



Credit Outlook: Global Autos

Oct. 31, 2023

S&P Global
Ratings

This report does not constitute a rating action

Contents

Current Risk Factors	4
Global Light Vehicle Forecast	5
Ratings	6
Appendix	13
Related Research	15

Key Takeaways

- Light vehicle (LV) production is adjusting to a weaker demand environment.
- LV sales are catching up in both the U.S. and European sectors this year, but we believe will lose momentum from 2024. China no longer drives global growth.
- We note more pronounced pricing risk in the volume market while competition increases.
- Electric vehicle (EV) penetration is increasing, but progressing unevenly in Europe; the EV inventory is increasing in the U.S.
- We see mixed effects and orderbooks delaying profitability pressure, but the combination of softer pricing and increasing electrification in lower segments will contribute to some margin erosion.
- Suppliers are struggling to bridge the profitability gap amid sustained portfolio repositioning.
- We believe redesigned incentive schemes or tariff barriers will counter the Chinese EV offensive in Europe.
- We see some headroom in ratings to absorb slower growth and weaker pricing, but the rating cushion could vanish amid tougher market conditions.

Current Risk Factors | Global Autos

■ Low risk
 ■ Very low risk
 ■ Moderate risk
 ■ High risk
 ■ Very high risk

2023 risk factors	Auto manufacturers	Auto suppliers	Auto captives	Auto retailers
Impact of economic slowdown				
Impact of inflation				
Labor cost pressures				
Working capital stress				
Speculative grade refinancing				
Main disruptive threat	Auto OEMs: EV cost structure, failed vertical integration strategies, software-driven comp. advantage Auto suppliers: OEM insourcing risks for some components, competition with tech players Auto captives: Sudden ICE RV collapse Auto retailers: Direct-to-consumer model			

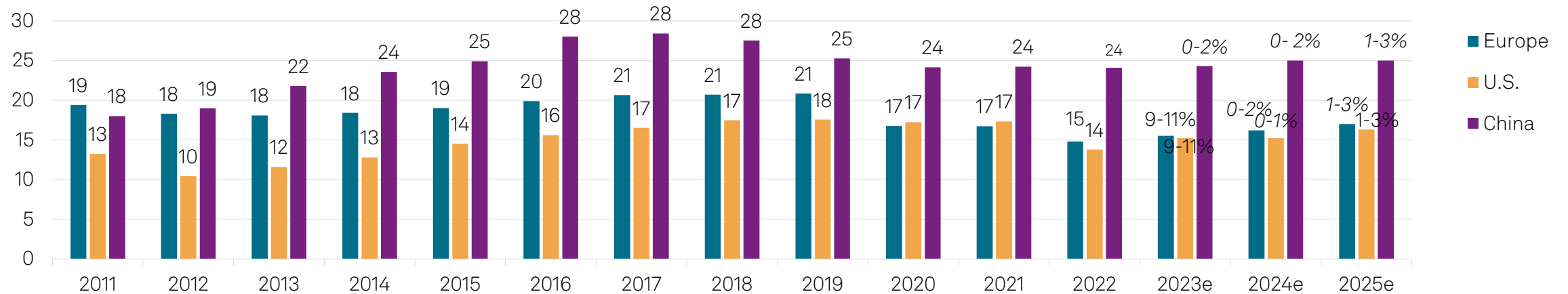
EV--Electric vehicle. OEM--Original equipment manufacturer. Source: S&P Global Ratings.

Global LV Forecast | Sales Growth Slows In Major Regions

Global light vehicle sales and production (mil. unit)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Light vehicle sales	76	80	84	87	88	92	94	94	90	77	80	79	84	85	88
	+4%	+5%	+5%	+4%	+2%	+4%	+2%	-1%	-4%	-14%	+4%	-2%	5%-7%	1%-3%	2%-4%
Light vehicle production	77	82	85	87	89	93	95	94	89	75	77	82	85	86	87
	+3%	+6%	+4%	+3%	+2%	+5%	+2%	-1%	-6%	-16%	+3%	+7%	3%-5%	0%-2%	1%-3%

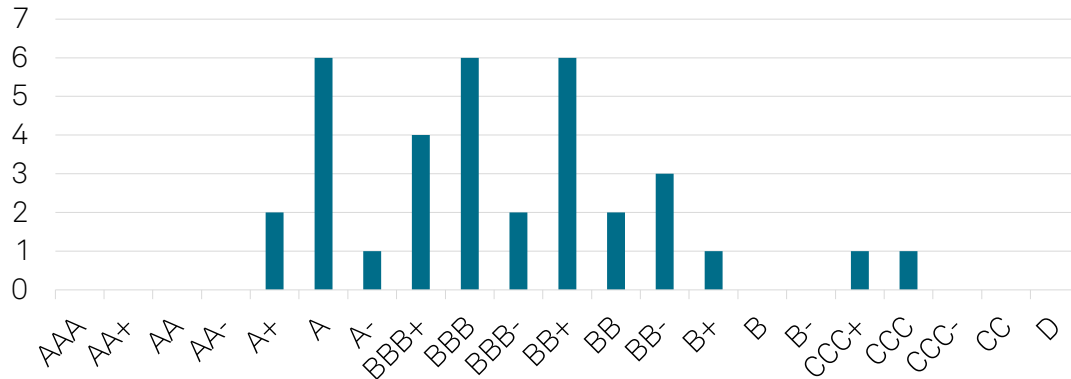
Light vehicle sales by main market (mil. unit)



