# Tumult in Auto Industry but Not All Firms Affected Equally

March 2021

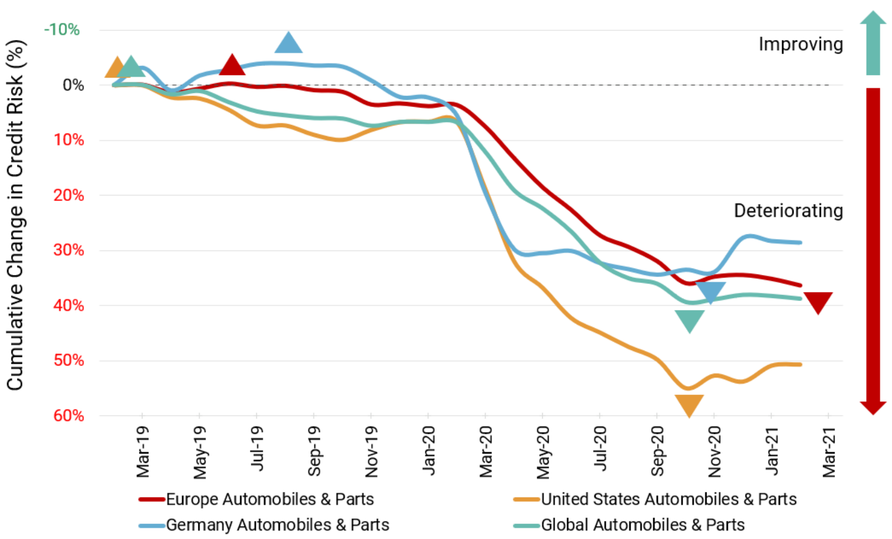
## Volkswagen Sees Credit Upgrade as Transition to Electric Vehicles, Speculation of a Porsche IPO Revs Up

The auto industry was t-boned over the last year as transportation and consumption habits changed dramatically. Overall credit risk in the auto industry is still far higher than it was last year on a global and regional basis. But not all auto industry firms have been affected the same way. In fact, some have even seen their credit quality improve throughout the crisis.

### Auto Sector Default Risk Surges

Over the last year, credit risk surged for the Global auto sector by 30% to 53 bps, and its Credit Consensus Rating (CCR) rating is now **bb+**. Regional subsectors also saw double-digit increases in credit risk, but there are still wide disparities. Default risk for the US and Asian auto sectors is now 51 and 44 bps, and their respective CCR ratings are **bb+** and **bbb-**. The overall European auto sector's default risk is now 59 bps and its CCR is **bb+**, far better than the 85 bps and **bb** for UK firms. But the real standout is the German auto sector whose default risk is just 23 bps and whose CCR is still investment-grade at **bbb**.

**Figure 1: Credit Trend - Europe, Germany, United States and Global Automobiles & Parts**




Source: Credit Benchmark

### Fahrvergügen?

Of course, not all companies are experiencing the same fate **(see credit movement matrix in Figure 2 overpage)**. Some have been downgraded, but are still investment-grade, like Toyota. Some were high-yield, and have been further downgraded, like Renault or McLaren, or are deteriorating, like Jaguar Land Rover. Some are high-yield, but have been upgraded, like Tesla. Still others are investment-grade but have not seen an upgrade, like Volvo or Kia.

Then there are the firms that were investment-grade at the start of the COVID-19 crisis and have been upgraded along the way, like Volkswagen and Porsche. Each is at a critical point amid the ongoing transition to electric, and this credit consensus upgrade comes amid speculation of a potential initial public offering that could be quite lucrative for a company whose shares have been soaring recently.

In something characterized as a shot across Tesla's bow, Volkswagen has announced recently its plans to build six battery cell plants in Europe and expand the infrastructure necessary for charging electric vehicles on a global basis. It aims to be the global leader in electric vehicles by 2025.

The costs associated with this transition are anticipated to be immense, but credit consensus data suggest Volkswagen is well equipped to handle it.

**Figure 2: Six month credit levels and changes for Global Automobiles**

| 6m | Downgrade | Deteriorating | No Change | Improving | Upgrade |
|---|---|---|---|---|---|
| IG1 | TOYOTA MOTOR CORP | | BAYERISCHE MOTOREN WERKE AG | | HINO MOTORS LTD |
| IG2 | HARLEY DAVIDSON INC<br>SUZUKI MOTOR CORP | | MICHELIN TYRE PLC<br>DAIMLER AG<br>FERRARI NV<br>KIA MOTORS CORP<br>VOLVO AB | | SKODA AUTO AS<br>AUDI AG<br>VOLKSWAGEN AG<br>DR ING HC F PORSCHE AG<br>DAIMLER CORP |
| Crossover | NISSAN MOTOR MANUFACTURING UK LTD | PEUGEOT SA<br>VOLVO CAR AB | GENERAL MOTORS CO | ALFA SAB DE CV | BENTLEY MOTORS LTD<br>PIRELLI & C SPA |
| HY1 | RENAULT SA | DANA INC<br>JAGUAR LAND ROVER LTD | FORD MOTOR CO LTD<br>GENERAL MOTORS LLC | | LOTUS CARS LTD |
| HY2 | MCLAREN HOLDINGS LTD | JAGUAR LAND ROVER AUTOMOTIVE PLC | ASTON MARTIN LAGONDA LTD | | TESLA INC |

**About Credit Benchmark**

Credit Benchmark brings together internal credit risk views from 40+ of the world's leading financial institutions. The contributions are anonymized, aggregated, and published in the form of entity-level consensus ratings and aggregate analytics to provide an independent, real-world perspective of risk. Consensus ratings are available for 55,000+ financials, corporate, funds, and sovereign entities globally across emerging and developed markets, and 90% of the entities covered are otherwise unrated.

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