Auto stocks in 3rd qtr. go from sore to soar

Robert Sherefkin

It was a terrific quarter to own almost any automotive stock — with a couple of dramatic exceptions. All public auto retailers had a positive return in the third quarter. So did nearly all major public suppliers.

Sixteen of the 18 global automakers were up, too. But Volkswagen AG fell so much — 51 percent — that it makes automakers as a group were down. And the overall figure doesn’t even reflect the debacle at General Motors, where stockholders were wiped out in bankruptcy court.

The Automotive News/PricewaterhouseCoopers Shareholder Value Index soared more than 20 percent for retailers and suppliers in the third quarter. That was driven by signs the global economic downturn may be easing and automotive demand stabilizing, says Jeff Zaleski, PricewaterhouseCoopers automotive transaction services partner.

“Good news reached the auto industry in the third quarter,” Zaleski says. Investors are buying auto sector stocks expecting profits to continue to improve after the overall market recovery, says Paul McCarthy, strategy head of PricewaterhouseCoopers North America. McCarthy expects auto stocks to trend upward another year, although he worries about supplier bankruptcies and the possibility that auto sales will stumble again before the economy recovers fully.

Automakers

While 16 automakers still gained value in the third quarter, led by a 63 percent surge by Hyundai Motor Co., the overall result still was negative. That’s entirely because Volkswagen’s return to shareholders plunged by more than half during the period, the Automotive News/PricewaterhouseCoopers analyses say.

Volkswagen stock prices have been volatile over the past year due to an internal battle between the Porsche and Piech families for control of the automaker. Last week VW’s ordinary shares were trading near the low end of the 52-week price range of $160 to $1,880. General Motors’ shareholders were wiped out by U.S. Bankruptcy Court, although the automaker survives as a private company. GM’s now-worthless old stock means it dropped off the index for the third quarter.

Supplier return

As a group, supplier stocks returned 25 percent in the third quarter.

Only two companies posted a negative return: both BorgWarner Inc., of suburban Detroit, and Japan’s Futaba Industrial Co. fell 11 percent. In addition, U.S. suppliers Lear Corp. and Visteon Corp. entered bankruptcy court, and, like GM, were removed from the index.

At the other extreme, returns rocketed five-fold at Dana Holding Corp., of Maumee, Ohio, and doubled at France’s Faurecia and at American Axle & Manufacturing Holdings Inc., of Detroit.

Over the last one- and three-year periods, Asian suppliers have led their peers in return to shareholders. But in the third quarter, North American and European suppliers set the pace. Shareholders of suppliers based in Europe and North America have seen their returns shrink by more than a third over three years and somewhat less over a year. But both regions rebounded from those deep lows in the most recent quarter, jumping an average of 76 percent for North American suppliers and 80 percent for European suppliers.

Asian supplier stocks, led by South Korea’s Hankook Tire Co. and Hyundai Mobis, posted a 25 percent return but still sold 20 percent gain last quarter.

Retailers

Stocks of public dealership groups are still down 16.3 percent from three years ago. But they all rose in the third quarter, lifting the retailer’s index a 21 percent.

That’s primarily because retailers adjusted to the sales slump and have more control over their cost structures than more capital-intense suppliers and manufacturers, says PricewaterhouseCoopers analysts.

In addition, retailers benefited from government stimulus programs that boosted sales. Both the U.S. government’s cash-for-clunkers program and incentives to scrap old cars in major European markets lifted new-vehicle volume in the third quarter. While all of the public dealers in the index are headquartered in the United States, some have overseas operations as well.

