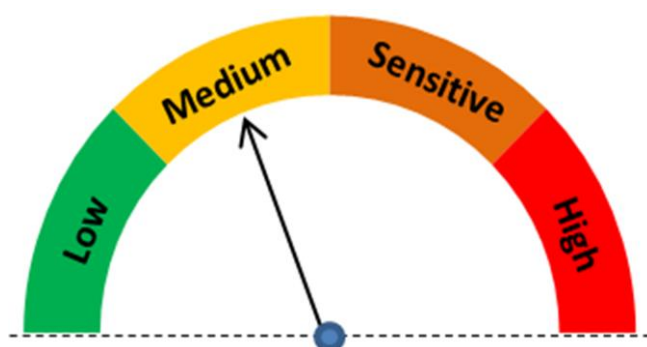


Sector Risk Rating



What to Watch?

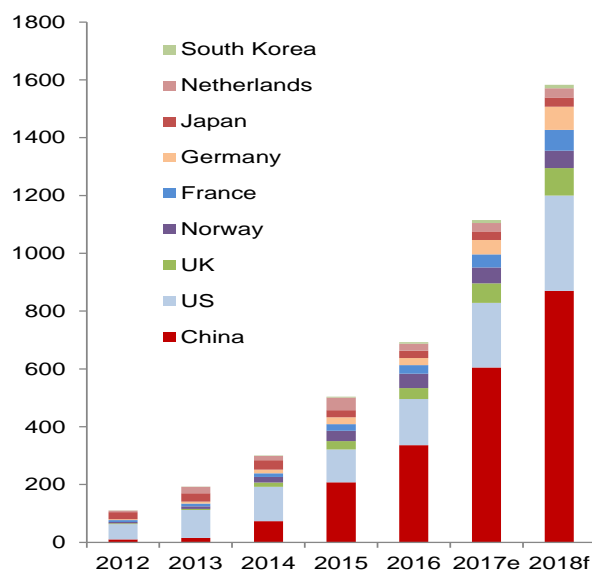
- Innovation in electric vehicles (EV), autonomous driving and new mobility services, boosting R&D spending, capex, M&A and partnerships
- Public subsidies for EV and regulatory requirements in top markets, notably China
- Downturn in US car sales and rapid decline of diesel in Europe
- Supply chain strategies in response to the outcome of NAFTA renegotiation and to Brexit uncertainties

Solid perspectives in sales, with faster and challenging market's transition to EV

The Automotive market is on course to cross the 100 million units' threshold in 2019. In 2018, global sales in new vehicles should exceed 98 million, posting a +2.5% increase. Positive forecasts in private consumption and corporate investment, fueled by rising incomes and still low interest rates, will support new registrations in passengers' cars (74% of the total) and commercial vehicles (26%) in the majority of countries.

Yet, the automotive industries face challenging times. One issue is their ability to cope with the uneven tempo of markets. We expect a continued growth in China (+3% to almost 30mn units) and most of the European Union (+2%), a recovery in Russia (+5%) and Brazil (+3.5%), a stabilization in Japan and South Korea, but also two major exceptions: the U.S (-2% to 17mn units) and the UK (-6%). The second challenge is to manage market's transition, notably to EV and connected cars, while keeping on meeting each market demand and the diversity of regulatory frameworks. New models are crucial to stay competitive, from low costs to premium cars and all kinds of EV; the latter will keep on a double digit trajectory with 1.7mn registrations in 2018 and a fleet of 5mn cars (compare to a total of 1.4bn vehicles in use worldwide). At the same time, emission requirements are intensifying, increasing the costs of cars and the pressure on manufacturers, notably in China where the draconian new rule coming into force in 2019 is undoubtedly already a game changer for car makers.

EV Vehicle New Registrations (in thousand)



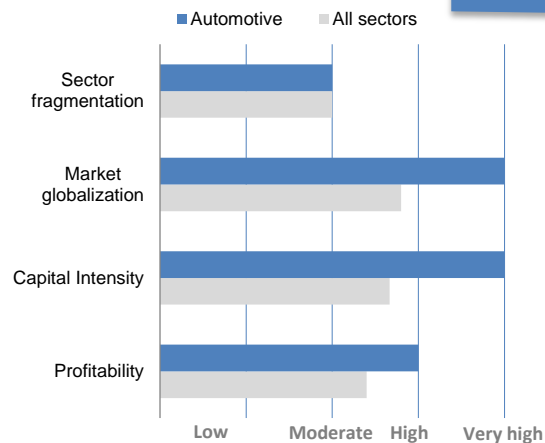
Sources: OICA, EIA, Euler Hermes

Sector Value:
1,098n
USD

Key Players

United States	#1 importer #2 exporter	●
Germany	#1 exporter #2 importer	●
China	#1 producer #6 exporter	●

ID Card



Strengths

- Increasing demand in emerging markets, supporting the mid-term perspectives of the market
- Intensifying consumer appetite for alternative fueled vehicles and new mobility services
- Development of premium models and larger Sports Utility Vehicles (SUV), supporting carmakers' profitability
- Expertise of established players on differentiation (i.e. design), production and supply chain issues

Weaknesses

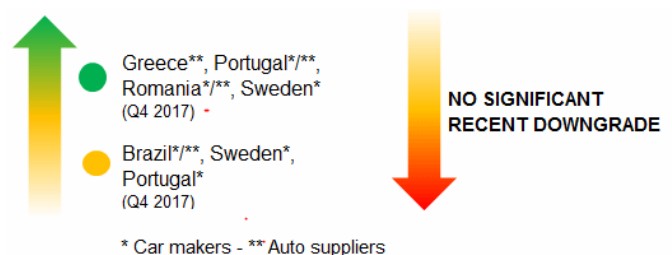
- New car sales' dependency on public measures (subsidies, tax exemptions), monetary policies (borrowing cost) and prices on the second-hand market.
- Intensifying environmental requirements (pollution, CO2 emissions) necessitating heavy investments
- Value proposition of EV in the short-term, due to the battery cost, driving range and expansion of the charging network
- Increasing competition from tech giants and start-ups in the field of connected and autonomous driving technologies

Subsectors Insights

Car makers: Geographical diversification and (innovative) model launches remain a key strategy to protect profitability and cope with the massive investments and R&D spending. High pressure from global competition and expansion of out-sourced activities.

Auto suppliers: Higher revenue growth and profitability compare to car makers. Market's transition to increase content per car and opportunities, but to reduce drastically the need for some components (i.e. diesel).

Recent Sector Risk Changes



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