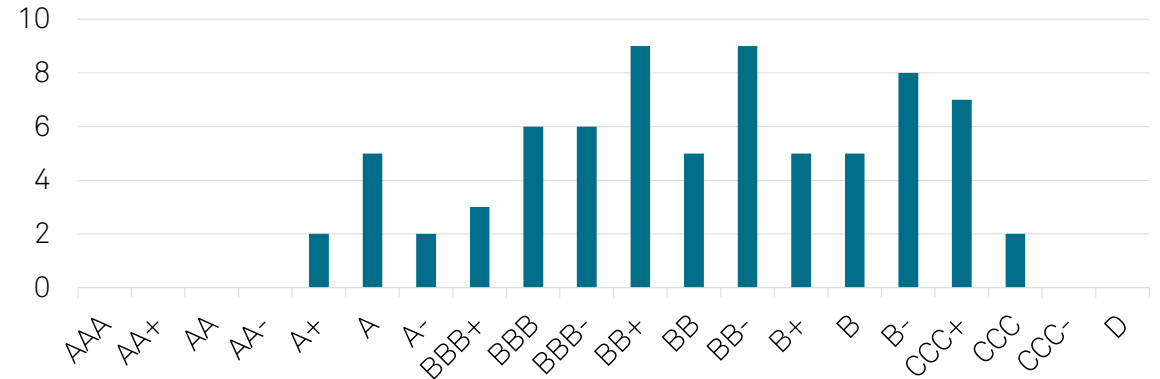
e--Estimate. Source: S&P Global Ratings. Historicals from S&P Global Mobility.

Ratings | Sufficient Headroom To Cope With Modest Growth

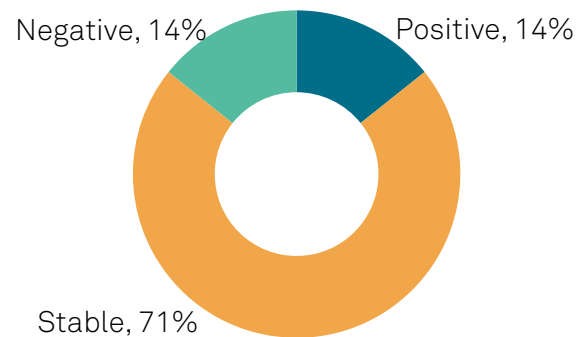
Rating distribution (global OEMs and trucks)



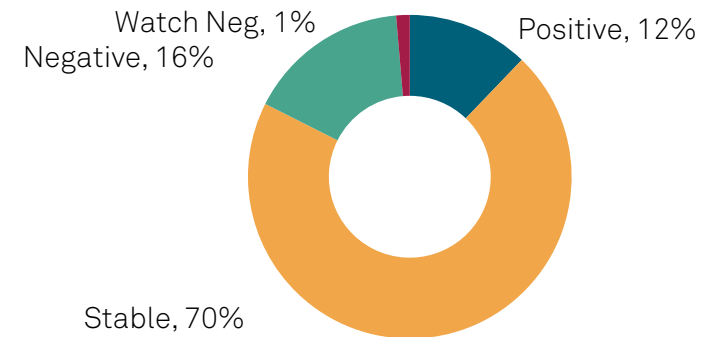
Rating distribution (global auto suppliers)



Outlook distribution (global OEMs and trucks)



Outlook distribution (global auto suppliers)

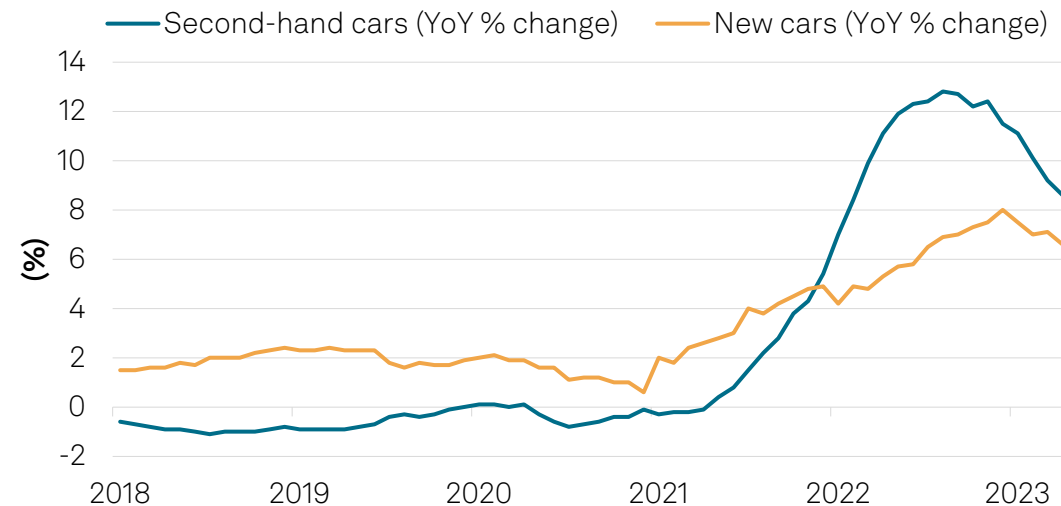


Source: S&P Global Ratings; ratings and outlooks as of September, 2023.

