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Equity Research from Kepler Cheuvreux

06 September 2023

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Autos & parts

Europe

Passenger tyre data still positive in July, truck tyre figures still weak

Key points:

- Michelin released last night its estimated July tyre market data. OE dynamics remained softer on China comps for PT, with TT remaining negative (+4% and -1% monthly YOY change for global OE passenger car and heavy trucks volumes), while overall May-June replacement trends were confirmed (+1% for passenger tyres and -4% for truck tyres) on comps, macro and destocking.
- Michelin's updated 2023 market demand estimates now look fair, our own assumptions for 2023-24 tyre volumes were cut in June to reflect the recent softer trends in replacement and broadly aligned macro deceleration. Pricing discipline remains solid, with Q3 price mix still expected to remain positive for all players as a rising portion of cost inflation is concerned.
- Tyres are becoming increasingly attractive: 1) an overall inflationary environment in which tyre makers historically demonstrated a better ability to pass on costs to final clients than pure OE suppliers (notably as these turn to wages and energy costs); 2) rising concerns around OEMs' pricing developments; 3) Easing comps in RT and increasingly challenging comps in OE.

July pass, tyre volumes better. OE gains ease, RT slightly up thanks to China comps

- European and America's OE (Original Equipment) passenger tyre (PT) volumes were up 14%, each continuing strong Q2 trends after a softer end of 2022. Comps remain easy until September.
- Chinese OE volumes were down 5% for the second consecutive month as comps become challenging (and will remain so until October). Replacement (RT) demand remained solid (+10% again, +15% YTD), supported by comps and the end of COVID restrictions.
- **Michelin estimates that global OE PT demand gained 4% in July (9% YTD after +7% in 2022), while RT gained 1% thanks to China (-2% YTD after -1% for 2022) – with positive OE figures across all regions but China.**
- European and the America's PT RT volumes were down 3% and up 2%, respectively (down 6% and 7% YTD after +2% / -4% for 2022) for the month on tough comps, weak macro, and dealers' destocking.

Truck tyre volumes still a lot more negative on challenging comps, decelerating macro and dealer destocking

- Pan-European and US truck tyre (TT) OEs gained 12% and lost 10% in July respectively, consistent with June figures and staying at high levels (+10% / -2% YTD after +4% / +10% for 2022).
- The replacement market gained 3% in Europe and dropped 19% in North Americas (-10% / -18% YTD, +6% / +13% FY22) on challenging comps, macro deterioration, and high dealer inventories. This is their fifth consecutive simultaneous monthly decline since macro conditions started turning shakier in 2022 – suggesting a sharp ongoing macro deceleration.
- **Michelin estimates that global TT OE decreased by 1% (+2% YTD, -19% 2022) outside China and North America, while RT demand dropped 4% again in July (-6% YTD / +1% 2022). Demand remains at high levels (both in OE and RT) with tough comps. Distribution and fleets continue to adjust their inventories to a decelerating macro environment.**

Raw material prices have stabilised, price mix still positive in H2, offsetting not just raw mat headwinds but a lot more

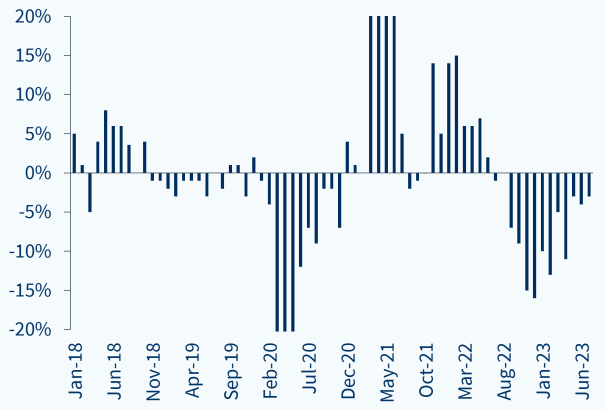
- Natural and synthetic rubber prices remain volatile but showed clear declining trends since last summer. Natural rubber prices and most oil-based commodities are clearly back down now, carbon black aside.
- Tyre makers should continue to try and preserve a positive net price mix raw materials in 2023 in a challenging industry environment. Three waves of price hikes have been implemented in 2022 in most regions, after three rises in 2021. Michelin and Pirelli announced price hikes at the beginning of 2023 for Europe and North America, Bridgestone for Japan.

