## Europe Automobiles

# Changing the narrative: 3Q results preview; disaggregation remains in focus



*A positive re-rating has driven sector performance in 3Q, with the notion that OEMs can monetise SOTP valuations still top of mind. This has supported shares of FCA and Daimler. We estimate that the sector SOTP includes c.€150bn of 'hidden' value (implying c.60% upside). In this note, we raise slightly our end-market volume forecasts for Europe, Russia and Brazil; we update estimates for (benign) FX moves; and include our 3Q OEM previews.*

- **Re-rating drives 3Q sector performance.** The SXAP advanced 11% in 3Q, with re-rating the main driver: consensus sector EPS (12-m forward I/B/E/S) rose only 3% during the quarter. One explanation is a selective positive re-pricing of the key risks facing the sector, specifically: (1) electrification/emissions threats (noting Tesla's hesitant volume ramp-up); and (2) a calming of currency and US demand cycle concerns.
- **SOTP to remain key focus, supporting FCA and Daimler shares.** The other key driver of the re-rating has been more commentary on restructuring (and/or M&A). FCA shares have advanced 65% in 3Q following press reports of acquisition talks. We think this is supportive of a view that CEO Sergio Marchionne's opportunity set for strategic value creation might be more favourable than previously thought. Daimler's announcement to create three separate entities (potentially paving the way for a Truck listing) helped the shares rise 6% in 3Q.
- **We see c.€150bn of hidden value in the sector; 60% upside.** Based on our SOTP analysis, we calculate the six listed European automotive OEMs could command €407 bn of equity value, c.60% (or c.€150 bn) higher than the current combined market cap of €253 bn.
- **We raise our end-market volume forecasts for Europe, EMs.** We now forecast the Western Europe passenger car market to grow 1.8% in 2017 (-0.3% previously). We see Brazil light vehicle growth at 8.0% (was 5%) and Russia at 10% (was 5%).
- **Updating OEM estimates for recent FX and raw materials.** The FX environment has stabilised in recent weeks, with the marked euro strengthening in 2017 (peaking >US$1.2 in September) and easing to US$1.18 currently. Raw materials are up yoy (by €25/car) but stable sequentially in 3Q.

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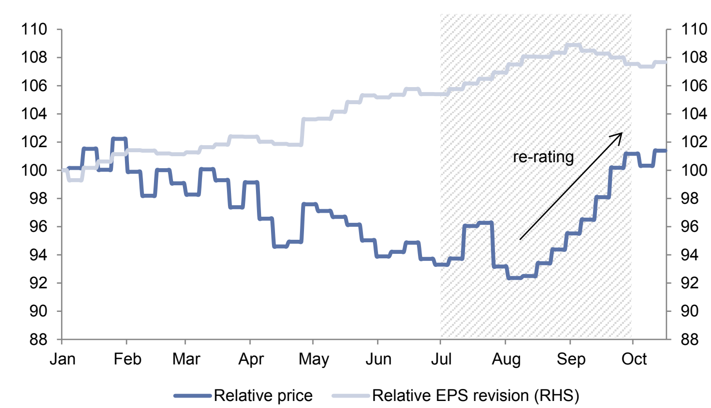
# Sentiment turns positive in 3Q, driving SXAP +11% in the quarter



**The SXAP advanced 11% in 3Q, with re-rating the main driver: consensus sector EPS (12m forward I/B/E/S) rose only 3% during the quarter. One explanation is a selective positive re-pricing of the key risks facing the sector, specifically: (1) electrification/emissions threats (noting Tesla's hesitant volume ramp-up); and (2) a calming of currency and US demand cycle concerns, given quieter developments on both fronts.**

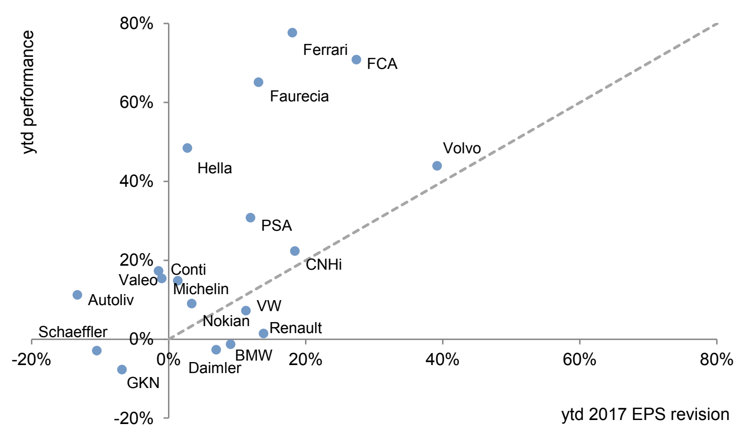
In 3Q, the European Autos sector (SXAP) rose 11%, significantly outperforming the European market (Stoxx 2%) ; with sector EPS up 3% (12-month forward) over the same period. We think re-rating has been the clear driver, in turn due to the market having re-priced the fundamental risks, specifically: (1) risks related to electrification/emissions, particularly in light of Tesla's cautious production ramp-up of Model 3 (see *Tesla Inc.: 3Q17 deliveries beat, but Model 3 ramp tracking slower than expected —maintain Sell*); and (2) the calming of US demand cycle concerns and stable FX development in recent weeks, with the marked euro strengthening in 2017 (having peaked above US$1.2 in early September) and easing to US$1.18 currently.