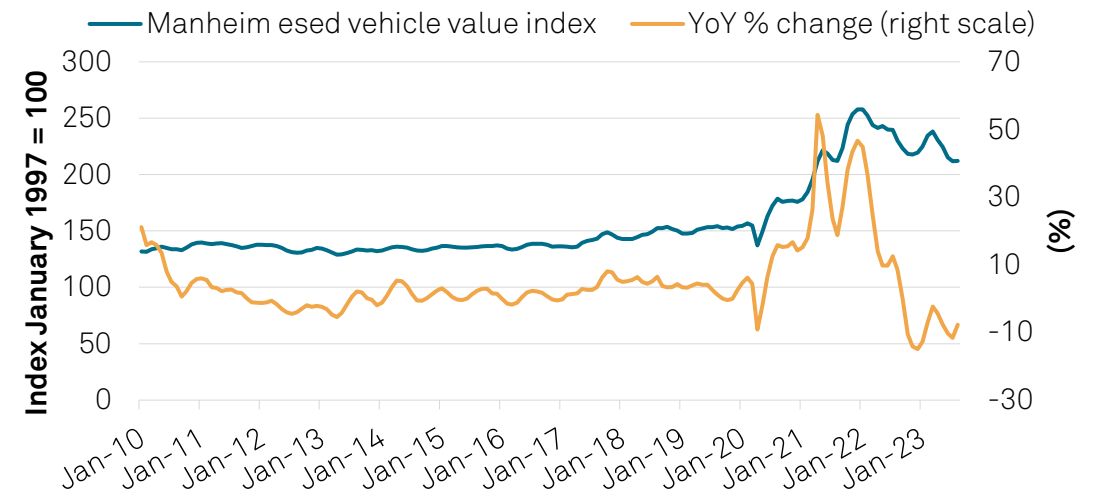
Pricing | Pricing Party Coming To An End

- Weaker demand in many markets sparks concerns on pricing.
- Pricing weakness already evident in volume segment, only partly offset by positive mix effects.
- OEM topline growth flattening out.
- Used car prices have reached an inflection point.

Eurozone car price index (2015 = 100)



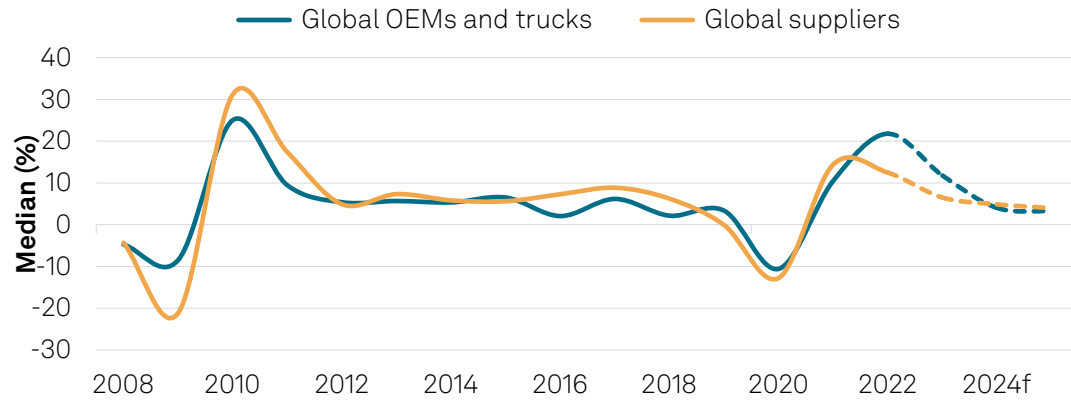
Manheim used vehicle value index: U.S



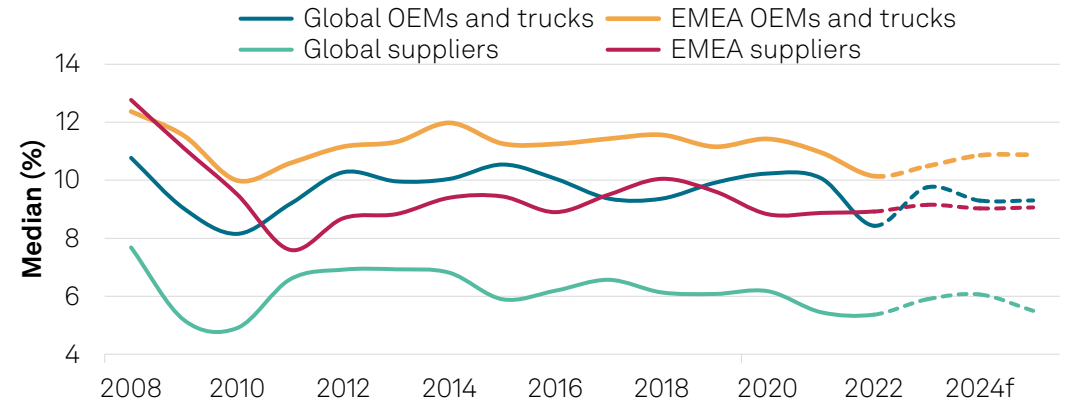
YoY—Year-on-year. Source: Eurostat, Manheim, S&P Global Ratings.

