

## European Automobiles

**Limited impact of Red Sea on EU Autos,  
positive impact on EU Tires**

Industry Overview

**Red sea disruptions expected to normalize**

Disruptions are constraining container operators to re-route around the horn of Africa, extending the trip by 1-2 weeks (+c30%). Coupled with higher fuel and vessel costs, the longer sailing time could add +9% to global tonne mile demand (see: [Shipping - Asia-Pacific](#)). This is pressuring prices with the WCI composite up >120% since Oct-23 lows (Ex 1). Our Transportation team anticipates further pricing pressure ahead of the pre-Chinese New Year (CNY) mini-peak before normalization aided by seasonality and resumed traffic following US led Operation Prosperity Guardian (see: [Shipping - Global](#)).

**Tesla, Volvo Cars, and Geely's EU operations disrupted**

The disruption is creating a gap in supply chains, particularly for BEVs which are much more reliant on Asia components. Tesla announced it will be suspending production for 2 weeks (29<sup>th</sup> Jan – 11<sup>th</sup> Feb) citing component shortages. Similarly, Volvo Cars paused output for three days in Ghent (Belgium) this week, on delayed delivery of gearboxes, where it mainly produces its XC40 and C40. Geely also warned in December that EV exports will be impacted due to a shortage in vessels. These announcements come amidst weaker EU BEV demand ([EV tracker Nov 23](#)) and the production cuts might also be a response to weaker BEV demand. Indeed, for the time being, the disruptions seem contained to BEV names, as EU legacy OEMs (BMW, VW & RNO) said that production was not affected. VW began pre-emptively re-routing car part shipments last month and STLA is using air freight in certain instances.

**RNO, Volvo Cars and P911 most exposed EU OEMs**

We expect limited material effect on earnings given that i) freight pricing pressures should ease within Q1 ii) raw materials, which account for a much larger proportion of costs, continue to deflate. OEMs with the highest share of exports and lowest revenue per unit are the most sensitive to freight costs. We show the share of freight costs as % total sales in Exhibit 2 and find that RNO, Volvo Cars and SAIC are the most exposed. P911 has the highest export share (Exhibit 3), but its higher RPU provides better cost absorption. However, it remains highly vulnerable to transport delays. STLA and VW are on the other hand the most localised EU OEMs and are thus less impacted by any escalation in the Red Sea, in our view (Exhibit 2-6). Delays in delivery from the extended journey will likely limit Chinese produced BEVs into Europe and relieve some competitive pressure for domestic OEMs (Exhibit 6). Tesla, RNO (through its Dacia Spring) and Volvo Cars import the most BEVs into EU and M/S could be adversely impacted in Jan/Feb.

**Positive for EU tires as it reduces Asia cost advantage**

The month of October saw the import of 15.5m tires into Europe, higher than any other October on record (Exhibit 7), up 12%y/y on a high base. 2023 imports (ytd) were also up 1%. If anything, the disruption may slow Asian imports into Europe as deliveries are delayed and erode some of their cost advantage on higher freight costs. This could also help support pricing in a year where decreases are expected.

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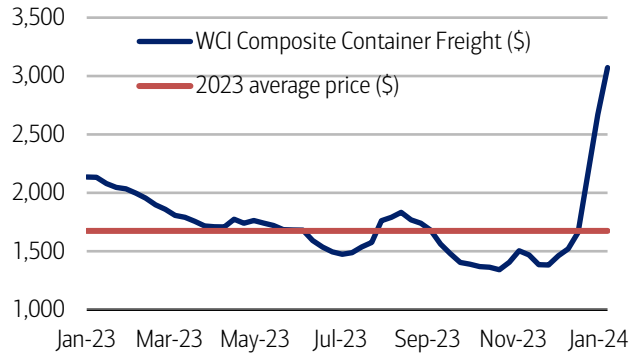
**European Autos & Thematic Research**

Abbreviation:

OEM: Original equipment manufacturer  
BEVs: Battery Electric Vehicle  
RPU: Revenue per unit  
STLA: Stellantis  
VW: Volkswagen  
RNO: Renault  
TSLA: Tesla  
P911: Porsche AG  
M/S: market share  
MBG: Mercedes-Benz Group  
YTD: Year to date

**Exhibit 1: Global container price (WCI Composite Container Freight)**

Prices jumped &gt;120% vs October low on average globally

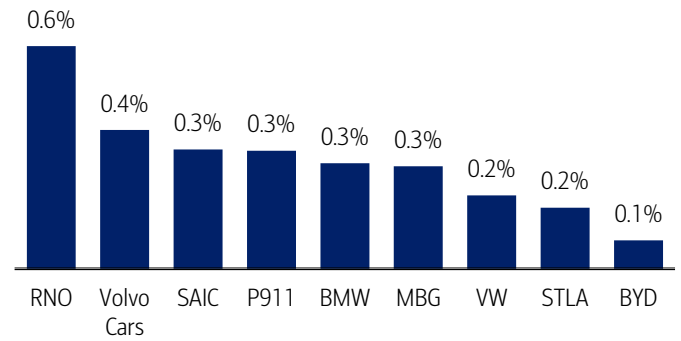


Source: Bloomberg, BofA Global Research

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**Exhibit 2: Freight cost as % revenue**