**Exhibit 1: The sector re-rated in 3Q despite limited earnings upgrades**




Source: Datastream

**Exhibit 2: Performance and EPS revision by stock**
ytd perf, 2017E EPS revision




Source: Datastream

# Structural talks support sector performance rally

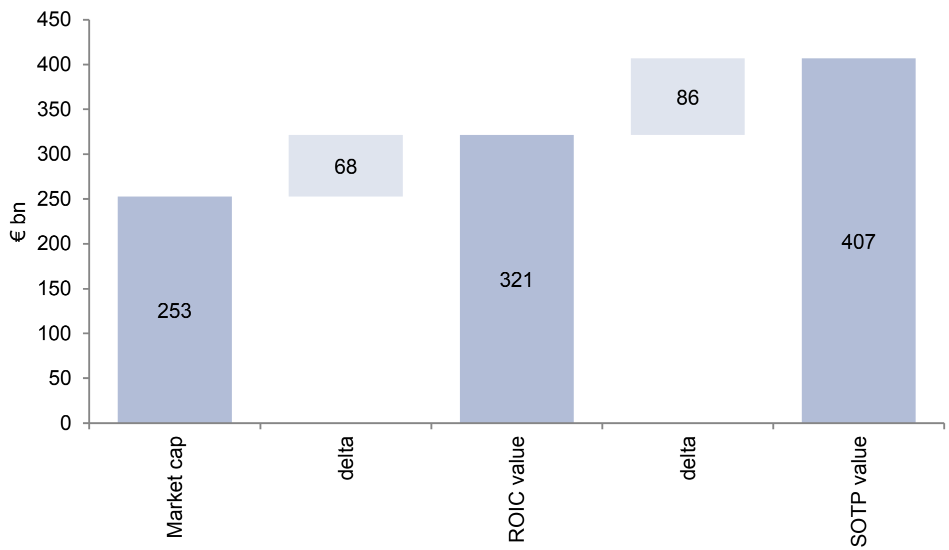
**The other key driver of the re-rating was increased commentary around restructuring (and/or M&A). FCA shares advanced 65% in 3Q, following press reports of acquisition talks. We think this is supportive of a view that CEO Sergio Marchionne's opportunity set for strategic value creation might be more favourable than previously thought. Meanwhile, Daimler's announcement that it plans to create three separate entities (potentially paving the way for a Truck listing) helped the shares rise 6% in the quarter.**

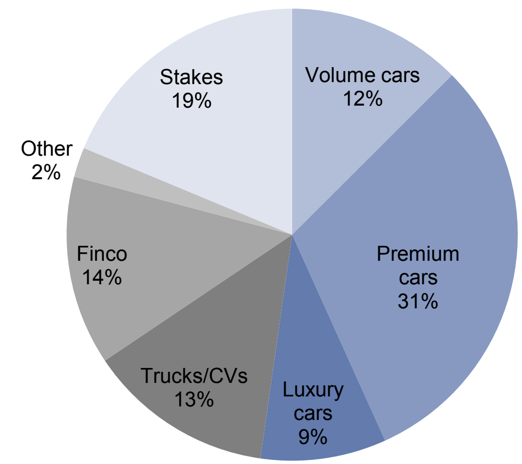
- **FCA.** CEO Sergio Marchionne commented during the 2Q results call that the difference in valuation FCA currently achieves as an OEM and the activities it carries out (including Marelli) no longer justify aggregation. There also have been news reports of Chinese OEMs showing interest in FCA's Jeep brand (see *M&A reports driving share price; Buy on CL*).
- **Daimler.** The company has stated that it intends to legally separate its divisions into independent entites, which we believe would lead to the creation of a holding company structure and a potential listing of the Trucks business, given the large differential in valuation to truck peers implied by the current share price (see *Roadmap for structural value creation emerging; up to Buy*).
- **Volkswagen.** VW has formed a separate team to work on selling the company's non-core business, representing c.20% of its current revenues (see *VW reported to be working on deals for non-core assets*).

### We estimate c.€150 bn of hidden value in the sector, c.60% upside

As discussed in our recent note, *Changing the narrative: Disaggregate to consolidate*, we estimate **c.€150 bn of hidden value in the sector**; at 8.1x 12-month-forward I/B/E/S P/E, the SXAP is trading at a deep discount to the market (15.1x) and we see significant scope for value creation. Based on our SOTP analysis, **the six listed European OEMs could command €407 bn of equity value, c.60% higher than the current combined market cap of €253 bn**.

**Exhibit 3: SOTP provides significant upside to current market valuations**
Note: SOTP value here does not include any holding company discount




Source: Company data, Goldman Sachs Global Investment Research



## Industry consolidation is the logical next step

We see three reasons for disaggregation to accelerate now: (1) **'Toxic' valuations** no longer justify aggregation of non-automotive assets; (2) **transition towards electrification** (including PHEV) might reduce the regulatory rationale for aggregation of premium/luxury brands with volume producers; and (3) structural uncertainties require a more nimble organisational structure and **strategic flexibility**.

We believe that the transition costs to a new powertrain paradigm and other structural challenges facing the industry business model (e.g., from new mobility services) favor industry consolidation. We expect a **much clearer volume versus premium brand delineation to emerge over time**. In our coverage, we view the best-exposed names to this theme as **FCA**, **Volkswagen** and **Daimler**.

# We update our end-market volumes for better Europe, EM growth

**We revise our market outlook for the Western European passenger car volumes upwards to incorporate stronger year-to-date volume growth (ytd Western Europe car sales are up 3%, versus our expectation of a modest decline), with a broad-based improvement across the key countries. We also increase our outlook for the EMs Brazil and Russia on stronger-than-anticipated market recovery.**

We now forecast the **Western European passenger car market** to grow 1.8% in 2017 (versus -0.3% previously), and continue to see a flat volume in 2018. No single country is a standout driver; we raise our individual estimates for all of Germany, UK, France, Spain and Italy commensurately, as shown below.

Emerging market growth continues to warm up, and we now see this year's **Brazil** light vehicle growth at 8.0% (was 5%) and **Russia** at 10% (was 5%).