We confirm our cautious stance on Autos, notably the OEMs, more positive OE suppliers, tyre stocks more compelling

- We adjusted our sector stance in our early February OEMs note, by downgrading four automakers and as a result more caution on Autos overall. Our recent upgrades on Autoliv and Valeo leave us with a balanced stance today on OEMs vs. suppliers, progressively shifting towards suppliers.
- We still like tyre makers' fundamentals and view the segment as increasingly attractive amid more challenging OE trends and stabilised raw material prices. They continue to be among the rare players in European Autos able to pass on rapidly rising costs to their final customers. The segment underperformed in 2022, leaving our preferred names Michelin and Pirelli down to very supportive valuation levels. Tyre names tend to do well when the sector is challenged.

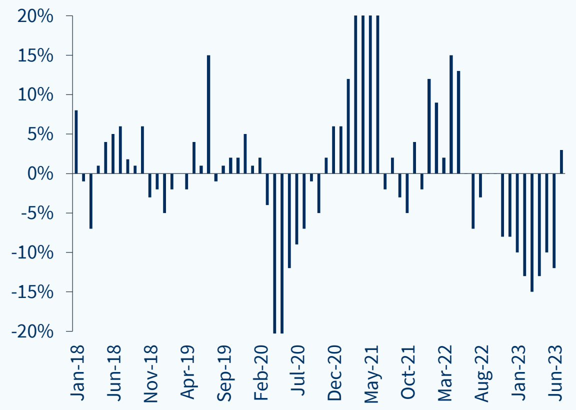
- The segment benefits from a faster electrification than previously anticipated, with nothing to lose from it. Michelin is our preferred tyre stock (and among Most Preferred names), with Pirelli also Buy-rated. We rate Conti at Hold and Nokian at Reduce.

Chart 1: Monthly YOY change in European PT RT demand



Source: Company reports, Kepler Cheuvreux

Chart 2: Monthly YOY change in European TT RT demand



Source: Company reports, Kepler Cheuvreux

Chart 3: Monthly YOY change in US PT RT demand

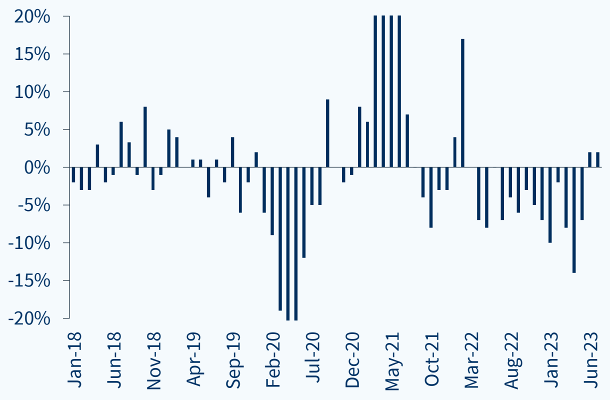


Chart 4: Monthly YOY change in US TT RT demand

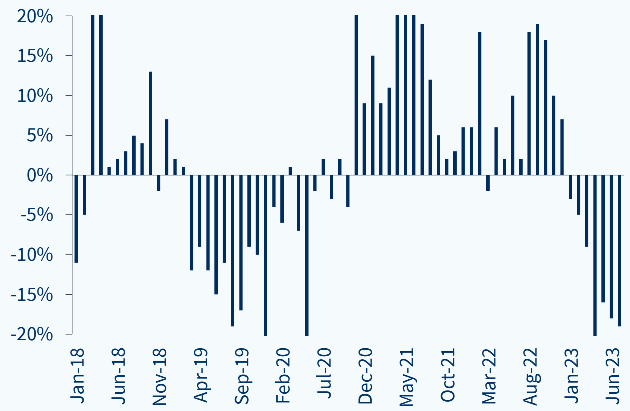
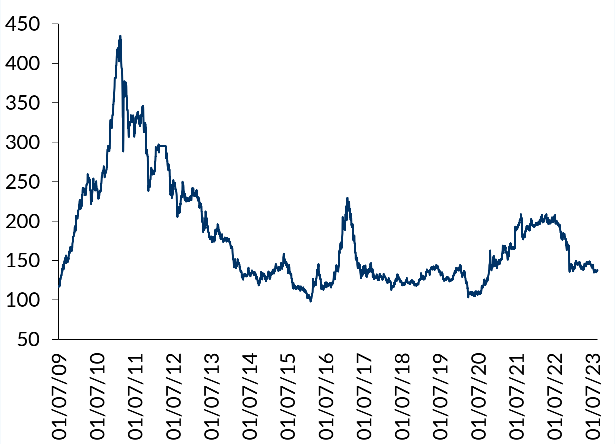
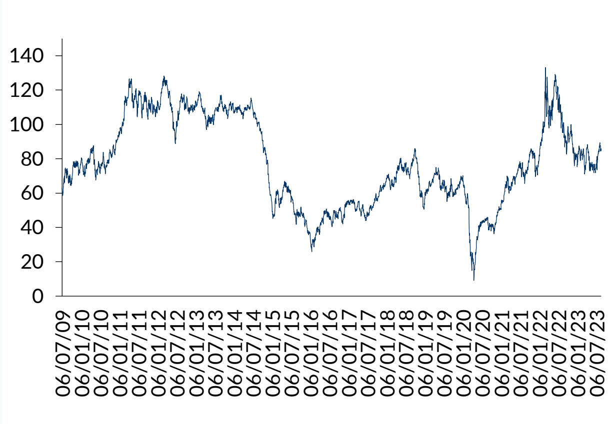


