

Monday, September 10, 2018 | special comment

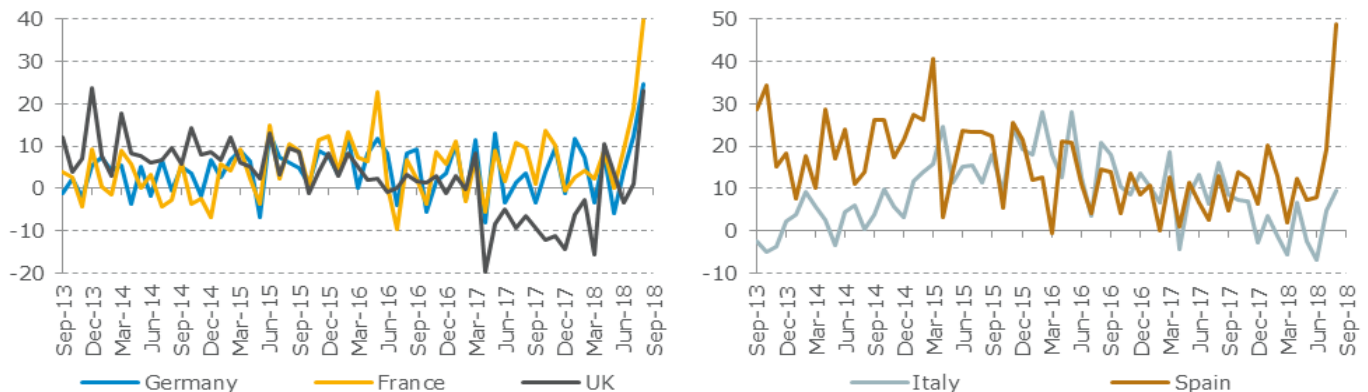
EU Auto Suppliers Facing Leaner Times After Peak WLTP Registrations

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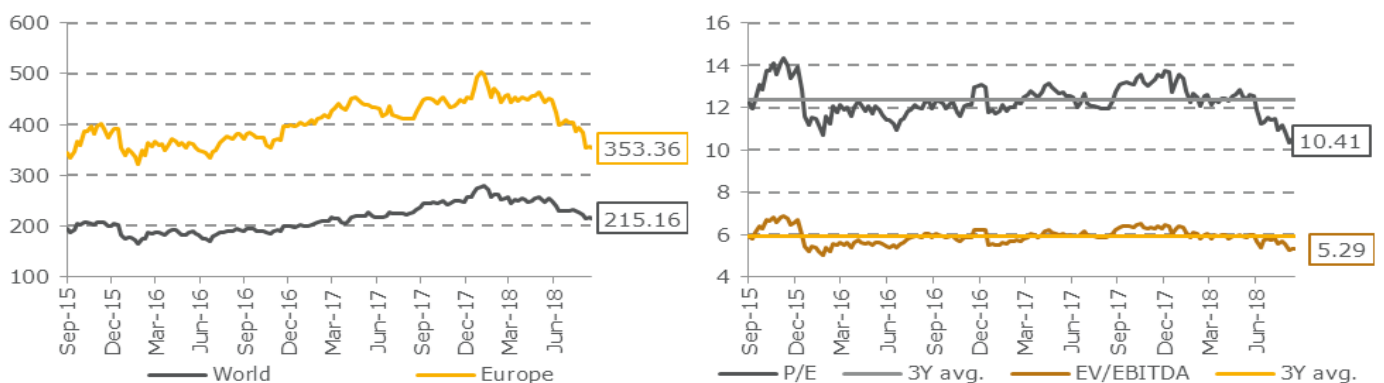
August was the last month before the entry into force of the new Worldwide Harmonized Light Vehicle Test (WLTP) for emissions, prompting bumper registration numbers in the European new car market as auto makers rushed to clear pre-WLTP stock and dealers scrambled to pre-register vehicles to make them roadworthy for future customers. As a result, new car registrations during the usually slow month jumped, rising 25% in Germany, 40% in France, 49% in Spain, and 9% in Italy, with registrations in Poland up by a staggering 58%. Such heavy inventory building during the summer might have created an oversupply for the autumn, with automakers expected to scale back production as they unload the overstock. This in turn means potentially less business for automotive parts

producers, a prospect recently signaled by the Polish manufacturer Boryszew, and reaffirmed by the declines since June in the MSCI Europe and World Auto & Components indices, currently trading below their respective historical P/E and EV/EBITDA averages for the last three years. Further proof of an imminent slowdown was provided by negative earnings surprises and guidance revisions in August by the leading world suppliers, Polytec and Continental, a possible harbinger of what the 2018 Q3 earnings season may bring the Polish industry, represented by the likes of Alumetal (aluminum body parts), Boryszew and Izoblok (plastic interior and exterior assemblies), Mangata (valves), and Sanok Rubber (seals and gaskets).

Monthly car registrations in Western Europe (YoY pct. change)



MSCI World and Europe Auto & Components indices, monthly performance (left) and current trading multiples versus historical averages (right)



Source: Dom Maklerski mBanku, Bloomberg

List of abbreviations and ratios contained in the report:

EV – net debt + market value
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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NAV – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

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