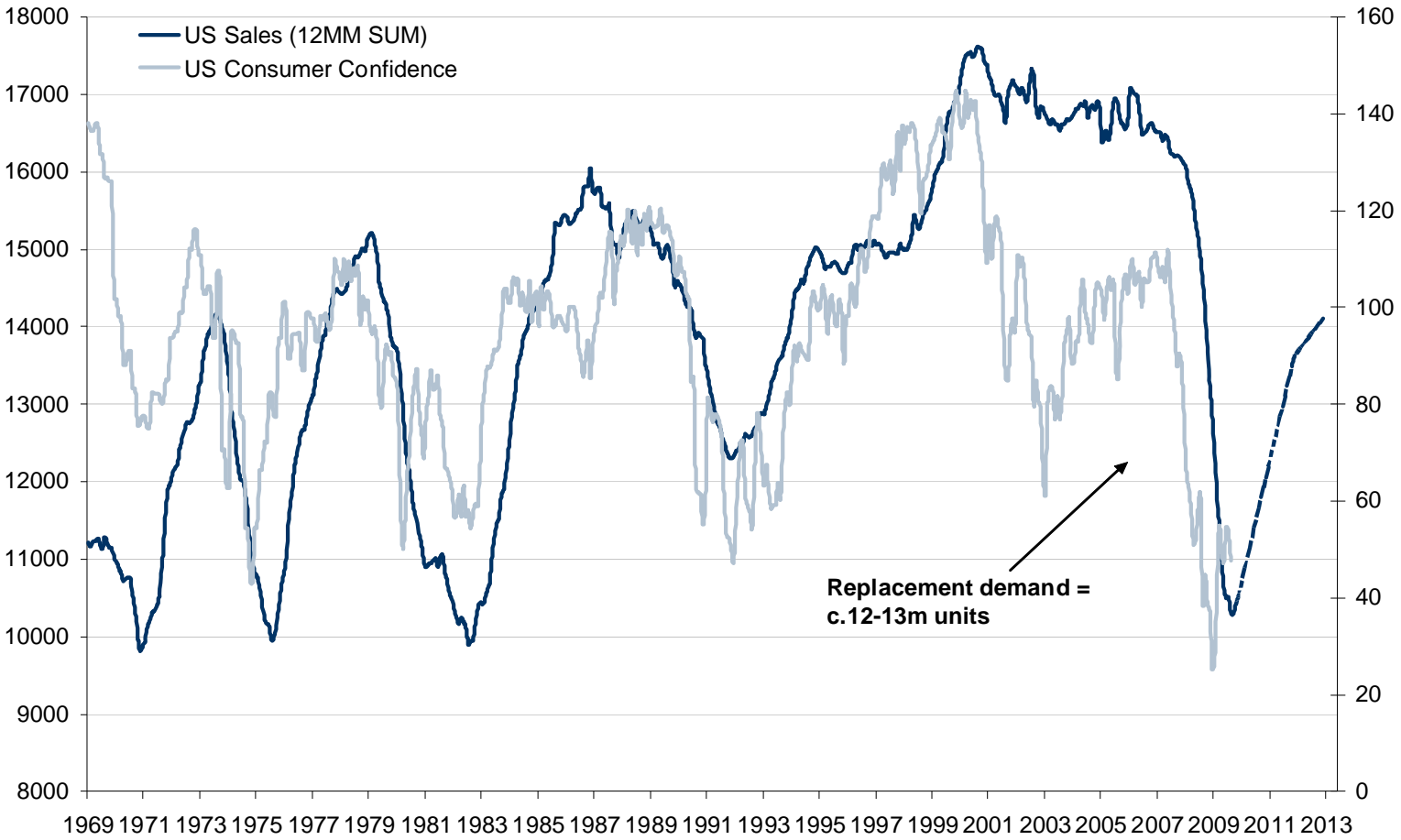
Car demand: Permanently damaged?