RNO and Volvo Cars have the highest sensitivity to freight costs

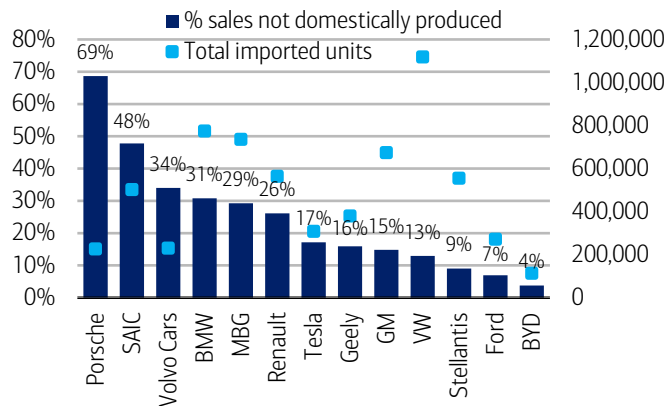


Source: BofA Global Research estimates, S&amp;P Global (IHS)

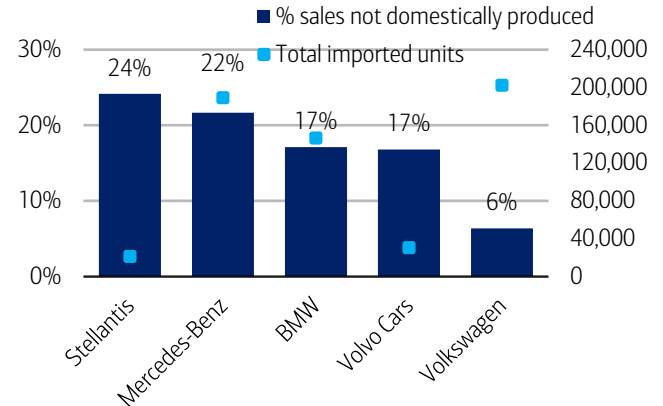
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**Exhibit 3: Global share of vehicle sold not domestically produced (FY23)**

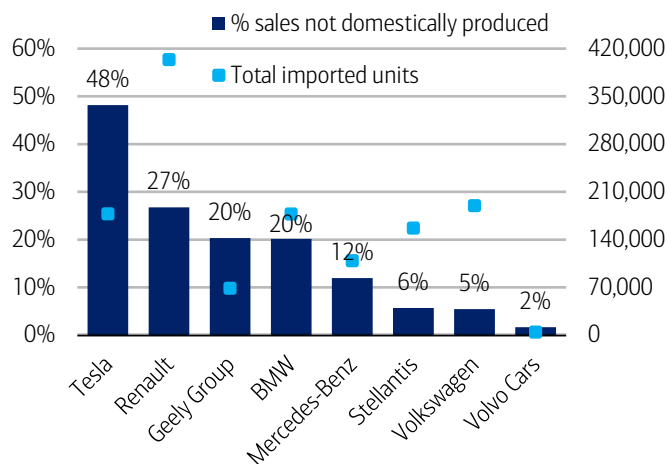
Porsche, SAIC and Volvo Cars are the most reliant on shipping

Source: S&P Global (IHS), BofA Global Research. Note: Sales not domestically produced include vehicles sales where production region (e.g., Europe, North America...) is different to sales region  
BofA GLOBAL RESEARCH**Exhibit 4: China sales from imported vehicles (FY23)**

VW and MBG are the EU OEM exporting the most units to China

Source: S&P Global (IHS), BofA Global Research. Note: STLA China sales share is <3%  
BofA GLOBAL RESEARCH**Exhibit 5: EU28 sales from imported vehicles (FY23)**

Tesla (mainly Model 3) and RNO import the most vehicles into EU

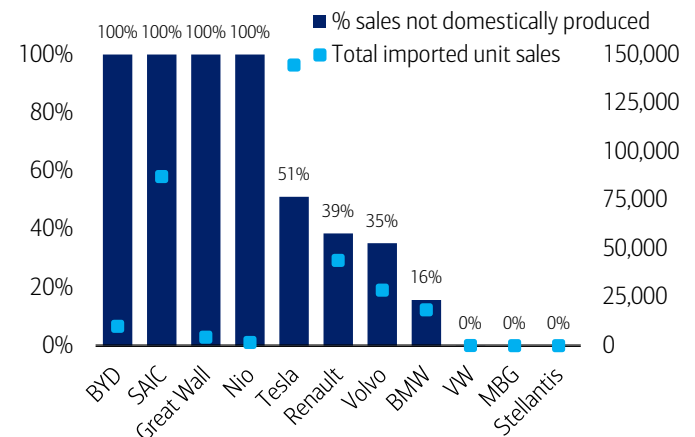


Source: S&amp;P Global (IHS), BofA Global Research

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**Exhibit 6: EU28 BEV sales from imported vehicles (Jan to Nov-23)**