**Exhibit 4: Our new vs old light vehicle end-market forecasts**

% yoy

| Growth | New forecasts | | | | | | Old forecasts | | | | | Change (bps) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017E | 2018E | 2019E | 2020E | 2021E | 2017E | 2018E | 2019E | 2020E | 2021E | 2017E | 2018E | 2019E | 2020E | 2021E |
| USA | 0.4% | -2.0% | -3.5% | -5.4% | -4.5% | 6.0% | -2.0% | -3.5% | -5.4% | -4.5% | 6.0% | 0 | 0 | 0 | 0 | 0 |
| Japan | -1.5% | -3.4% | 0.0% | -2.1% | -4.3% | 0.0% | -3.4% | 0.0% | -2.1% | -4.3% | 0.0% | 0 | 0 | 0 | 0 | 0 |
| Total Europe (incl Russia) | 4.8% | 3.0% | 2.2% | 1.5% | 0.5% | 0.4% | 0.8% | 2.6% | 2.4% | 0.7% | 1.0% | 212 | -39 | -90 | -18 | -64 |
| Western Europe | 6.4% | 2.0% | 0.0% | -0.9% | -1.3% | -0.7% | -0.2% | -0.1% | 0.3% | -0.8% | 0.0% | 220 | 7 | -115 | -44 | -65 |
| Passenger car | 5.6% | 1.8% | 0.2% | -0.9% | -1.3% | -0.7% | -0.3% | -0.1% | 0.5% | -1.0% | 0.1% | 212 | 31 | -142 | -30 | -81 |
| Germany | 4.1% | 1.0% | 0.0% | -3.0% | -3.2% | -0.9% | -1.0% | -1.0% | -2.0% | -2.9% | -0.4% | 200 | 100 | -100 | -27 | -47 |
| France | 4.9% | 3.5% | 1.0% | 0.0% | -3.5% | -1.3% | 2.0% | 1.0% | 2.0% | -3.5% | 2.2% | 150 | 0 | -200 | 0 | -354 |
| Italy | 15.8% | 7.0% | 2.0% | 1.0% | 1.0% | -0.7% | 5.0% | 2.0% | 2.0% | 1.4% | 0.3% | 200 | 0 | -100 | -39 | -99 |
| UK | 2.0% | -5.0% | -4.0% | -3.0% | -1.0% | -0.2% | -6.0% | -3.0% | -1.0% | -1.0% | -1.3% | 100 | -100 | -200 | 0 | 111 |
| Spain | 10.8% | 6.0% | 2.0% | 4.0% | 3.1% | 1.0% | 2.0% | 2.0% | 7.0% | 4.3% | 1.6% | 401 | 0 | -300 | -120 | -66 |
| Other | 3.4% | 3.0% | 1.4% | -0.9% | -1.3% | -1.1% | 0.0% | 0.2% | -0.2% | -0.8% | -0.4% | 300 | 117 | -70 | -47 | -68 |
| Light commercial vehicles | 11.7% | 3.0% | -1.0% | -0.6% | -1.3% | -0.8% | 0.2% | 0.5% | -1.3% | 0.1% | -1.2% | 275 | -150 | 64 | -134 | 38 |
| Eastern Europe (ex-Russia) | 6.2% | 5.0% | 7.6% | 6.6% | 4.6% | 2.9% | 5.0% | 8.2% | 6.4% | 3.5% | 4.5% | 0 | -56 | 22 | 119 | -162 |
| Russia | -11.2% | 10.0% | 15.0% | 15.0% | 8.3% | 4.2% | 5.0% | 20.0% | 15.0% | 8.4% | 3.3% | 500 | -500 | 0 | -9 | 85 |
| Brazil | -19.9% | 8.0% | 5.0% | 6.0% | 6.0% | 12.0% | 5.0% | 5.0% | 6.0% | 6.0% | 12.0% | 300 | 0 | 0 | 0 | 0 |
| India | 7.6% | 11.5% | 13.2% | 10.0% | 10.0% | 5.9% | 11.5% | 13.2% | 10.0% | 10.0% | 5.9% | 0 | 0 | 0 | 0 | 0 |
| China | 14.5% | 1.4% | 1.7% | 3.6% | 3.9% | 2.5% | 1.4% | 1.7% | 3.6% | 3.9% | 2.5% | 0 | 0 | 0 | 0 | 0 |
| Asia (ex-China/Japan/India) | 0.5% | 3.2% | 3.8% | 3.6% | 3.0% | 2.2% | 3.2% | 3.8% | 3.6% | 3.0% | 2.2% | 0 | 0 | 0 | 0 | 0 |
| **Global** | **5.0%** | **1.6%** | **1.5%** | **1.7%** | **1.7%** | **3.0%** | **1.4%** | **2.0%** | **1.9%** | **1.8%** | **3.4%** | **23** | **-51** | **-29** | **-6** | **-44** |

Source: Goldman Sachs Global Investment Research, IHS

# BMW (Neutral): expect €1.73 bn auto EBIT, 8.3% margin

### 3Q results preview

- We update our interim estimates but leave our FY17 forecasts largely unchanged. We have slightly reduced our 3Q17 EPS estimate to €2.65 (from €2.72).
- We cut our auto EBIT slightly (€60 mn), primarily on slightly weaker consolidated volumes and softer positive mix development. We expect 3Q17 auto EBIT of €1.73 bn, and 8.3% margin.
- Our FY17 EBIT of €9.9 bn is in line with Bloomberg consensus.

### Call details

- BMW reports 3Q17 results on Tuesday, November 7, we expect before market open (usually 6:30 am). The group results call is typically presented around midday.

### Key performance indicators

- Group PBT: slight increase yoy (GSe +9.6%).
- Auto: EBIT margin within 8-10% (GSe 9.0%), solid increase in revenues yoy (GSe 0.1%).

**Exhibit 5: Our BMW estimates**

| € mn | 3Q 2016 | 3Q 2017E | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Auto | 21,564 | 20,776 | 86,475 | 87,903 | 89,449 |
| Motorcycles | 451 | 496 | 2,276 | 2,390 | 2,509 |
| Financial Services | 6,403 | 6,899 | 28,252 | 29,477 | 30,559 |
| Reconciliation | -5,056 | -5,142 | -20,351 | -20,791 | -21,350 |
| **Total Revenue** | **23,362** | **23,029** | **96,653** | **98,979** | **101,167** |
| | | | | | |
| **EBIT** | | | | | |
| Auto | 1,837 | 1,734 | 7,806 | 7,828 | 7,068 |
| Motorcycles | 32 | 36 | 208 | 219 | 231 |
| Financial Services | 576 | 614 | 2,327 | 2,428 | 2,517 |
| Reconciliation | -65 | -25 | -414 | -419 | -393 |
| **Total EBIT** | **2,380** | **2,359** | **9,927** | **10,056** | **9,423** |
| | | | | | |
| **EBIT Margin** | | | | | |
| Auto | 8.5% | 8.3% | 9.0% | 8.9% | 7.9% |
| Motorcycles | 7.1% | 7.2% | 9.1% | 9.2% | 9.2% |
| Financial Services | 9.0% | 8.9% | 8.2% | 8.2% | 8.2% |
| **Group EBIT Margin** | **10.2%** | **10.2%** | **10.3%** | **10.2%** | **9.3%** |
| | | | | | |
| PreTax Profit | 2,575 | 2,449 | 10,592 | 10,551 | 9,932 |
| Net Income | 1,806 | 1,740 | 7,521 | 7,493 | 7,053 |
| **EPS** | **2.75** | **2.65** | **11.45** | **11.41** | **10.74** |
| **DPS** | | | **3.40** | **3.40** | **3.40** |
| | | | | | |
| **Net industrial cash** | **-6,853** | **-8,548** | **-9,688** | **-10,993** | **-11,867** |
| Net interest bearing debt | -16,715 | -20,169 | -21,765 | -23,070 | -23,944 |
| | | | | | |
| Company-defined FCF | 893 | 1,016 | 4,374 | 3,539 | 3,109 |

Source: Company data, Goldman Sachs Global Investment Research

## Valuation and risks

Our 12-month price target is €86 (from €84) is based on updated (higher) automotive volume forecasts for 2018-21, and assumes an EV/IC:ROIC/WACC methodology. Risks: lower (or higher) organic volume growth, weaker (or more resilient) consolidated China profitability, especially owing to market pricing developments, worse (or better) structural cost containment efforts, and significant FX moves versus euro, notably on key exposures such as USD, CNY and GBP.