Western European car sales – no major correction yet



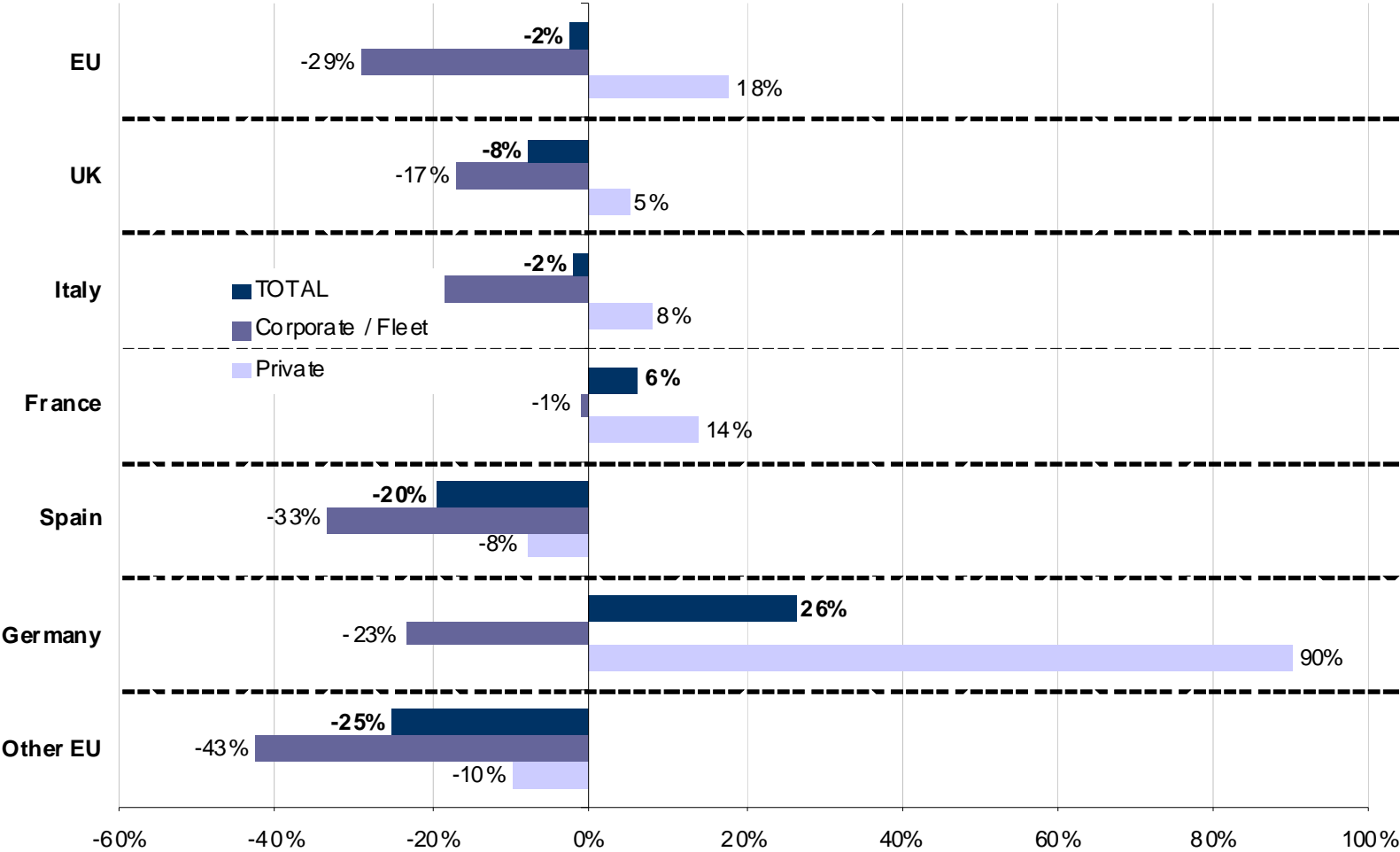
US Consumer Confidence improving...?