Credit Metrics | Supplier Margins And Cash Conversion Recovering Slowly

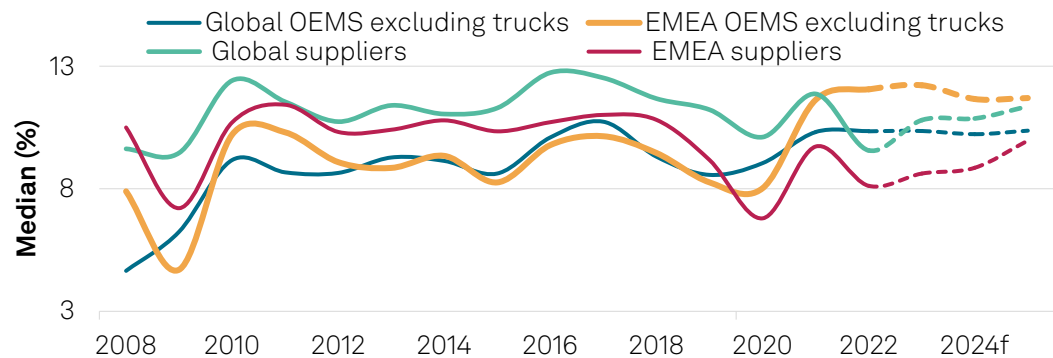
Revenue growth, YoY



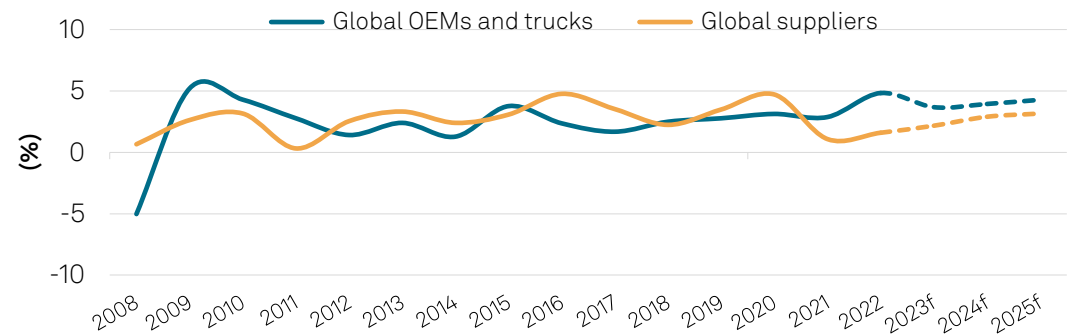
Investment to sales*



EBITDA margin



Free operating cash flow to sales

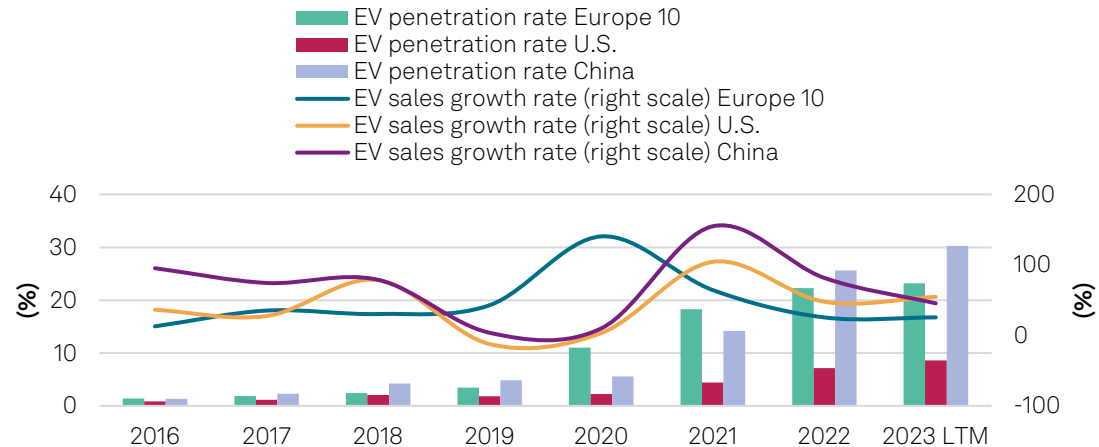


*Research and development plus capital expenditure. f--S&P Global Ratings forecast. OEM—Original equipment manufacturer. YoY—Year-on-year. Adata as of October 2023. Source: S&P Global Ratings.

Electrification | **Steady Progress So Far**

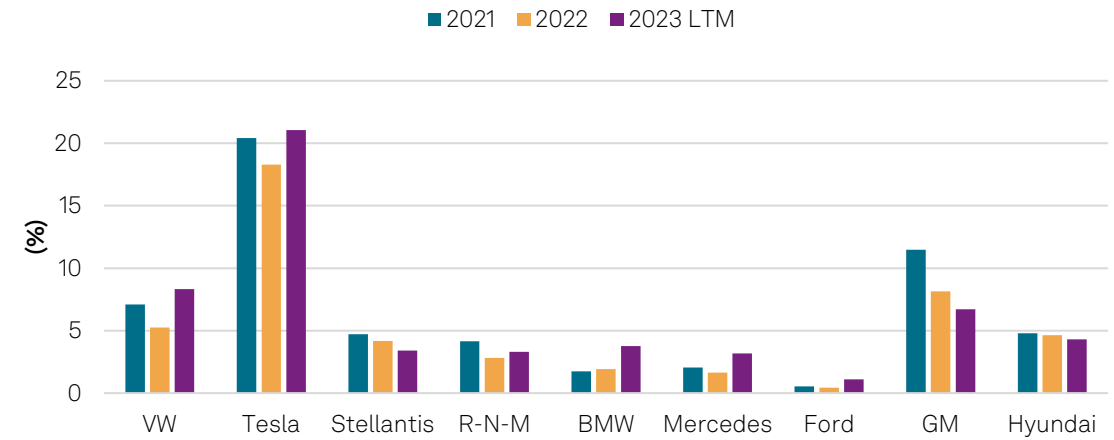
- We've seen increased penetration of electric vehicles (EVs), albeit at more normalized growth rates in almost all the main markets.
- Global EV units sold more than 6 million in the first half of 2023, and represented some 14% of global light vehicle sales.
- We see emerging signs of growth weakness in China and in the U.S.
- Europe is exploring measures to protect its nascent EV industry.
- Tesla remains the global EV industry leader, while some incumbent OEMs struggle to maintain/increase momentum.