# Daimler (Buy): expect €3.3 bn headline EBIT (8.3% margin), affected by €550 mn of additional 3Q one-offs



### 3Q results preview

- We update our interim estimates but leave our FY17 forecasts largely unchanged. Our reported 3Q17 EPS estimate is lower at €1.99 (from €2.11), as we incorporate one-off costs of €500 mn in the Mercedes division (diesel fixes and air bag recalls) and an additional €50 mn in the Trucks division.
- We expect 3Q17 group EBIT of €3.8 bn, and a margin of 9.7%. We make the following adjustments to divisional EBIT: on the positive side, we expect better EBIT at Mercedes (modestly lower investment costs), Trucks (stronger volumes) and Finco (better margin); on the negative side, we forecast weaker EBIT at Vans (volumes).
- Our FY17 estimate for Daimler's underlying EBIT is €14.8 bn (ex one-offs), 3% ahead of Bloomberg consensus.

### Call details

- Daimler reports its 3Q17 results on Friday, October 19, at 6:30 am. Analyst call at 1:00 pm, dial-in: +44 20 30 09 24 58.

### Key performance indicators

**2017 sales outlook**

- Mercedes: significantly higher
- Trucks: slightly higher
- Vans: significantly higher
- Buses: significantly higher

**2017 reported EBIT guidance**

- Group: significantly above
- Mercedes: significantly above
- Trucks: prior-year level
- Vans: prior-year level
- Buses: slightly above

- Financial services: slightly above

Note: Comparisons are versus 2016. On volumes, "significantly" = >5%; "slightly" = 1.5% to 5%; and "equal" = within +/-1.5%. On EBIT, "significantly" = >10%; "slightly" = 2.5% to 10%; and "equal" = within +/-2.5%.

**Exhibit 6: Our Daimler estimates**

| € mn | 3Q 2016 | 3Q 2017E | FY2017E | FY2018E | FY2019E |
|---|---|---|---|---|---|
| **Sales** | | | | | |
| Mercedes | 23,251 | 23,339 | 93,943 | 91,418 | 95,192 |
| Trucks | 7,851 | 8,301 | 34,506 | 36,068 | 37,700 |
| Vans | 3,120 | 3,083 | 13,108 | 13,968 | 14,384 |
| Buses | 937 | 984 | 4,385 | 4,516 | 4,652 |
| Financial Services | 5,133 | 5,679 | 22,857 | 23,047 | 24,845 |
| Eliminations | -1,695 | -1,787 | -7,253 | -7,262 | -7,596 |
| **Group** | **38,597** | **39,599** | **161,545** | **161,756** | **169,177** |
| **Special items** | 27 | -550 | -360 | 0 | 0 |
| **EBIT (from ongoing business)** | | | | | |
| Mercedes | 2,659 | 2,506 | 9,600 | 8,950 | 8,170 |
| Trucks | 510 | 650 | 2,205 | 2,746 | 3,269 |
| Vans | 319 | 235 | 1,168 | 1,172 | 1,200 |
| Buses | 52 | 25 | 190 | 185 | 180 |
| Financial Services | 438 | 513 | 2,024 | 2,041 | 2,200 |
| Eliminations | 32 | -98 | -357 | -264 | -269 |
| **Group** | **4,010** | **3,831** | **14,830** | **14,830** | **14,750** |
| **Underlying Margin (%)** | | | | | |
| Mercedes | 11.4% | 10.7% | 10.2% | 9.8% | 8.6% |
| Trucks | 6.5% | 7.8% | 6.4% | 7.6% | 8.7% |
| Vans | 10.2% | 7.6% | 8.9% | 8.4% | 8.3% |
| Buses | 5.5% | 2.5% | 4.3% | 4.1% | 3.9% |
| Financial Services | 8.5% | 9.0% | 8.9% | 8.9% | 8.9% |
| **Group** | **10.4%** | **9.7%** | **9.2%** | **9.2%** | **8.7%** |
| Net Income | 2,598 | 2,125 | 9,326 | 9,569 | 9,506 |
| EPS | 2.43 | 1.99 | 8.72 | 8.94 | 8.89 |
| Net liquidity | 17,906 | 19,676 | 20,258 | 20,816 | 20,535 |
| Free cash flow | 473 | 736 | 3,782 | 4,035 | 3,195 |
| DPS (FY) | NA | NA | 3.25 | 3.25 | 3.25 |

Source: Company data, Goldman Sachs Global Investment Research

### Valuation and risks

Our 12m price target of €81 (unchanged) is based on 2018E ROIC framework (€80, 75% weighting) and SOTP (€83, 25% weighting). Risks: diesel-related legal risks, adverse FX, slower end-market growth and higher-than-expected investment spend.

# FCA (Buy, on CL): expect €1.89 bn group EBIT, 7.1% margin



### 3Q results preview

- We lower our FY17 EBIT forecast by 4% to incorporate weaker ytd NAFTA volumes, where we now forecast a 6% decline this year (previously -2%). Our 3Q17 EPS estimate is lower at €0.59 (from €0.62) on lower full-year estimates.
- We expect 3Q17 group EBIT of €1.89 bn (+26% yoy), and a margin of 7.1% (5.6% in 3Q16).
- Our FY17 estimate for FCA's underlying EBIT is now €7.6 bn, 7% ahead of Bloomberg consensus.

### Call details

- FCA reports 3Q17 results on Tuesday, October 24, we expect during market hours (usually mid-morning to midday). The group results call is at 4:00 pm UKT, dial-in: +44 (0)20 3427 1909, access code: 9117097.

