

Autos

Bracing for the Chinese push

This report does not constitute a rating action.

What's changed?

Protectionist policies to subdue Chinese BEV push. The EU adopted provisional import tariffs of up to 38% on battery electric vehicles (BEVs) made in China, on top of the existing standard 10% tariff on light vehicle (LV) imports. The measure applies to finished BEVs and applies to models produced in China by Chinese and European brands. The provisional tariffs will be in place until Nov. 3, when the EU could impose permanent duties. Among rated original equipment manufacturers (OEMs), Volvo Cars loses the most as its new flagship model, EX30, was meant to be solely produced in China in 2024. Other brands will also be affected, but the volumes as a share of an OEM's total sales are generally small.

Weak economic rationale for a stronger second half of 2024. We expect LVs to increase in line with our annual forecast (sales of 1%-3%) in the first half of 2024. Hybrid powertrains are gaining at the expense of EV and internal combustion engines (ICE). We do not expect a stronger second half of 2024, despite momentum in model changeover because we forecast a stagnating economic environment for 2024 and mounting geopolitical uncertainty.

Regulatory pragmatism in Europe. The U.K. and U.S. have relaxed emission targets and the EU (with more sovereigntists) might delay the phaseout of ICE. The expected EV share of 50% in 2030 in Europe (versus 2025 previously) results in a slower pace of battery co-investments in the region, which might free up capital expenditure and mergers and acquisitions spending over 2024 and 2025. We think OEMs will need to a high research and development spend to invest in a competitive multi-powertrain model line-up.

What to look out for?

Chinese automakers' response to protectionist measures on pricing, market share, model launches, and plans to produce in Europe or in countries tied to the U.S. by a free trade agreement. We expect tariffs to accelerate the onshoring of Chinese production capacity in or close to strategic markets, and market share erosion of legacy OEMs in China if it retaliates with tariff measures (such as increased levies on cars with larger ICE).

Cost pressure is high although the inflationary peak finished. Labor and manufacturing costs remain a challenge for auto manufacturers and suppliers (on top of funding costs for the latter) only partly offset by a favorable raw material cycle.

Pricing headwinds for new and used cars year-to-date, mostly affecting the resale value of used cars. OEMs and suppliers are confident in their ability to defend pricing on new cars thanks to momentum in model changeover. We think new car pricing momentum in Europe and the U.S. will weaken moderately throughout the rest of 2024.

What are the key risks around the baseline?

Chinese OEMs may fuel price-based competition and have the potential to absorb the European tariff and remain competitive.

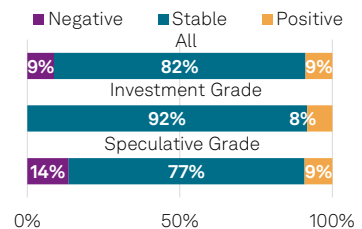
Supply-side disruption linked to geopolitical tension. This is the main disruptive risk for the industry because the localization of supply chain remains a major challenge whether related to EV not.

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Rating Trends

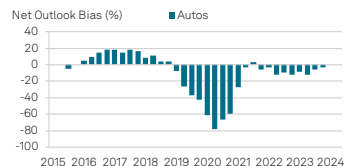
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	12	22	34
Downgrades	0	0	0
Upgrades	1	1	2

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	-1.6	0.2
EBITDA growth (Y/Y%)	-2.5	-2.8
EBITDA margin (%)	12.2	8.2
Capex growth (Y/Y%)	8.0	-0.2
Debt/EBITDA (x)	0.1	3.1
FFO/Debt (%)	49.8	18.6
FOCF/Debt (%)	19.8	3.7

All data as of end-June 2024.

* Year-to-date. Current ratings only.

Related Research

[Autoflash EMEA: Suppliers Feel The Heat Of Low Volumes And Earnings Pressure](#), July 1, 2024

[China Ahead In Delivering Affordable Electric Mobility](#), May 29, 2024

[Global Auto Sales Forecasts: Slower EV Growth Offers Temporary Relief To Legacy Automakers](#), April 25, 2024