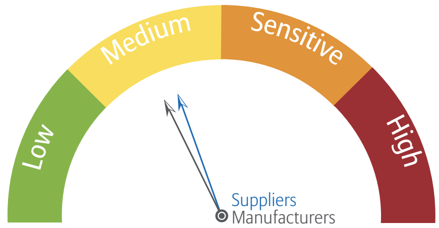
Automotive in Italy

In the Fast Lane



Automotive Non-Payment Risk
(Q2 2017)

- **Italy's vehicle market will be the fastest growing in Western Europe, with +5.0% in 2018**
- **Italian suppliers enjoy the highest EBIT margin (9.0%) in the automotive industry**
- **Strategic partnerships rather than R&D due to limited financial resources of SMEs**

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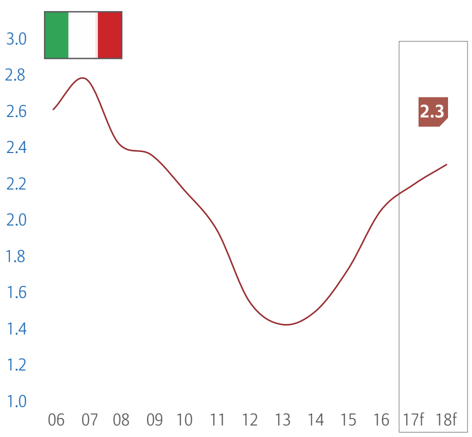
Based on our forecast, new vehicle registrations in Italy are set to climb by +7.0% in 2017 and +5.0% in 2018. This continued strong growth momentum stems from a fierce battle for market shares, with a growing number of rebates. Besides, positive consumer and business confidence have been driving new vehicle sales. Medium-term growth prospects remain uncertain. A looming banking crisis in Italy has the potential to disrupt the European automotive market. High levels of government debt and a banking system exposed to a high volume of NPLs could lead to serious restraints in credit provision and dampen consumer confidence.

New luxury brand strategy outside Europe

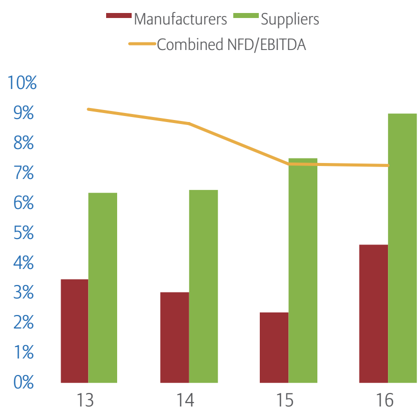
The EBIT margin of Italian manufacturers was below the average of the countries reviewed, with 4.6% in 2016. The positive driver was the strong financial performance of Fiat Chrysler Automobiles (FCA) achieving a margin of 5.5% in 2016. Suppliers achieved the highest EBIT margin of 9.0% compared to their global counterparts. The largest Italian manufacturer, FCA, has been shifting production from mass-market cars to vehicles in the luxury segment with its brands Alfa Romeo, Ferrari, Maserati, and Jeep models, while also fostering exports to other markets. With its growing presence in the US, Fiat Chrysler has to compete with premium brands from Germany and Japan. The slow pace of debt reduction remains the principal cause of concern for the company.

Chart 1 New Vehicle Registrations
(in million)



Sources: OICA, IHS, Euler Hermes forecasts

Chart 2 EBIT Margin Manufacturers vs Suppliers in Italy



Sources: Bloomberg, Euler Hermes

Structural factors weigh on innovation

In 2015, the Italian automotive industry invested approximately EUR5.0bn in R&D, behind Germany (EUR37.0bn) and France (EUR6.1bn), yet ahead of the UK (EUR1.8bn). In 2015, Italian industry players secured only 4% of worldwide automotive patents. This might be linked to the fact that Italy's industry consists primarily of SMEs, which have limited financial resources relative to their massive German counterparts. Moreover, in recent years, industry-wide profits have been rather modest, resulting in a lack of strategic investment in battery and engine technologies or automated driving systems. On a positive note, in August 2017, FCA joined a strategic alliance between BMW, Intel and Mobileye in developing a platform for autonomous cars, with production to be launched by 2021.

Slow out of the EV gates

Electric vehicles are a recent trend in Italy. So far, there has been little government support in promoting a nation-wide adoption of electric cars (no financial incentives are offered, but an exemption of ownership tax is). Charging infrastructure is now slowly beginning to evolve. Pioneers are cities such as Milan and Turin, which have started implementing charging networks. This trend goes hand in hand with the growing popularity of shared mobility services in large cities. In response to the Diesel emission scandal, FCA announced that Maserati will broaden its product portfolio and begin the production of EV by 2021. ■

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