### Key performance indicators

**2017 targets**

- Revenues €115-120 bn (GSe €113 bn)
- Adjusted EBIT >€7.0 bn (GSe €7.6 bn)
- Adjusted net profit >€3.0 bn (GSe €3.9 bn)
- Net industrial debt <€2.5 bn (GSe €2.4bn)

**2018 Plan targets**

- Revenues ~€136bn (GSe €116 bn)
- Adjusted EBIT €8.7-9.8 bn (GSe €9.1 bn)
- Adjusted net profit €4.7-5.5 bn (GSe €5.2 bn)
- Net industrial cash €4.0-5.0 bn (GSe €3.3 bn)

**Exhibit 7: Our FCA estimates**

| € mn | 3Q2016 | 3Q2017E | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|
| **Net Revenue** | **26,836** | **26,586** | **112,697** | **116,492** | **116,468** |
| NAFTA | 16,810 | 15,735 | 66,902 | 66,768 | 66,779 |
| LATAM | 1,491 | 1,868 | 8,041 | 8,801 | 9,050 |
| APAC | 861 | 753 | 2,859 | 3,340 | 2,871 |
| EMEA | 5,070 | 5,211 | 22,855 | 24,154 | 24,378 |
| Maserati | 873 | 1,179 | 4,871 | 5,845 | 5,260 |
| Components | 2,390 | 2,511 | 10,147 | 10,662 | 11,206 |
| Other and Eliminations | -659 | -669 | -2,977 | -3,078 | -3,077 |
| **EBIT (adjusted)** | **1,500** | **1,894** | **7,560** | **9,070** | **9,290** |
| NAFTA | 1,281 | 1,373 | 5,603 | 6,344 | 6,472 |
| LATAM | -16 | 74 | 224 | 357 | 464 |
| APAC | 21 | 40 | 115 | 288 | 281 |
| EMEA | 104 | 172 | 750 | 897 | 962 |
| Maserati | 103 | 164 | 632 | 846 | 738 |
| Components | 112 | 135 | 543 | 644 | 681 |
| Other and Eliminations | -105 | -63 | -308 | -307 | -309 |
| **EBIT margin** | **5.6%** | **7.1%** | **6.7%** | **7.8%** | **8.0%** |
| NAFTA | 7.6% | 8.7% | 8.4% | 9.5% | 9.7% |
| LATAM | -1.1% | 3.9% | 2.8% | 4.1% | 5.1% |
| APAC | 2.4% | 5.3% | 4.0% | 8.6% | 9.8% |
| EMEA | 2.1% | 3.3% | 3.3% | 3.7% | 3.9% |
| Maserati | 11.8% | 13.9% | 13.0% | 14.5% | 14.0% |
| Components | 4.7% | 5.4% | 5.4% | 6.0% | 6.1% |
| Other and Eliminations | 15.9% | 9.5% | 10.3% | 10.0% | 10.0% |
| Net Profit after minorities | 608 | 924 | 3,855 | 5,146 | 5,380 |
| EPS (unadjusted) | 0.39 | 0.60 | 2.48 | 3.32 | 3.47 |
| Net cash (debt) | -6,514 | -2,765 | -2,421 | 3,317 | 7,934 |

Source: Company data, Goldman Sachs Global Investment Research

## Valuation and risks

Our new 12m price targets are €25.30/$29.40 (from €25.90/$30.10) on lower EBIT estimates, and are based on a 50:50 weighting for ROIC (€19.20/$22.40) and SOTP value (€31.30). Risks: Execution risks; US SAAR; US incentives; $CO_2$ compliance cost; Mexico/US tariffs; sustainability of improved margins; deleveraging slower than we expect; key management transition post-2018; additional cost headwinds from the potential escalation of FCA's ongoing emissions disputes.

# Volkswagen (Buy, on CL): expect €4.1 bn group EBIT (underlying), €2.5 bn provision cash-out



### 3Q results preview

- We keep the underlying FY17 EBIT estimate unchanged as stronger European end-market demand has been offset by market-share losses at VW. The headline EBIT figure is lower by 14% or €2.5 bn accounting for the announced €2.5 bn provision relating to the buyback/retrofit programme in the US. Our reported 3Q17 EPS estimate is lower at €2.28 (from €6.30).
- We expect 3Q17 group EBIT of €4.1 bn (€1.56 bn including the provisions), and a margin of 7.5% (2.9% including provisions).
- Our FY17 estimate for VW's underlying EBIT is €17.5 bn, 9% ahead of Bloomberg consensus.

### Call details

- VW reports 3Q17 results on Friday, October 27, we expect around market open. The group results call is typically presented around midday.

### Key performance indicators

- Revenue >4% (GSe +5.6%)
- Operating margin 6.0-7.0% (GSe 7.6%)
- VW brand operating margin 2.5-3.5% (GSe 4.6%)

**Exhibit 8: Our VW estimates**

| €mn | 3Q 2016 | 3Q 2017E | FY 2017E | FY 2018E | FY 2019E |
|---|---|---|---|---|---|
| **Revenues** | **51,996** | **54,274** | **229,486** | **243,295** | **250,421** |
| VW brand | 24,719 | 18,834 | 77,345 | 84,280 | 86,664 |
| Audi | 13,883 | 14,272 | 60,248 | 61,561 | 64,618 |
| Porsche | 5,541 | 5,421 | 22,255 | 23,300 | 25,012 |
| Skoda | 2,999 | 3,137 | 15,590 | 15,229 | 14,571 |
| **Operating Profit** (excluding one-offs) | **3,750** | **4,060** | **17,476** | **19,204** | **19,400** |
| VW brand | 363 | 687 | 3,568 | 4,234 | 3,806 |
| Audi | 1,252 | 1,297 | 4,962 | 5,030 | 5,159 |
| Porsche | 1,028 | 978 | 4,156 | 4,391 | 4,576 |
| Skoda | 255 | 298 | 1,517 | 1,459 | 1,329 |
| **Operating Margin (%)** | **7.2%** | **7.5%** | **7.6%** | **7.9%** | **7.7%** |
| VW brand | 1.5% | 3.6% | 4.6% | 5.0% | 4.4% |
| Audi | 9.0% | 9.1% | 8.2% | 8.2% | 8.0% |
| Porsche | 18.6% | 18.0% | 18.7% | 18.8% | 18.3% |
| Skoda | 8.5% | 9.5% | 9.7% | 9.6% | 9.1% |
| Profit Before Taxes/EBT | 3,348 | 1,627 | 15,276 | 19,968 | 20,135 |
| **EPS** | **4.54** | **2.28** | **20.72** | **29.35** | **29.58** |
| DPS (preferred) | | | 3.16 | 4.56 | 6.06 |
| Automotive net liquidity | 31,115 | 25,198 | 22,268 | 23,066 | 30,921 |

Source: Company data, Goldman Sachs Global Investment Research

## Valuation and risks

We lower our 12m price target to €195 (from €200) on higher diesel-related provisions. Our price target is based on an EV/IC:ROIC/WACC methodology. Risks: Faster China profit contraction; weaker volumes/price/mix; electric/emissions investment costs; further diesel fallout.