EV sales growth rate and penetration rate



EV--Electric vehicle. OEM--Original equipment manufacturer. LTM--Last twelve months. Source: EV Volumes, S&P Global Ratings, Year-to-date August 2023.

Global BEV market share

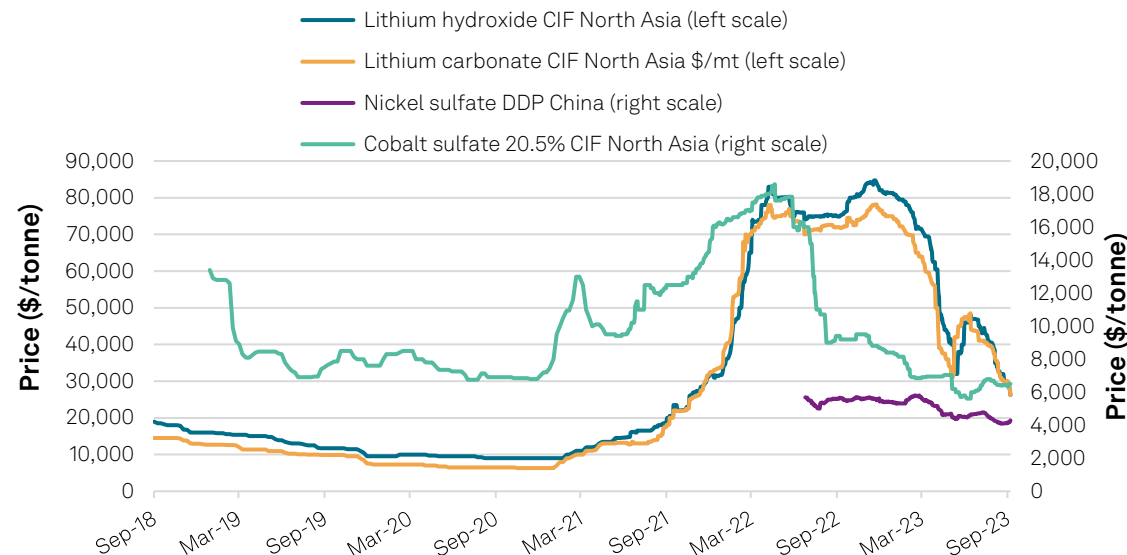


BEV--Battery electric vehicle. LTM--Last twelve months. Source: S&P Global Ratings.

Electrification | Some Relief On The Battery Cost Front

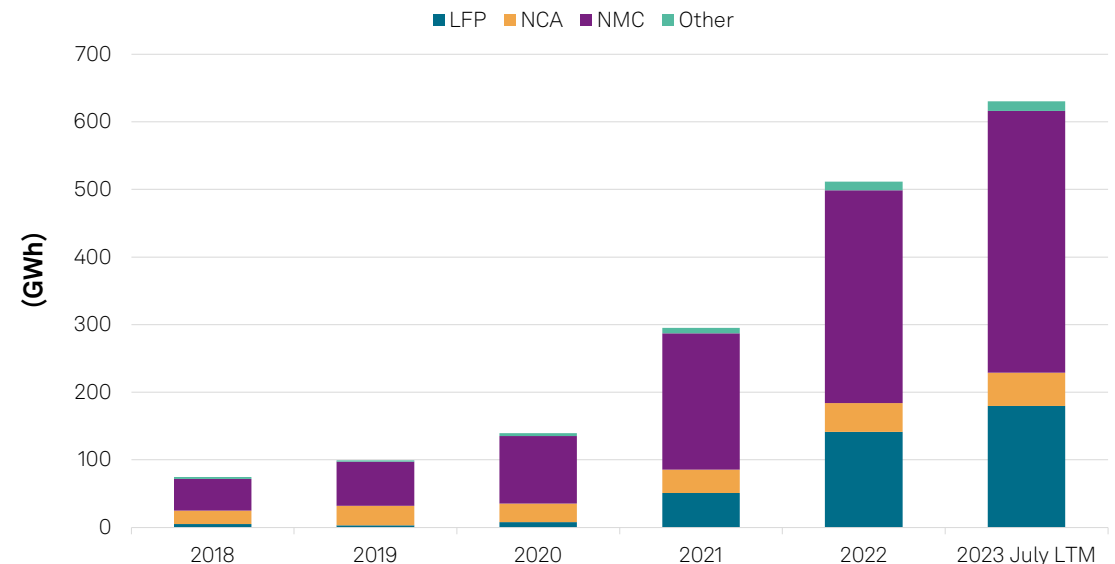
- Cobalt prices have returned to pre-2021 levels on the back of weak electronics sales, higher supply, and the industry’s incipient switch to cobalt-free batteries.
- In light of expanding supply, lithium prices are falling in China, but remain higher than pre-2021 on the back of the expected mid-term supply gap.
- Lithium iron phosphate battery chemistry is gaining a share in cheaper mass market BEVs.