US light vehicle sales – it took long, but now at the bottom



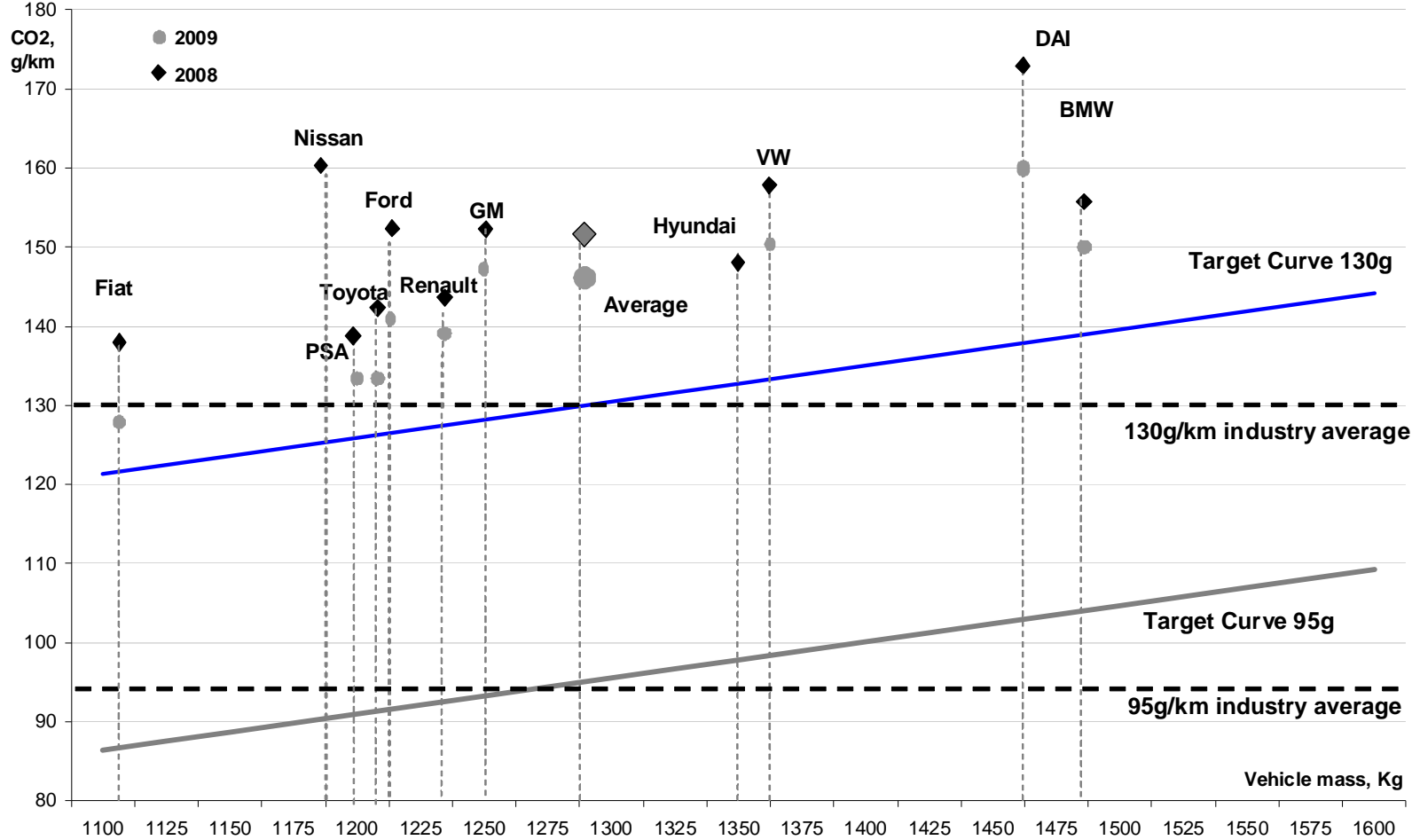
Channel Mix: 2009 by market

Biggest market distortion ever – private vs fleet sales



EU CO2: Still a major issue!