U.S. RETAIL GROUPS

Total shareholder value for U.S. retail groups; percentage change per period

<table>
<thead>
<tr>
<th>Stock</th>
<th>Q3</th>
<th>One Year</th>
<th>Three Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lithia Motors</td>
<td>68.7</td>
<td>270.0</td>
<td>-29.5</td>
</tr>
<tr>
<td>CarMax</td>
<td>42.2</td>
<td>49.3</td>
<td>0.2</td>
</tr>
<tr>
<td>AutoNation</td>
<td>23.8</td>
<td>10.1</td>
<td>-32.1</td>
</tr>
<tr>
<td>TRW Index</td>
<td>28.1</td>
<td>65.8</td>
<td>-16.3</td>
</tr>
<tr>
<td>PAG</td>
<td>15.3</td>
<td>69.3</td>
<td>-14.2</td>
</tr>
<tr>
<td>Penske Automotive</td>
<td>3.2</td>
<td>28.2</td>
<td>-50.8</td>
</tr>
<tr>
<td>Group 1 Auto</td>
<td>3.2</td>
<td>24.2</td>
<td>-44.0</td>
</tr>
</tbody>
</table>

EVs need new parts, and maybe new parts makers

Robert Sherefkin

DETROIT — The spread of electric vehicles poses substantial barriers but also offers great rewards, said Ted Robertson, chief technical officer of Magna International Inc.

The electrification of vehicles will require “a substantial number of systems that aren’t used on gasoline-powered cars.” Some of whom have made parts for consumer electronics, sometimes are unfamiliar with the automotive or electronic components.

Finding qualified suppliers for those and other electric-car parts isn’t easy. Just ask General Motors Co. GM has scrambled to find suppliers for the Chevrolet Volt plug-in hybrid, which goes on sale in November 2010.

John Ferris,Volt program planning manager for GM, says: “We are luckier than most suppliers across the board: in electrification of the vehicle, in power electronics, braking, drive units and heating and cooling.

“We are finding that some suppliers have never supplied the auto industry,” Ferris told Auto- motive News at the same conference.

Most auto parts suppliers build components and mechanical systems for conventional cars, where driveshafts, belts and air conditioning systems are common. But they face high costs to switch to electric or electronic components.

A wide variety of new parts are needed for the auto industry, some of whom have made parts for consumer electronics, sometimes are unfamiliar with the industry’s requirements for large volumes, zero defects, crash tests and long-term warranties.

“In some cases there are just a handful” of suppliers, Ferris said, “that can meet the capabilities and requirements for the automotive product in quality, performance, technology and financial capabilities to meet the volumes” of the industry.

Magna’s EV plans

Magna, North America’s largest automotive supplier based on 2008 sales of original-equipment parts, is developing jointly with Ford Motor Co. an electric Focus-sized car that the automaker showed at the Detroit auto show in January and plans to sell in 2011. Magna has responsibility for much of the vehicle’s powertrain, including traction motor, transmission and vehicle control units.

At the Geneva motor show in March, the supplier’s Magna Steyr unit unveiled its MiiL electric car concept. The MiiL electric car concept. The MiiL will not be a production car, but the company hopes to find customers for some of the components used in the concept.
Auto stocks in 3rd qtr. go from sore to soar

Robert Sherefin

It was a terrific quarter to own almost any auto component stock — with a couple of dramatic exceptions. All public auto retailers had a positive return in the third quarter. So did nearly all major public suppliers.

Sixteen of the 18 global automakers were up, too. But Volkswagen AG fell so much — 51 percent — that automakers as a group were down. And the overall figure doesn’t even reflect the debacle at General Motors, where stockholders were wiped out in bankruptcy court.

The Automotive News/PricewaterhouseCoopers Supplier Share Value Index soared more than 20 percent for retailers and suppliers in the third quarter. That was driven by signs the global economic downturn may be easing and auto industry demand stabilizing, says Jeff Zaleski, PricewaterhouseCoopers’ automotive transaction services partner.

“Good news reached the auto industry in the third quarter,” Zaleski says. Investors are buying auto sector stocks expecting prices to continue to improve if the overall market recovery, says Paul McCarthy, strategy head of PricewaterhouseCoopers’ North America region.

McCarthy expects auto stocks to trend up another year, although he worries about supplier bankruptcies and the possibility that auto sales will stumble again before the economy recovers fully.

Automakers

While 16 automakers and suppliers gained value in the third quarter, led by a 63 percent surge by Hyundai Motor Co., the overall result still was negative. That’s entirely because Volkswagen’s return to shareholders plunged by more than half during the period, PricewaterhouseCoopers analysts say.

