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## Auto Industry – Fines Loom For Missing CO<sub>2</sub> Targets

### Automotive

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According to a report by PA Consulting, between them, the top-13 car manufacturers in the EU may be facing combined fines up to 14.5 billion euros in 2021 if they fail to comply with the year's emission targets (the fines for excess CO<sub>2</sub> emissions over the 95-grams-per-kilometer target are €5 per gram over the limit, €15 for the second gram, €25 for the third gram, and €95 per gram further outside limits). The reason why automakers find themselves behind on targets, with their fleet emissions in the last two years seen to climb instead of fall, includes ever-increasing demand for SUVs and high-performance vehicles with gasoline engines.

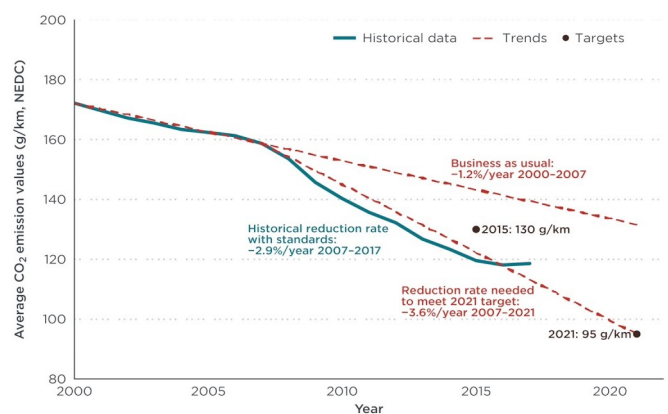
PA analysts have calculated that the fine potentially coming to Volkswagen could reach €4.5bn, reflecting the high number of cars sold in Europe, with the average vehicle exceeding the per-km emissions target by about 13 grams. Other automakers bracing to be hit by heavy fines include FCA, Ford, Renault-Nissan-Mitsubishi, and even the hybrid technology leader Toyota.

Experts at Commerzbank are predicting that firms will try to dodge penalties by building up hype around low-to-zero emissions vehicles, and potentially by marking down their prices. For example, VW is reportedly working to increase sales of electric cars, BMW/Daimler want to ramp up interest in hybrids, PSA/Renault have plans to stop high-displacement engines, and FCA will avoid fines by striking a deal with Tesla to pool their fleets in Europe.

On the other hand, some commentators believe companies might opt to offset fines by hiking prices. We agree, but we believe the hikes will be minor, enough just to make up for the costs of making emissions-compliant parts.

Summing up, 2020 will be a challenging year for the European auto industry, and this is likely to have spillover effects on its suppliers and their ability to adjust prices. In Poland, the companies poised to be affected the most include Boryszew, Alumetal, Sanok, Izoblok, and Mangata.

### CO<sub>2</sub> emissions from passenger cars in Europe (g/km)



Historical average CO<sub>2</sub> emission values, targets, and annual reduction rates of new passenger cars in the EU  
Source: ICCT

### Historical and projected emissions (g/km) of EU automakers and their potential 2021 fines

Company	2016 Emissions	2017 Emissions	2018 Emissions	2021 Target	Expected Actual 2021 Emissions	2021 Target Miss	Potential Fine (EUR m)
Toyota	105.5	103.1	100.9	94.9	95.1	0.2	18
PSA	110.4	111.9	113.9	91.9	95.6	3.7	938
Renault-Nissan-Mitsubishi	111.2	111.7	108.2	92.9	97.8	4.9	1,057
Hyundai-Kia	124.7	121.5	118.9	93.4	101.1	7.7	797
VW	120.4	121.5	121.1	96.6	109.3	12.7	4,504
BMW	122.9	121.5	123.6	102.5	110.1	7.6	754
Ford	120.0	120.8	122.7	96.6	112.8	16.2	1,456
Daimler	125.3	127.0	130.4	103.1	114.1	11.0	997
Honda	126.5	127.2	126.8	94.0	119.2	25.2	322
FCA	120.0	119.9	126.4	92.8	119.8	27.0	2,461
Volvo	121.5	124.4	129.5	108.5	121.0	12.5	382
Mazda	127.7	130.8	134.8	94.9	123.6	28.7	877
JLR	150.0	151.7	151.5	130.6	135.0	4.4	93

Source: PA Consulting, mBank

## List of abbreviations and ratios contained in the report:

**EV** – net debt + market value (EV – economic value)  
**EBIT** – Earnings Before Interest and Taxes  
**EBITDA** – EBIT + Depreciation and Amortisation  
**PBA** – Profit on Banking Activity  
**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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**Economic profits** – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

**Discounted Dividends (DDM)** – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

**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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