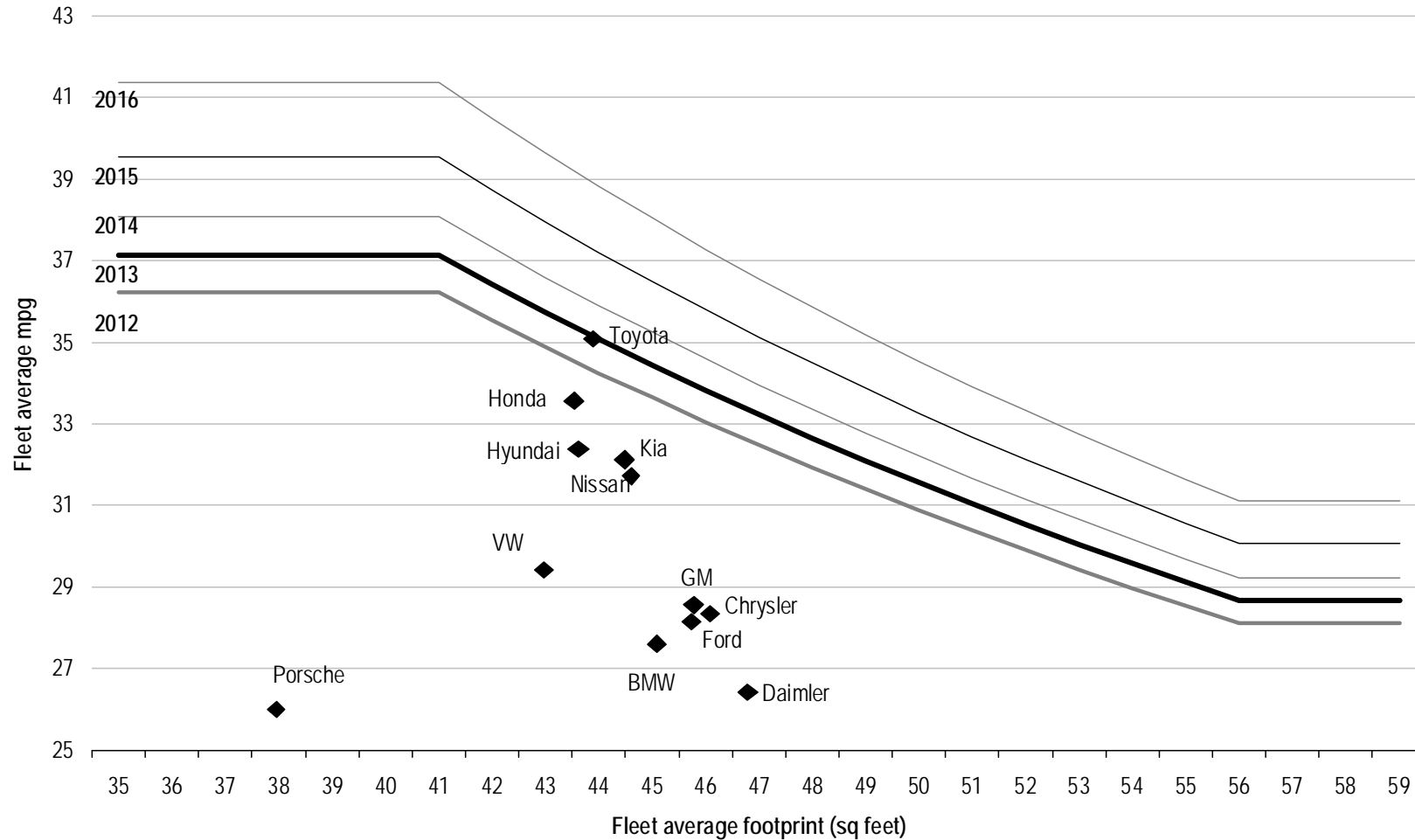
Major progress has been made, but more is still needed (95g/km by 2020)



Source: Company reports and Credit Suisse estimates. 2008 reported emission data

US Emission Standards: Where we stand

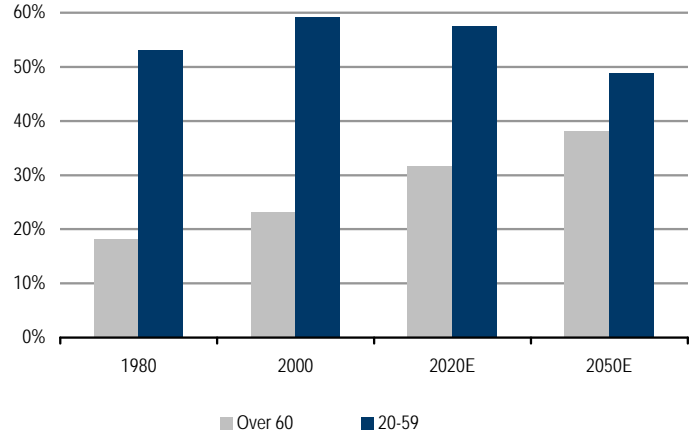
Passenger Car proposals – German makers need to ship EU engines (more expensive)