# PSA (Neutral): expect €12.3 bn revenues, with €7.9 bn automotive revenues



### 3Q results preview

- We raise our FY17 EBIT forecast by 3% (or €0.1 bn) as we now forecast better volume growth in Europe (on better end-market outlook) and a slower rate of decline in China volumes (for 2017). On average, we expect PSA volumes to grow by 3% to 2021 (vs. 2.4% average growth previously).
- We expect 3Q17 group revenues of €12.26 bn, with automotive revenues at €7.94 bn
- Our FY17 estimate for PSA's underlying EBIT is €3.7 bn, 11% ahead of Bloomberg consensus

### Call details

- PSA reports 3Q17 results on Wednesday, October 25, we expect around market open. Group earnings calls are typically held before market open.

### Key performance indicators

- Recurring auto margin 2016-18 (average) of over 4.5% (GSe 6.3%)
- Recurring auto margin 2021 of at least 6% (GSe 5.2%)
- Group revenue growth 2018 vs 2015 of 10% (constant currency) (GSe 15.1%)
- Group revenue growth 2021 vs 2018 of 15% (constant currency) (GSe 10.5%)

**Exhibit 9: Our PSA estimates**

| € mn | 3Q 2016 | 3Q 2017E | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Automotive | 7,542 | 7,942 | 38,814 | 41,355 | 45,358 |
| Faurecia (actual) | 4,241 | 4,851 | 20,043 | 20,660 | 21,366 |
| Other | -378 | -535 | -1,846 | -1,950 | -2,105 |
| **Total** | **11,405** | **12,258** | **57,011** | **60,065** | **64,619** |
| | | | | | |
| **Operating Profit** | | | | | |
| Automotive | | | 2,620 | 2,580 | 2,870 |
| Faurecia | | | 1,082 | 1,119 | 1,153 |
| Other | | | 40 | 40 | 40 |
| **Total** | | | **3,741** | **3,739** | **4,063** |
| | | | | | |
| *Auto margin* | | | *6.8%* | *6.2%* | *6.3%* |
| | | | | | |
| Non-recurring items | | | -400 | -300 | -300 |
| | | | | | |
| **Net income** | | | **2,137** | **2,155** | **2,472** |
| | | | | | |
| EPS | | | 2.37 | 2.39 | 2.74 |
| DPS | | | 0.53 | 0.53 | 0.61 |
| | | | | | |
| **Net cash (debt)** | | | **7,858** | **8,279** | **8,884** |

Source: Company data, Goldman Sachs Global Investment Research

## Valuation and risks

We modestly raise our 12m price target to €21.0 (from €20.8), due to higher volume estimates. Our price target is based on an EV/IC:ROIC/WACC methodology. Risks: perceptions on the merits of an Opel acquisition and/or likelihood of the deal closing; sales volumes; China volumes/pricing; FX (particularly GBP); restructuring; and upside risk of a re-rating on stronger growth prospects.

# Renault (Neutral): expect €11.8 bn revenues; with €10.6 bn automotive revenues

### 3Q results preview

- We update our interim estimates but leave our FY17 forecasts broadly unchanged. For 2018-21, we lower our EBIT forecasts modestly to account for slightly weaker volume growth (5% on average vs 4.3% previously) and higher FX headwinds (€230 mn vs €130 mn previously).
- For 3Q17, we expect group revenues of €11.8 bn, with automotive revenues at €10.55 bn.
- Our FY17 estimate for Renault's underlying EBIT is €3.4 bn, 5% below Bloomberg consensus.

### Call details

- Renault reports its 3Q17 results on October 24, we expect before market open. Results call at 5:00 pm UKT, dial-in: + 33 (0)1 72 00 15 10 Code: 47312542#.

### Key performance indicators

- Group revenues growing (ex-Avtovaz) at constant FX
- Group operating profit improvement (even with Avtovaz consolidation -which is a headwind)
- Positive auto FCF

**Exhibit 10: Our Renault estimates**

| € mn | 3Q 2016 | 3Q 2017E | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|
| **Group revenues** | | | | | |
| Automotive | 9,989 | 10,549 | 53,551 | 53,608 | 55,834 |
| Sales financing | 557 | 610 | 2,499 | 2,612 | 2,644 |
| Avtovaz | 0 | 676 | 2,725 | 3,540 | 4,251 |
| **Group revenue** | **10,546** | **11,834** | **58,775** | **59,760** | **62,730** |
| | | | | | |
| **Operating profit** | | | | | |
| Automotive | | | 2,371 | 2,331 | 2,344 |
| Margin | | | 4.4% | 4.3% | 4.2% |
| Sales financing | | | 1,054 | 1,102 | 1,115 |
| Avtovaz | | | 0 | 35 | 128 |
| **Group** | | | **3,425** | **3,468** | **3,587** |
| Margin | | | 5.8% | 5.8% | 5.7% |
| | | | | | |
| Nissan/associates | | | 2,447 | 1,999 | 2,118 |
| Net income | | | 4,421 | 3,939 | 4,070 |
| | | | | | |
| **Automotive operations** | | | | | |
| Free cash flow | | | 999 | 854 | 1,074 |
| Net cash position | | | 3,028 | 3,156 | 3,514 |
| | | | | | |
| EPS | | | 16.22 | 14.45 | 14.94 |
| DPS | | | 3.20 | 3.18 | 3.30 |

Source: Company data, Goldman Sachs Global Investment Research

## Valuation and risks

We modestly lower our 12m price target to €87 (from €89), due to lower EBIT estimates. Our price target is based on an EV/IC:ROIC/WACC methodology. Risks: (1) better (worse) volumes or pricing, particularly in Europe, LatAm, and Russia; (2) changing view of profitability especially on $CO_2$ costs, R&D and the Monozukuri efficiency programme; (3) FX moves (GBP, BRL, and JPY); (4) earnings and dividend developments at partner Nissan; and (5) changing perceptions of the possibility of a full merger with Nissan.

# Ferrari (Neutral): expect €206 mn group EBIT, 25% margin

### 3Q results preview

- We update our interim estimates modestly but leave our FY17 forecasts essentially unchanged. Our 3Q17 EPS estimate is unchanged at €0.75.
- We expect 3Q17 EBIT of €206 mn, and 25% margin. We cut our EBIT slightly (by €1 mn) as we reduce our volume forecast to +3% (from +5%) on weaker US growth.
- Our FY17E EBIT of €817 mn is 10% ahead of Bloomberg consensus.