Chart 5: Natural rubber prices seem to stabilise at low levels



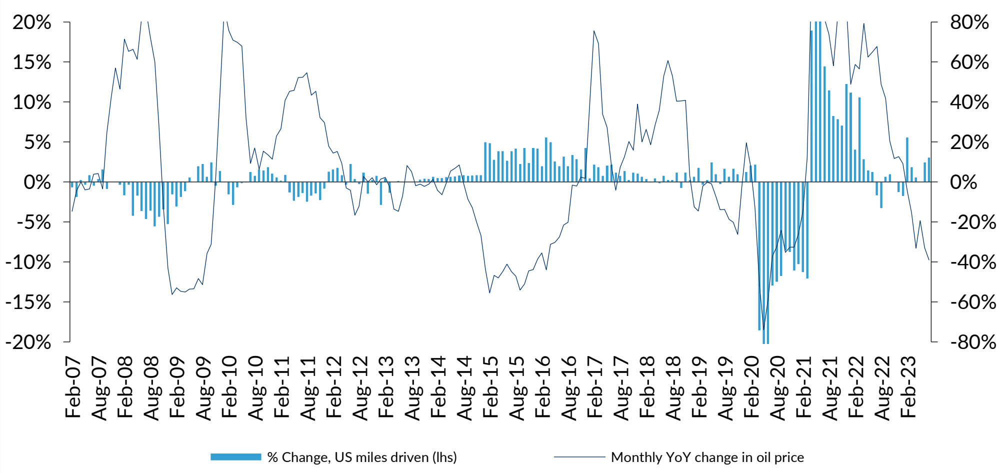
Source: Datastream, Kepler Cheuvreux

Chart 6: Oil prices also seem to stabilise now after their decline



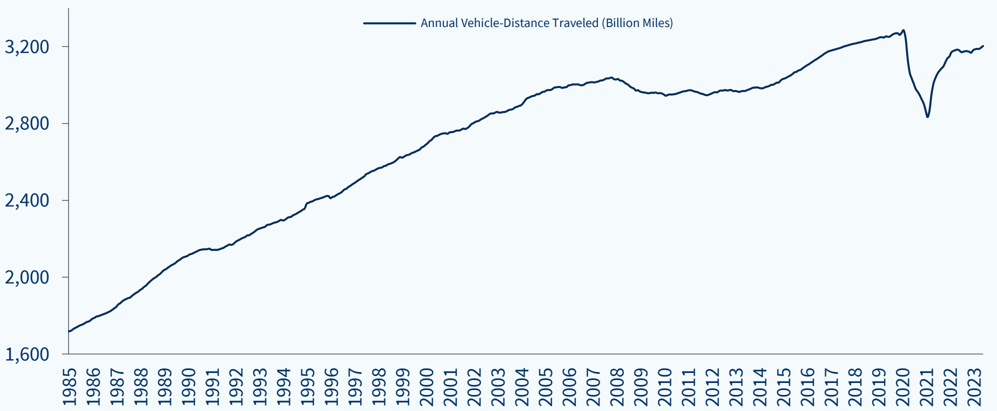
Source: Datastream, Kepler Cheuvreux

Chart 7: US miles driven collapsed on COVID, sharply positive on comps since, stabilising now



Source: US DoT, Kepler Cheuvreux

Chart 8: US miles driven: COVID crash still visible even on long-term charts, largely back on trend now



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Company	Rating	Target
Daimler Truck	Buy	EUR41.00
Gestamp	Buy	EUR5.50
Michelin	Buy	EUR38.00
Stellantis	Buy	EUR27.00

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Company	Rating	Target
Aston Martin	Reduce	GBPp335.00
BMW	Reduce	EUR90.00
ElringKlinger	Reduce	EUR6.70
Volvo Cars	Reduce	SEK38.00

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Reduce	6%	0%
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Total	100%	100%

Source: Kepler Cheuvreux
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