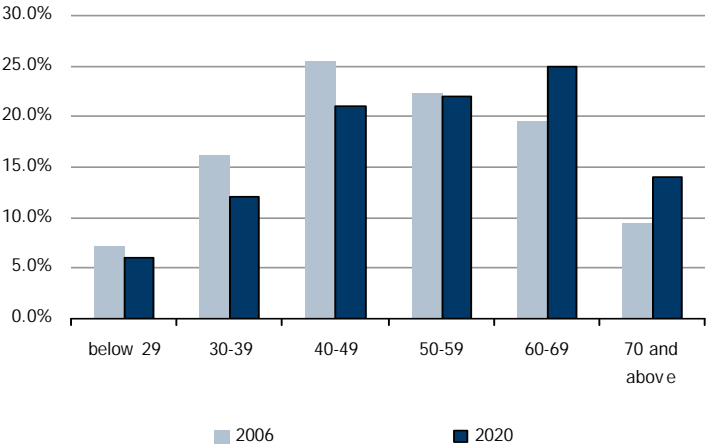
Demographics –Baby Boomers to Empty Nesters

Populations are getting older

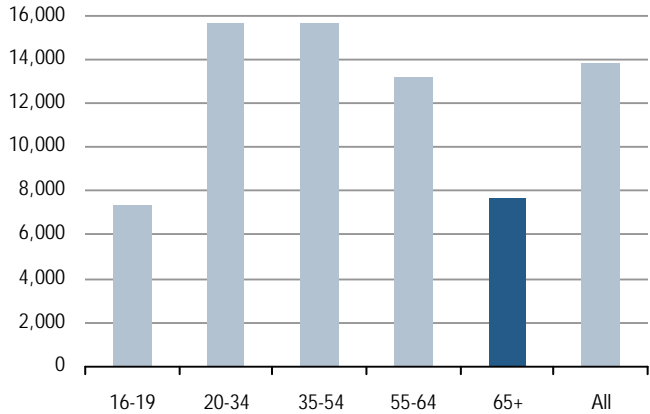
W.Europe age transition



Age of car customers 2006 vs 2020 (Germany)



Average mileage/year by age (US)

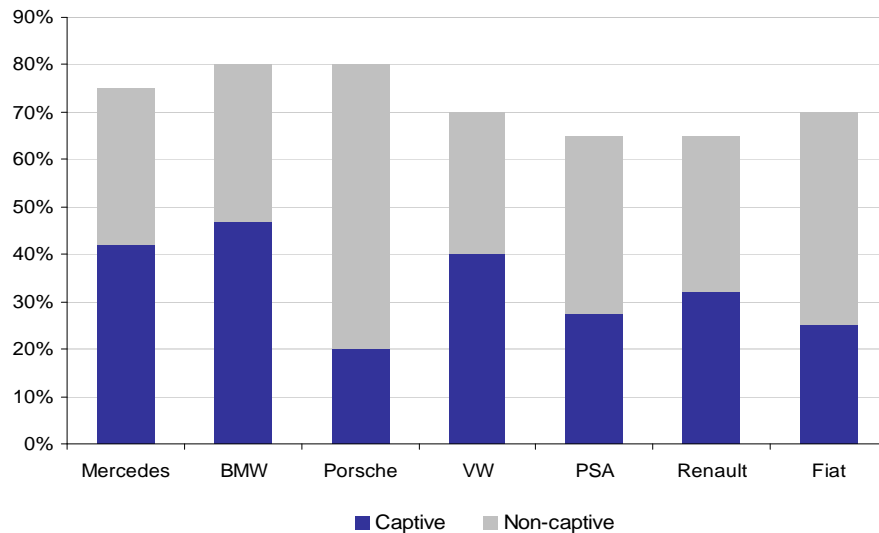


- **40% older than 60:** By as soon as 2020, customers older than 60 are likely to represent **40% of car buyers** in developed markets (from currently below 30%).
- **20-30% falling replacement demand:** People above 65 drive **ca. 45%** fewer miles/year compared to the average car owner, a higher penetration of this customer group will inevitably reduce replacement demand. Together with a generally increasing durability of cars, this could lead to structurally falling sales in developed markets by the magnitude of **20-30%**