Pricing of key lithium-ion battery metals



Data as of September 2023. Source: S&P Global Market Intelligence.

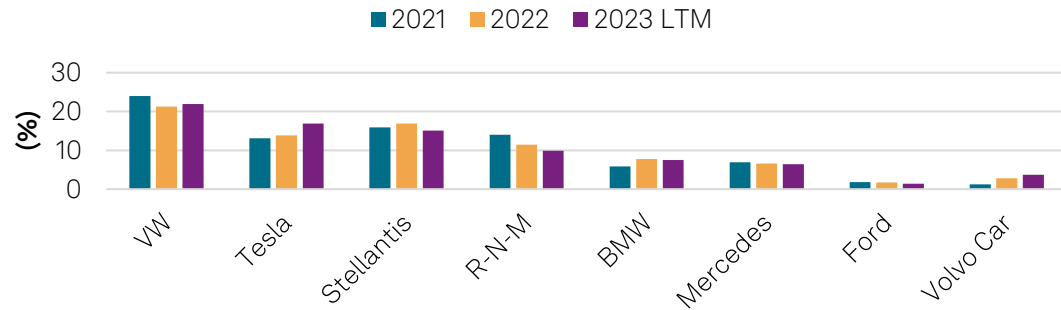
Battery capacity installed by chemistry



Data as of September 2023. GWh—Gigawatt hour. Source: S&P Global Market Intelligence.

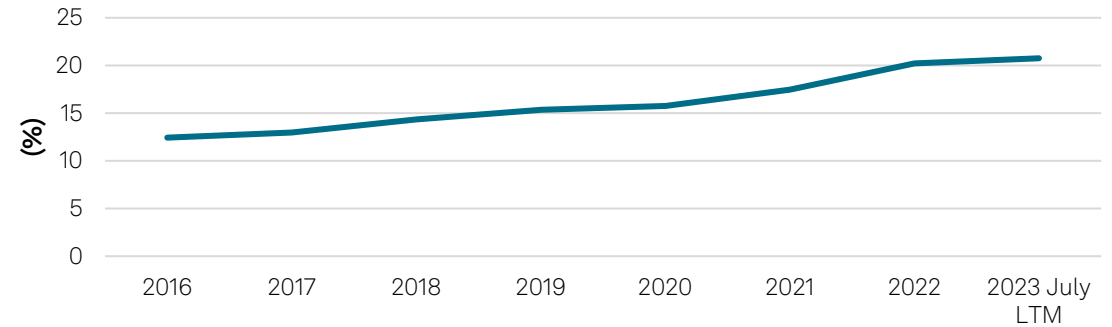
Europe | Chinese EVs In Europe--For Now Evolution, Not Revolution

European BEV market share



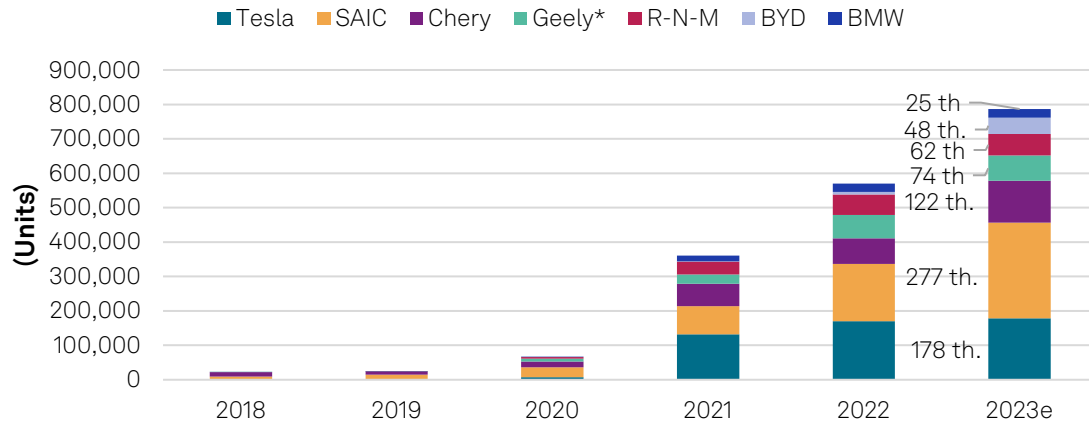
Data as of September 2023. BEV—Battery electric vehicle. LTM—Last twelve months. Sources: EV Volumes, S&P Global Mobility.

Light vehicle sales in Europe with import origin



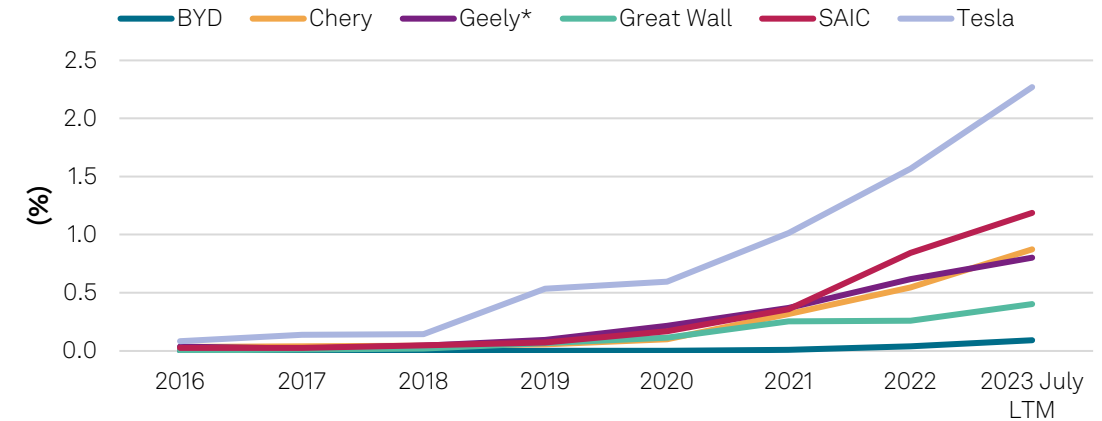
Data as of September 2023. Source: EV Volumes, S&P Global Mobility.