### Call details

- Ferrari reports its 3Q17 results on November 2. Results call at 3:00 pm UKT, dial-in: +44 20 3427 1906; access Code: 5897151.

### Key performance indicators

- Group shipments ~8,400 units (GSe: 8,450)
- Revenues of >€3.3 bn (GSe: €3.5 bn)
- Adj. EBITDA: > €950 mn (GSe: €1.1 bn)
- Net industrial debt: ~€500 mn (GSe €426 mn)

**Exhibit 11: Our Ferrari estimates**

| € mn | 3Q16 | 3Q17E | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|
| **Revenue** | **783** | **824** | **3,484** | **3,588** | **3,829** |
| Cars and spare parts | 537 | 570 | 2,451 | 2,505 | 2,777 |
| Engines | 97 | 107 | 455 | 488 | 453 |
| Sponsorship, commercial and brand | 125 | 127 | 497 | 515 | 519 |
| Other | 24 | 19 | 80 | 80 | 80 |
| **Adjusted EBIT** | **172** | **206** | **817** | **822** | **917** |
| % margin | 22.0% | 25.0% | 23.5% | 22.9% | 24.0% |
| **Adjusted EBITDA** | **234** | **278** | **1,104** | **1,125** | **1,237** |
| % margin | 29.9% | 33.7% | 31.7% | 31.4% | 32.3% |
| Net profit (adjusted) | 113 | 143 | 566 | 573 | 645 |
| Adjusted EPS (diluted) | 0.60 | 0.75 | 2.97 | 3.01 | 3.39 |
| Net industrial debt | -585 | -426 | -305 | -32 | 300 |

Source: Company data, Goldman Sachs Global Investment Research

## Valuation and risks

Our 12-month price targets for Ferrari are unchanged at €110/$131. We value Ferrari on a 10-year DCF to capture the long-term growth of the automotive business, which we expect to eventually reach 15k units sold per year. We use a WACC of 8% and terminal growth rate of 3%, in line with our European luxury goods team.

Key upside risks to our thesis include: more potential for brand extension than expected, allowing Ferrari to grow volumes and/or pricing more than we model while preserving brand strength; and more growth at and the importance of Ferrari's commercial and brand activities than we expected (we model limited growth). Key downside risks are: damage to the iconic Ferrari brand/image, which could weaken profitability and cause the stock to de-rate; a less distinctive electric engine than its current gasoline engines; emission regulations, specifically EPA regulations and negative press attention; slowdown in HNWI luxury spend; economic downturn, which could be a large headwind in the short term from order cancellation and lower take-rate for options/personalisation.

# Our ratings and price targets across the OEM coverage

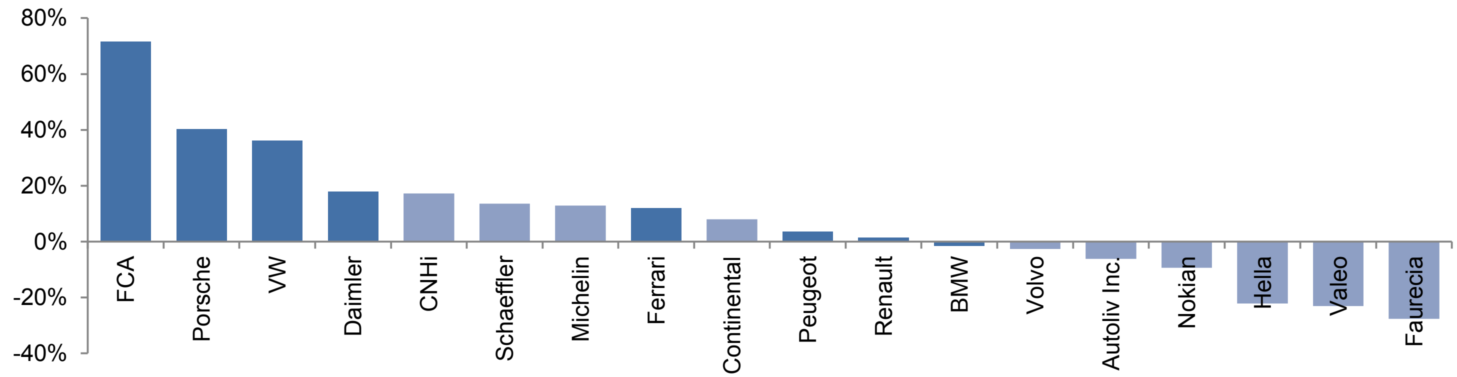
**Exhibit 12: Our ratings and price targets across the OEM coverage**

Note: We update our Porsche PT (from €81 to €80) to account for a lower VW PT. Ferrari (Neutral) price target is based on DCF methodology.

| | | Share price | Target ROIC | FMCC | EV/ IC | EV/IC ROIC/WACC | EV | Net debt (cash) | Pension | Minorities / other adj | Equity value | NoSh | ROIC-based fair value | Rating | SOTP value | SOTP weight | Price target | Upside | DPS | Dividend yield | TSR |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| BMW | € | 87.4 | 8.8% | 10.0% | 0.75 | **0.85** | 48,208 | -10,993 | 3,164 | 358 | 55,680 | 649 | 86 | Neutral | | | **86** | -2% | 3.40 | 4% | **2%** |
| Daimler | € | 68.7 | 8.7% | 10.0% | 0.74 | **0.85** | 75,683 | -20,533 | 8,100 | 2,799 | 85,317 | 1,070 | 80 | BUY | 83 | 25% | **81** | 18% | 3.25 | 5% | **23%** |
| FCA | € | 14.7 | 8.1% | 10.0% | 0.49 | **0.60** | 35,065 | -3,317 | 8,393 | 207 | 29,782 | 1,552 | 19.2 | BUY* | 31.3 | 50% | **25.3** | 72% | 0.00 | 0% | **72%** |
| FCA (US) | US$ | 17.3 | | | | | | | | | | | 22.4 | BUY* | 36.5 | 50% | **29.4** | | | | |
| PSA | € | 20.3 | 6.8% | 10.0% | 0.41 | **0.60** | 13,579 | -8,279 | 376 | 2,593 | 18,889 | 901 | 21.0 | Neutral | | | **21.0** | 4% | 0.53 | 3% | **6%** |
| Renault | € | 85.7 | 5.3% | 10.0% | 0.45 | **0.85** | 24,756 | -3,156 | 1,771 | 427 | 25,715 | 296 | 87 | Neutral | | | **87** | 1% | 3.18 | 4% | **5%** |
| Porsche | € | 57.1 | | | | | | | | | | | 80 | BUY | | | **80** | 40% | 1.56 | 3% | **43%** |
| VW | € | 143 | 6.6% | 10.0% | 0.56 | **0.85** | 132,520 | -23,066 | 33,012 | 16,251 | 106,324 | 544 | 195 | BUY* | | | **195** | 36% | 4.56 | 3% | **39%** |
| Ferrari | € | 98.3 | | | | | | | | | | | | | | | **110** | 12% | 0.90 | 1% | **13%** |
| Ferrari (US) | US$ | 115.8 | | | | | | | | | | | | | | | **131** | 13% | | | |