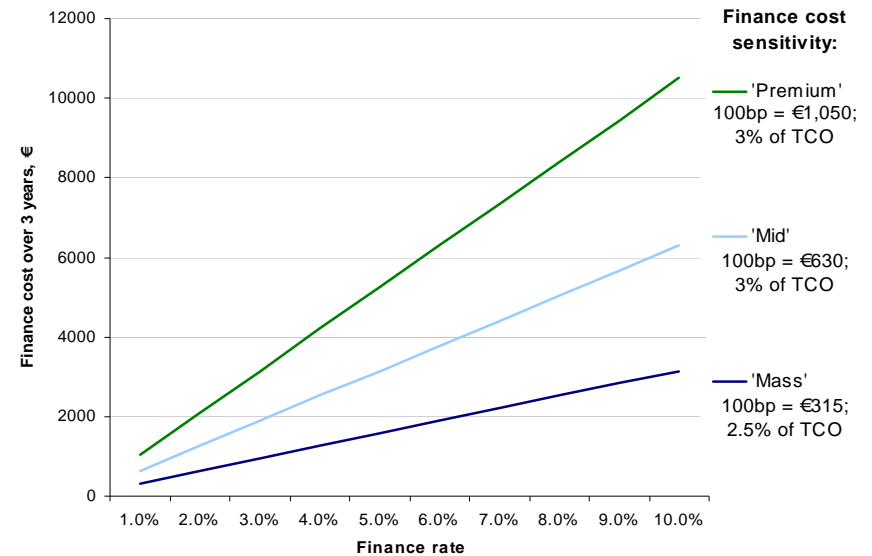
Car buyers are sensitive to finance costs

- The era of cheap credit cant last forever
- Carmakers are selling up to 80% (premium makers) via leasing/financing
- 300bps increase of finance rates **increase TCO by 10%**
- Higher TCO should lead to fewer car sales
- Economies of scale will thus decrease and consolidation should instead trigger efficiency gains

Financial Services penetration rates (leasing and financing)



