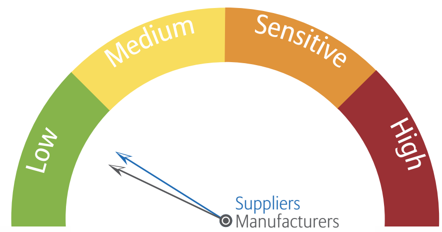
Automotive in Germany

Down with Diesel?



Automotive Non-Payment Risk
(Q2 2017)

- **Diesel market share plummets to 41%, while electric car sales surged by +116% in H1 2017**
- **German manufacturers remain one of the most profitable worldwide despite scandals**
- **Industry players remain uncontested worldwide leaders in R&D spending**

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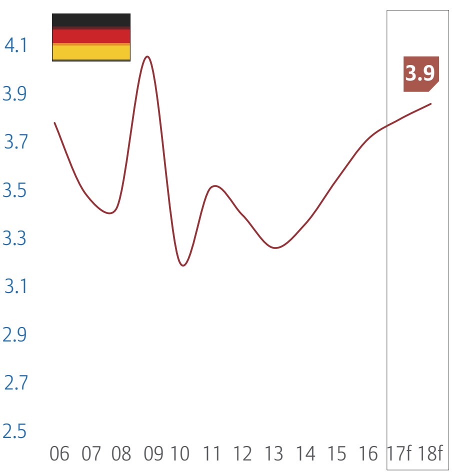
In H1 2017, new vehicle registrations totaled 2.4 million, up +2.1% compared to the same period in 2016. Following the emission scandal and cartel allegations, German manufacturers now face mounting pressure surrounding the diesel technology. We expect the downward trend in diesel market share to continue (from 46.9% in H1 2016 to 41.3% in H1 2017), with lower sales in this segment. New vehicle sales are set to expand by +2.2% in 2017 and +1.7% in 2018. The medium-term outlook will be determined by the industry's flexibility (and willingness) to make the shift from diesel technology to alternatives. The loss of consumer confidence and tarnished reputation will affect manufacturers' sales. In response, they have announced diesel rebate scheme to trade in old vehicle, with additional incentives for electric and hybrid models.

Profitability provides a cushion

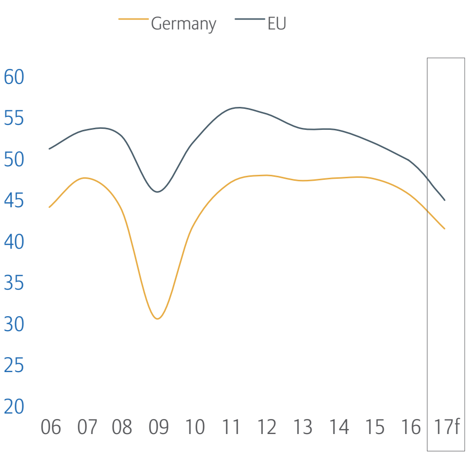
Financial performance of German manufacturers continues to be strong. In 2016, the average EBIT margin of German manufacturers stood at 6.0%, above the average of the countries reviewed (weighted down by the still recovering margin of VW). On the contrary, suppliers achieved an EBIT margin of 6.0%, below the average. German manufacturers seem well-endowed to handle potential fines for breaching antitrust regulation. According to EU legislation, the maximum fine could be as much as 10% of their global revenues.

Chart 1 New Vehicle Registrations
(in million)



Sources: OICA, IHS, Euler Hermes forecasts

Chart 2 Diesel Sales
(as % of Total New Vehicle Registrations)



Sources: ACEA, Euler Hermes

Global leaders in engine technologies

Between 2010-2015, German manufacturers and suppliers were the international leaders in engine patents. 34% of patents in the field of electromobility and 32% of patents in the field of hybrid driving systems worldwide come from Germany. In 2015, the German automotive industry invested EUR37.0bn in R&D, beating Japan (EUR29.4bn) and the US (EUR16.7bn). In 2015, BMW, Audi, and Daimler carried out one of the largest ICT M&A deals in the German automotive industry thus far by purchasing the digital-mapping company HERE for USD2.8bn (62% of the M&A volume across sectors of the German automotive industry between 2012 and 2017, totaling USD4.5bn). Only the Chinese producers had a larger deal volume over the same period (USD6.2bn).

Diesel scandals boost EV sales

In Germany, 13% of an electric car's retail price is subsidized, behind the US (18%) and France (18%). The implementation of Germany's charging infrastructure remains patchy, with only 20 fast chargers per thousand electric vehicles, on a par with the UK (18) and France (15). In 2016, Daimler, BMW, VW, and Ford agreed to work together to establish a vast high-powered charging network for EV along major highways throughout Europe by 2020. In response to the diesel scandal, sales of electric cars have experienced triple-digit growth in H1 2017. Sales surged by +115.5% to 22,453 cars (close to total sales of electric vehicles in 2016). We expect this growth momentum to remain strong in 2017, while car sales could exceed the threshold of 50,000 this year. ■