Exports from China to Europe



Data as of September 2023. *Geely without Volvo. e--Estimate. Sources: EV Volumes, S&P Global Mobility.

Light vehicle market shares in Europe: Chinese OEMs versus Tesla

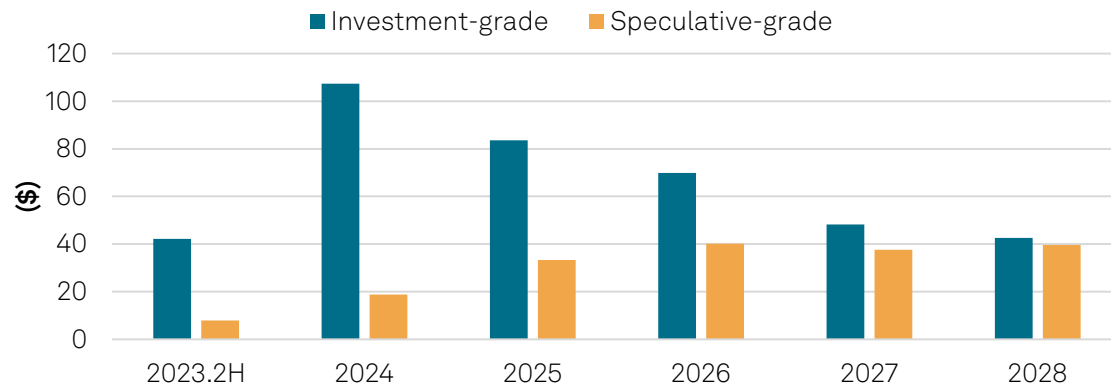


Data as of September 2023. OEM--Original equipment manufacturer. LTM--Last twelve months. Sources: EV Volumes, S&P Global Mobility.

Refinancing Needs | Higher Interest Costs From 2024

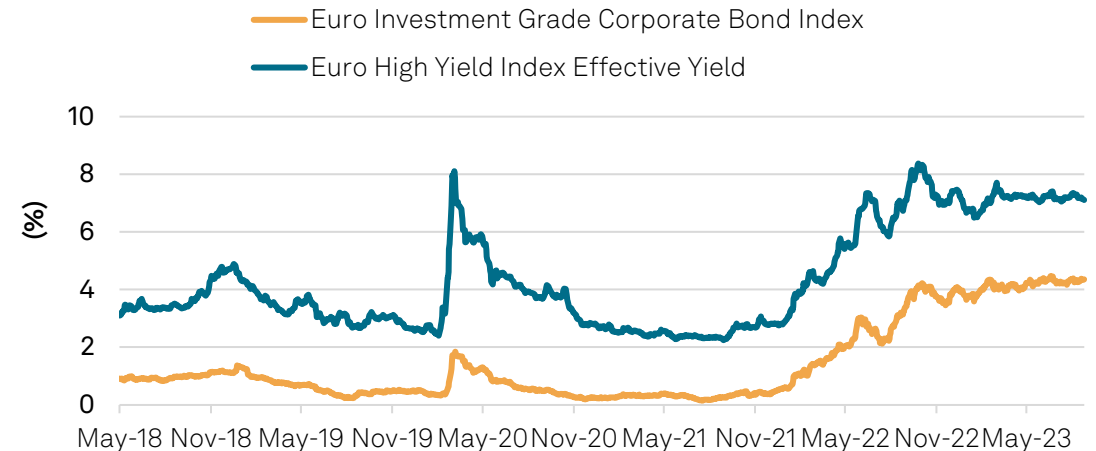
- More than \$200 billion of debt is maturing for the global auto industry by the end of 2025.
- Refinancing activity is mainly focused on the investment grade space, led by captive finance operations' refi needs.
- High-yield financing costs closed on a multi-year high with about \$50 billion to refinance over the next two years.
- Investment-grade financing costs are now more than twice the pre-2022 levels.

Global debt maturities--Automotive industry



Source: S&P Global Ratings: Global Refinancing--Progress Made As Pressure Remains, July 25, 2023.

Euro effective yield



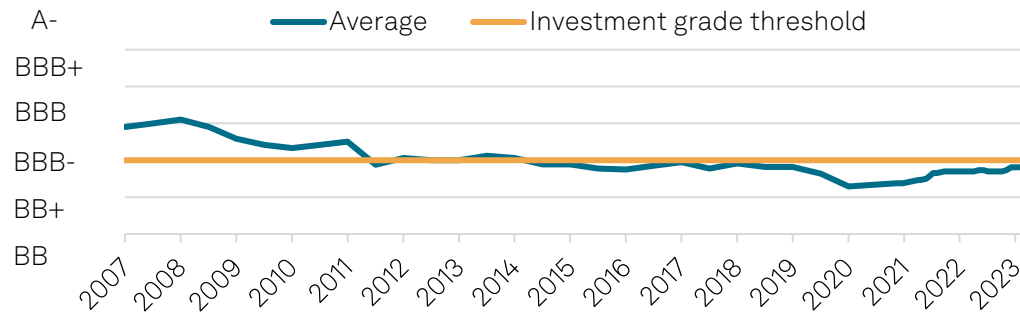
HY--High yield. Source: Federal Reserve Economic Data.