Volkswagen stock prices have been volatile over the past year due to an internal battle between the Porsche and Piech families for control of the automaker. Last week VW’s ordinary shares were trading near the low end of the 52-week price range of $160 to $1,080. General Motors’ now-worthless old supplier bankruptcy, although the automaker survives as a private company. GM’s now-worthless old stock divisor dropped it off the index for this quarter.

Suppliers

As a group, supplier stocks returned 25 percent in the third quarter.

Only two companies posted a negative return: both BorgWarner Inc., of suburban Detroit, and Japan’s Futaba Industrial Co. fell 11 percent. In addition, U.S. suppliers Lear Corp. and Visteon Corp. entered bankruptcy and, like GM, were removed from the index.

At the other extreme, returns rocketed five-fold at Dana Holding Corp., of Maumee, Ohio, and doubled at France’s Faurecia and at American Axle & Manufacturing Holdings Inc., of Detroit.

Over the last one- and three-year periods, Asian suppliers have led their peers in return to shareholders. But in the third quarter, North American and European suppliers set the pace. Shareholders of suppliers based in Europe and North America have seen their returns shrink by more than a third over three years and somewhat less over a year. But both regions rebounded from those deep lows in the most recent quarter, jumping an average of 76 percent for North American suppliers and 68 percent for European counterparts. Asian supplier stocks, led by South Korea’s Hankook Tire Co. and Hyundai Mobis, posted a 25 percent gain but still solid 20 percent gain last quarter.

Retailers

Stocks of public dealer groups are still down 16.3 percent from three years ago. But they all rose in the third quarter, lifting the retailer’s index 21 percent.

That’s primarily because retailers adjusted to the sales slump and have more control over their cost structures than more capital-intensive suppliers and manufacturers, say PricewaterhouseCoopers analysts.

In addition, retailers benefited from government stimulus programs that boosted sales. Both the U.S. government’s cash-for-clunkers program and incentives to scrap old cars in major European markets lifted new-vehicle volume in the third quarter. While all of the public dealers in the index are headquartered in the United States, some have overseas operations as well.

EVs need new parts — and maybe new parts makers

On the sidelines of an electric-vehicle conference here, Robertson outlined for Automotive News a substantial number of systems that could disappear with pure electric cars. They include gas tanks and gas lines, as well as mechanical water pumps. “We will have to go with electric pumps and cooling systems,” he said.

Suppliers lacking

Finding qualified suppliers for those and other electric-car parts isn’t easy. Just ask General Motors Co. GM has scrambled to find suppliers for the Chevrolet Volt plug-in hybrid, which goes on sale in November 2010.

John Ferris, Volt program planning manager for GM, says: “We are looking at suppliers across the board: in electrification of the vehicle, in power electronics, braking, drive units and heating and cooling. “We are finding that some suppliers have never supplied the auto industry,” Ferris told Automotive News last week at the same conference.

Most auto parts suppliers build components and mechanical systems for conventional cars, where driveshifts, belts and pulleys reign. But they face huge costs to switch to electric or electronic components.

Moreover, newcomers to the auto industry, some of whom have made parts for consumer electronics, sometimes are unfamiliar with the industry’s requirements for large volumes, zero defects, crash tests and long-term warranties.

“In some cases there are just a handful of suppliers,” Ferris said, that “can meet the capabilities and requirements for the automotive product in quality, performance, technology and financial capabilities to meet the volumes” of the industry.

Magnus’ EV plans

Magnus, North America’s largest automotive supplier based on 2008 sales of original-equipment parts, is developing jointly with Ford Motor Co. an electric Focus-sized car that the automaker showcased at the Detroit auto show in January and plans to sell in 2011. Magnus has responsibility for much of the vehicle’s powertrain, including traction motor, transmission and vehicle control units.

At the Geneva motor show in March, the supplier’s Magna Steyr unit unveiled its Mila electric car concept. The Mila EV electric car concept. The Mila EV electric car concept. The Mila EV electric car concept.