VW, STLA and MBG fully localise BEV production for EU sales

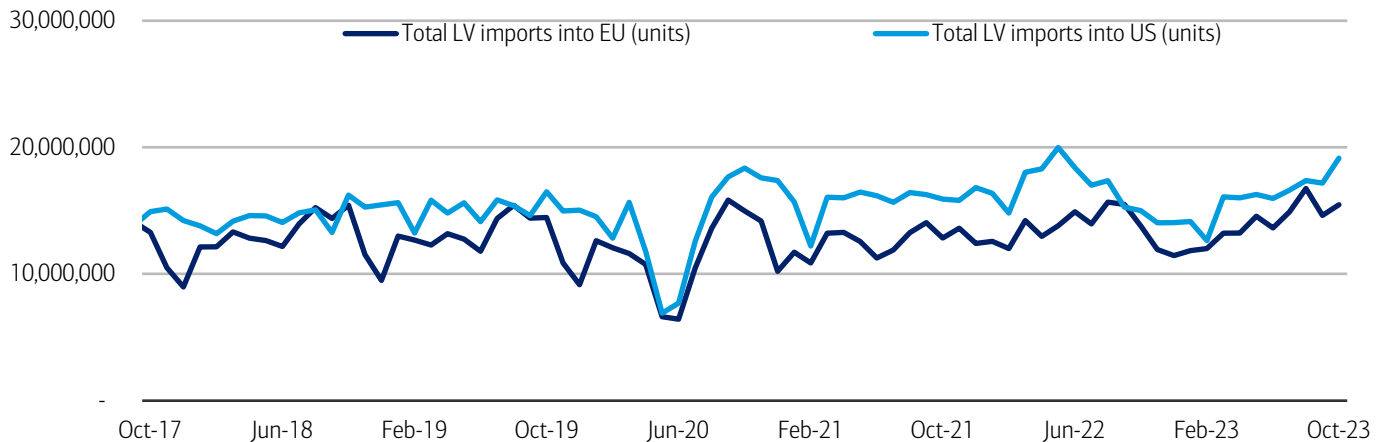


Source: EV volumes, BofA Global Research

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**Exhibit 7: Monthly imports of Asian LV tires into Europe and the US (units)**

Europe sees a 6% m/m increase in Oct-23 and the US 12% m/m Increase in Oct-23 bringing the YTD figures to +0.6% and -5.3% y/y respectively

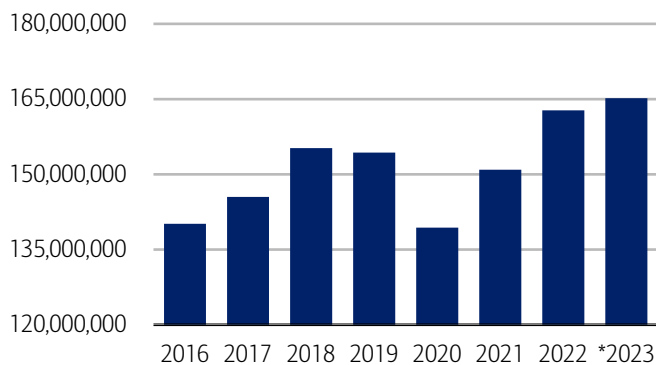


Source: LMC

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**Exhibit 8: Annual EU tire imports. \* = annualised YTD (Jan-Oct -23) run rate (units)**

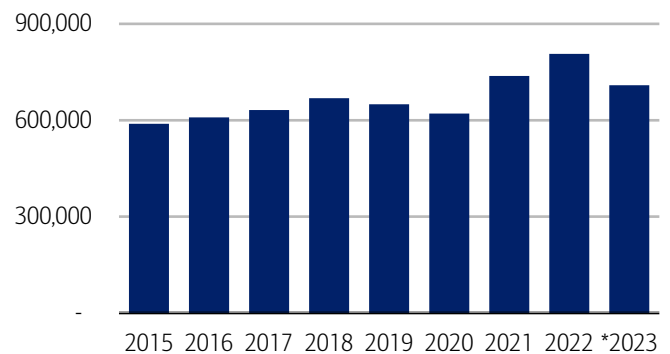
Annual imports were up +8% to 163m units in 2022, and are run-rating at 165m units (+1%) for 2023



Source: BofA Global Research, LMC, \*'23 extrapolated from the YTD seasonally adjusted run rate  
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**Exhibit 9: Annual US tire imports. \* = annualised YTD (Jan-Oct -23) run rate (teu)**

Annual imports were up +9% to 806k units in 2022 and are run-rating at 709k units (-12%) for 2023.



Source: BofA Global Research, Panjiva, \*2023 extrapolated from the YTD run rate  
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