Appendix

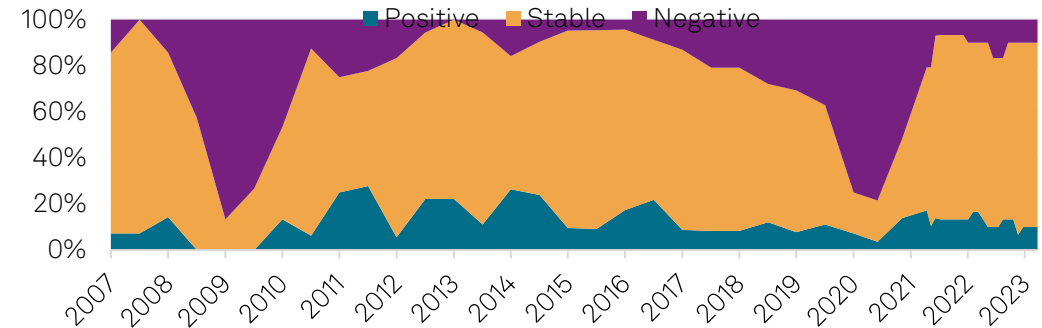


Industry Disruption | OEMs Manage While Suppliers Struggle

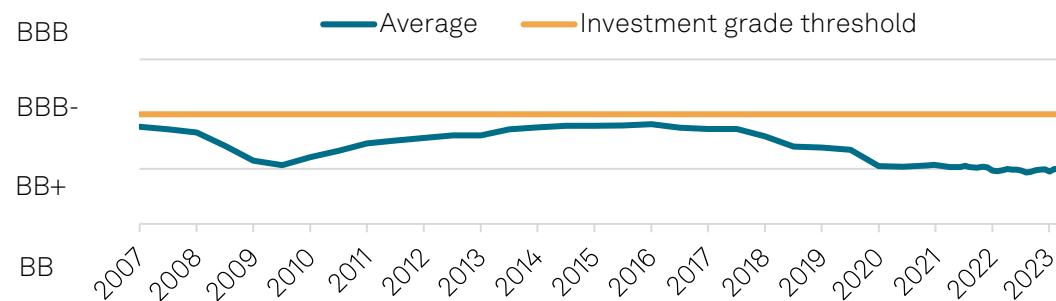
Automakers: Rating evolution Since 2007



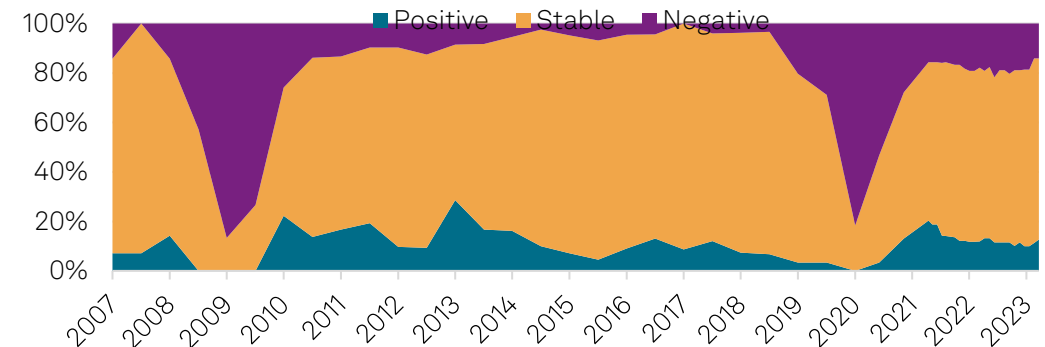
Automakers: Outlook distribution since 2007



Auto suppliers: Rating evolution since 2007



Auto suppliers: Outlook distribution since 2007



Note: Negative outlooks include CreditWatch negative placements. Stable outlooks include CreditWatch positive placements. Sources for all charts: S&P Global Ratings as of September 2023.

Related Research

- [Global Auto Forecasts: The Pricing Party Is Coming To An End](#), Oct. 9, 2023
- [Asian Battery Makers Are Shifting Strategies To Hold Onto Global Lead](#), Oct. 5, 2023
- [Credit FAQ Examines How The United Auto Workers Strike Will Impact Ratings In The U.S. Auto Sector](#), Sept. 15, 2023
- [Credit FAQ: U.S. Auto Dealers Navigate New Roads](#), July 20, 2023
- [Industry Top Trends Update North America: Autos](#), July 18, 2023
- [Industry Top Trends Update Europe: Autos](#), July 18, 2023
- [Credit FAQ: Panelist Debate Risk And Opportunities Along the EV Value Chain](#), June 7, 2023
- [An Impending Electric Shock for Japanese Autos?](#) May 17, 2023
- [Autoflash EMEA: Car Makers And Suppliers See Past Economic Roadblocks](#), April 21, 2023
- [Macro Risks Demand Pricing And Production Discipline](#), April 18, 2023
- [Industry Top Trends 2023: Autos](#), Jan. 23, 2023

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