Source: Company data, Goldman Sachs Global Investment Research, FactSet

**Exhibit 13: Upside/downside to our 12-month price targets**




Source: Goldman Sachs Global Investment Research, FactSet, Company data

# Our global light vehicle volume forecasts

**Exhibit 14: Our global light vehicle volume forecasts**

mn units

| | 2014 | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E | 2021E | 2016 | 2017E | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| USA | 16.5 | 17.5 | 17.6 | 17.2 | 16.6 | 15.7 | 15.0 | 15.9 | 0.4% | -2.0% | -3.5% | -5.4% | -4.5% | 6.0% |
| Japan | 5.6 | 5.0 | 5.0 | 4.8 | 4.8 | 4.7 | 4.5 | 4.5 | -1.5% | -3.4% | 0.0% | -2.1% | -4.3% | 0.0% |
| Total Europe | 18.3 | 18.9 | 19.8 | 20.4 | 20.8 | 21.2 | 21.3 | 21.3 | 4.8% | 3.0% | 2.2% | 1.5% | 0.5% | 0.4% |
| Western Europe | 13.6 | 14.9 | 15.9 | 16.2 | 16.2 | 16.0 | 15.8 | 15.7 | 6.4% | 2.0% | 0.0% | -0.9% | -1.3% | -0.7% |
| Passenger car | 12.0 | 13.0 | 13.8 | 14.0 | 14.0 | 13.9 | 13.7 | 13.6 | 5.6% | 1.8% | 0.2% | -0.9% | -1.3% | -0.7% |
| Germany | 2.9 | 3.0 | 3.2 | 3.2 | 3.2 | 3.1 | 3.0 | 3.0 | 4.1% | 1.0% | 0.0% | -3.0% | -3.2% | -0.9% |
| France | 1.8 | 2.0 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.0 | 4.9% | 3.5% | 1.0% | 0.0% | -3.5% | -1.3% |
| Italy | 1.4 | 1.6 | 1.8 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 15.8% | 7.0% | 2.0% | 1.0% | 1.0% | -0.7% |
| UK | 2.5 | 2.6 | 2.7 | 2.5 | 2.4 | 2.4 | 2.3 | 2.3 | 2.0% | -5.0% | -4.0% | -3.0% | -1.0% | -0.2% |
| Spain | 0.9 | 1.0 | 1.1 | 1.2 | 1.2 | 1.3 | 1.3 | 1.3 | 10.8% | 6.0% | 2.0% | 4.0% | 3.1% | 1.0% |
| Other | 2.6 | 2.8 | 2.9 | 3.0 | 3.0 | 3.0 | 3.0 | 2.9 | 3.4% | 3.0% | 1.4% | -0.9% | -1.3% | -1.1% |
| LCV | 1.7 | 1.9 | 2.1 | 2.2 | 2.1 | 2.1 | 2.1 | 2.1 | 11.7% | 3.0% | -1.0% | -0.6% | -1.3% | -0.8% |
| Eastern Europe (ex-Russia) | 2.2 | 2.4 | 2.5 | 2.7 | 2.9 | 3.1 | 3.2 | 3.3 | 6.2% | 5.0% | 7.6% | 6.6% | 4.6% | 2.9% |
| Russia | 2.5 | 1.6 | 1.4 | 1.6 | 1.8 | 2.1 | 2.2 | 2.3 | -11.2% | 10.0% | 15.0% | 15.0% | 8.3% | 4.2% |
| Brazil | 3.3 | 2.5 | 2.0 | 2.1 | 2.3 | 2.4 | 2.5 | 2.8 | -19.9% | 8.0% | 5.0% | 6.0% | 6.0% | 12.0% |
| India | 2.9 | 3.1 | 3.4 | 3.8 | 4.3 | 4.7 | 5.1 | 5.5 | 7.6% | 11.5% | 13.2% | 10.0% | 10.0% | 5.9% |
| China | 23.1 | 24.4 | 27.9 | 28.3 | 28.8 | 29.9 | 31.0 | 31.8 | 14.5% | 1.4% | 1.7% | 3.6% | 3.9% | 2.5% |
| China pass. car | 19.1 | 20.8 | 24.3 | 25.0 | 25.5 | 26.5 | 27.6 | 28.3 | 17.1% | 3.0% | 2.0% | 4.0% | 4.0% | 2.5% |
| China LCV | 4.0 | 3.6 | 3.6 | 3.3 | 3.3 | 3.3 | 3.4 | 3.5 | 0.2% | -9.0% | -0.2% | 0.3% | 2.8% | 1.9% |
| Asia (ex-China/Japan/India) | 5.4 | 5.5 | 5.5 | 5.7 | 5.9 | 6.1 | 6.3 | 6.4 | 0.5% | 3.2% | 3.8% | 3.6% | 3.0% | 2.2% |
| o/w South Korea | 1.7 | 1.8 | 1.8 | 1.7 | 1.7 | 1.7 | 1.8 | 1.8 | -0.5% | -8.8% | 2.0% | 2.0% | 2.0% | 2.0% |
| RoW | 11.4 | 11.4 | 11.5 | 11.9 | 12.2 | 12.6 | 13.1 | 13.6 | 1.4% | 2.8% | 2.5% | 3.8% | 4.0% | 3.5% |
| **Global** | **86.5** | **88.3** | **92.7** | **94.2** | **95.6** | **97.2** | **98.9** | **101.8** | **5.0%** | **1.6%** | **1.5%** | **1.7%** | **1.7%** | **3.0%** |

Source: Goldman Sachs Global Investment Research, IHS

# Disclosure Appendix

## Reg AC

We, Stefan Burgstaller, Demian Flowers, Gungun Verma and Lucile Leroux, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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**Growth** is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

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| | Rating Distribution | | | Investment Banking Relationships | | |
|---|---|---|---|---|---|---|
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| Global | 33% | 54% | 13% | 64% | 57% | 53% |

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