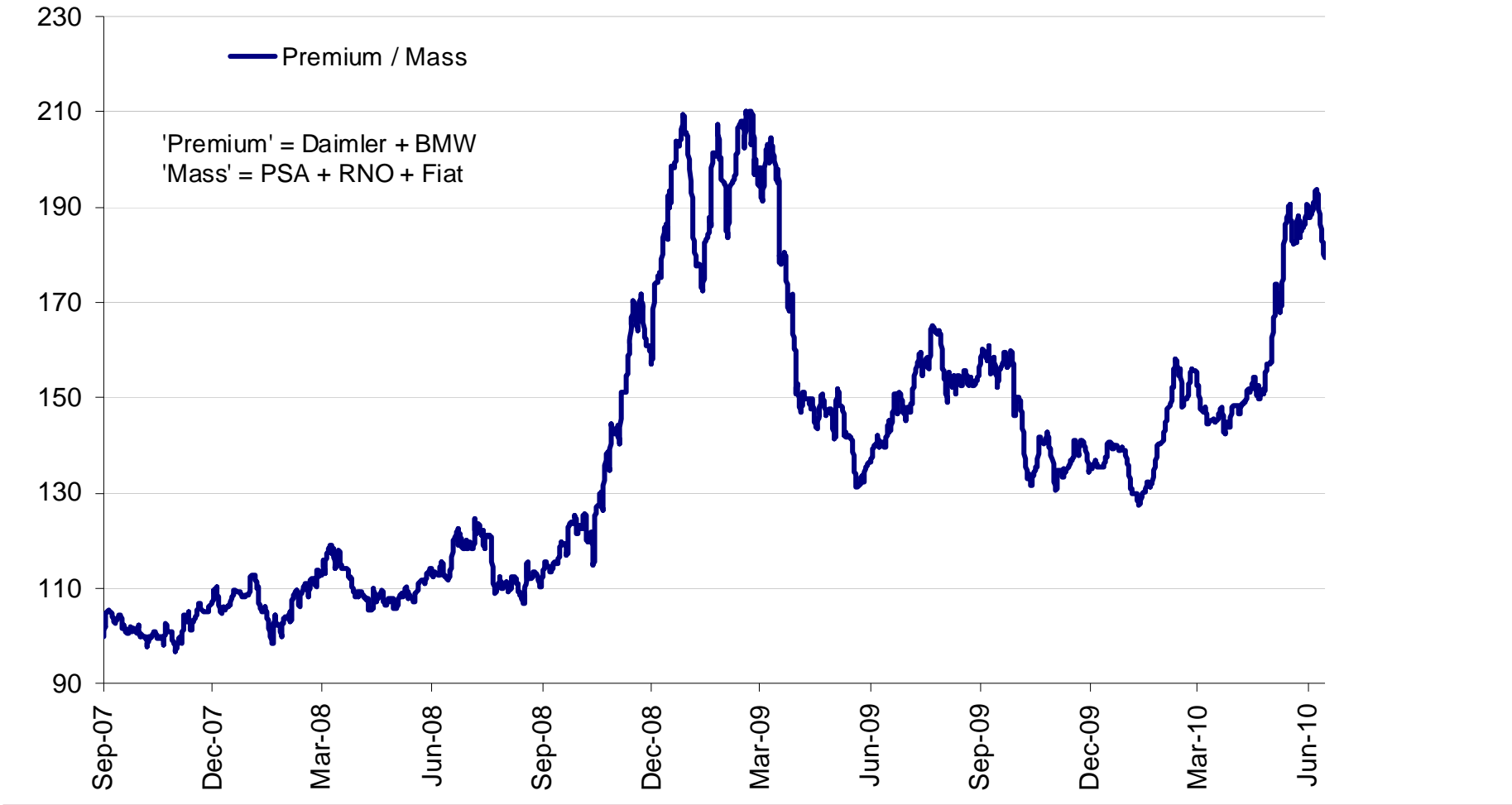
TCO sensitivity to finance rate



Source: Credit Suisse Estimates, *selling price assumptions: mass=€15k, mid=€30k, premium=€50k

P.O.M. – premium over mass

Major outperformance of premium automotive stocks



Sector: Marketweight

Long anything but mass EU Autos

BMW: O/P (FOCUS LIST), €52 TP: Product drives pricing

Daimler: O/P, €50 TP: Least expensive trucks exposure

Conti: O/P €52 TP: Window of opportunity

Fiat: O/P, €14 TP: Spinoff/Removal of the conglomerate discount

MAN: O/P, €78 TP: Cheapest pure play

Renault: O/P, €43 TP: Nissan Play

Porsche: O/P, €69 TP: A way into VW fundamentals?

VW Pref: O/P, €83 TP: Valuation outweighs corporate governance concerns

Short mass EU and expensive truck exposure

PSA Peugeot Citroen: U/P, €21 TP: highest exposure to EU private demand

Michelin: U/P, €46 TP : Great expectations at a high price

Autoliv: U/P, \$51 TP : Overlooked play on overhang?

Scania: U/P, SEK96 TP : Expensive, illiquid, at risk

Volvo: U/P, SEK78 TP : Expensive, NA truck exposure better played via Daimler

Special situations

Porsche/VW: Buy Porsche as a way into merger

Volkswagen: Beware of the overhang in the prefs (QIA 25%)

MAN/Scania/VW: Who will take the lead?

- 1) **Avoiding EU private demand ahead of scrappage expiry**
- 2) **Fleet demand to recover versus declining sales to privates**
- 3) **Long non-Eu-autos exposure (CNH, trucks, intl exposure)**
- 4) **Fiat is a play on CNH/Brazil. Daimler is the best premium/trucks pure play**
- 5) **VW pref is the cheapest global mass producer**
- 6) **RNO is a cheap way to buy undervalued Nissan**

Stock-selection to prevail over macro themes in 2010E

Thank you