

BMW

Q3 preview: Is BMW misunderstood?

We like BMW as a high-quality EU premium OEM with its objectively inexpensive valuation at 5.5x PE and 25% EV/sales. But Mercedes-Benz (MBG) is equally inexpensive and, between the two, we prefer MBG. Q3 should be solid to strong for both, but while we expect a guidance raise for MBG, BMW lacks a near-term catalyst and we are relatively aligned with consensus for Q3'22. With this report we transfer primary coverage of BMW to Henning Cosman.

Misunderstood master plan? Like all EU OEMs, BMW has taken advantage of global supply-demand imbalances through strong price-mix (with normalisation fears now concerning investors). But relative to other OEMs, BMW had been less affected on volumes in 2021. So while its strong comps have not allowed any volume growth in Q3'22 (vs. MBC's almost +40% wholesale growth), absolute volumes have remained well ahead of MBC overall, as well as with respect to BEVs specifically. Perhaps ironically, therefore, the capital market perceives BMW as lagging Mercedes-Benz in the field of electrification (probably partly due to BMW's unfortunate terminology of 'flexible architectures' and 'technology openness', but partly also warranted, in our view, with BMW's 'Neue Klasse' only launching in 2025, while MBG's EVA2 is already producing impressive BEVs, such as the EQS SUV and EQE SUV). At the same time, the market arguably doesn't appreciate BMW's number #1 volume position among the global premium OEMs either, as lower-volume/higher-margin OEM business models are preferred, with top-end segment exposure promising better resilience in times of looming economic uncertainty – leaving BMW feeling “misunderstood” by the market.

For Q3'22 we forecast €30.7bn Automotive revenue (+€8.1bn yoy, o/w +€6.7bn from China consolidation) and 9.2% Auto EBIT margin (as reported, incl. -€375m PPA for the quarter but no longer any negative one-offs unlike the €1.3bn in H1'22), putting BMW well on track for FY22 EBIT margin near the top-end of its 7-9% FY22 guidance. Q3 FCF should be strong as well at €2.5bn and position BMW to end the year well above its (reduced) >€10bn FY22 FCF guidance (perhaps not far from the original €12bn guide).

We lower our PT to €80 (from €95) and reiterate our Equal Weight rating. We continue to prefer Mercedes-Benz (MBG GY, CP €53.9, Overweight) for its more refined strategy and communication on Luxury, Tech and Digitalisation, making a re-rating more likely than for BMW, in our view.

BMW.GE: Financial and Valuation Metrics EPS EUR

FY Dec	2020	2021	2022	2023	2024
EPS	5.73A	18.77A	26.18E	13.76E	13.62E
Previous EPS	5.73A	18.77A	25.81E	14.39E	14.77E
Consensus EPS	5.73A	18.77A	21.72E	14.31E	14.58E
P/E	13.1	4.0	2.9	5.5	5.5

Source: Barclays Research, consensus numbers are from Bloomberg received on 17-Oct-2022; 12:50 GMT

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Equity Research

Industrials | European Autos & Auto Parts

18 October 2022

Stock Rating	EQUAL WEIGHT Unchanged
Industry View	NEUTRAL Unchanged
Price Target	EUR 80.00 lowered -16% from EUR 95.00

Price (14-Oct-2022)	EUR 75.02
Potential	+6.6%
Upside/Downside	
Tickers	BMW.GY / BMW.DE

Market Cap (EUR mn)	49269
Shares Outstanding (mn)	661.40
Free Float (%)	53.30
52 Wk Avg Daily Volume (mn)	1.5
Dividend Yield (%)	7.73
Return on Equity TTM (%)	23.26
Current BVPS (EUR)	127.11

Source: Bloomberg

Price Performance	Exchange-GER
52 Week range	EUR 100.42-67.58



Source: IDC; Link to Barclays Live for interactive charting

European Autos & Auto Parts

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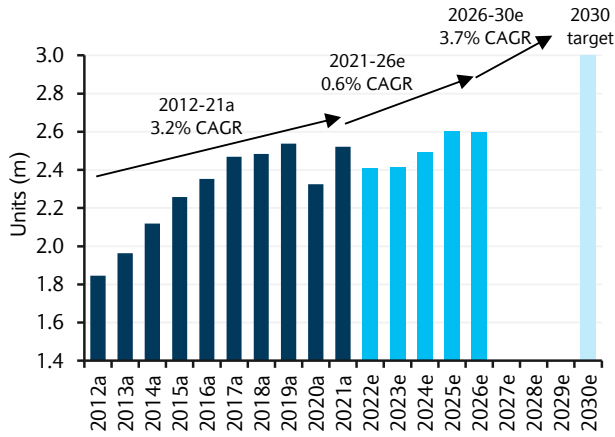
Barclays, UK

European Autos & Auto Parts						Industry View: NEUTRAL	
BMW (BMWG.DE)						Stock Rating: EQUAL WEIGHT	
Income statement group (€mn)	2021A	2022E	2023E	2024E	CAGR	Price (14-Oct-2022)	EUR 75.02
Sales	111,239	137,265	137,195	141,025	8.2%	Price Target	EUR 80.00
Gross profit	21,986	23,610	23,536	23,506	2.3%	Why Equal Weight? We believe that BMW is fairly priced at the current level and has less upside than peers. While we see the Chinese JV integration as a positive, we are more concerned about the underlying margin development with its xEV ramp. After previously being a BEV leader, BMW is currently perceived as lagging its closest peers (notwithstanding strong sales).	
EBIT	13,400	13,948	13,581	13,378	-0.1%		
EBIT (adj)	11,897	16,948	15,081	14,878	7.7%		
Net income	12,382	17,158	8,811	8,648	-11.3%		
Net income (adj)	11,216	19,461	9,898	9,738	-4.6%		
EPS (reported) (€)	18.77	26.18	13.76	13.62	-10.1%		
EPS (adj) (€)	20.54	14.74	13.76	13.62	-12.8%		
DPS (€)	5.80	8.00	5.50	5.45	-2.1%		
Industrial cash flow (€mn)					CAGR	Upside case	EUR 120.00
Cash flow from operations	12,583	16,523	17,531	17,663	12.0%	BMW's full consolidation of BBA leads to a step change in EBIT and FCF. BMW's BEVs sell well and "Neue Klasse" may finally alleviate pushback on its "flexible architectures". Its ESG credentials are very strong. But we don't see near-term re-rating catalysts.	
Cash flow from investing	-6,208	-4,940	-10,010	-9,940	N/A		
Free cash flow	6,754	11,623	7,521	7,723	4.6%		
Free cash flow (company definition)	6,354	11,623	7,521	7,723	6.7%		
Industrial net debt/(funds)	-22,362	-32,140	-33,670	-37,870	N/A		
Capital expenditure (PPE)	-3,933	-7,290	-7,330	-7,180	N/A	Downside case	
Cash R&D	-6,870	-7,290	-7,330	-7,560	N/A	EUR 60.00	
Industrial balance sheet (€mn)					CAGR	We perceive BMW's strategy all less refined vs MBC's and with a difficult investment climate for EU Autos into 2023 it may be less protected from a further de-rating (besides potential volume-price-mix pressure). BMW's China BEV ambitions are high, but local competition is strong.	
Cash and equivalents	12,009	20,960	22,490	26,690	30.5%	Upside/Downside scenarios	
Accounts receivable	2,076	2,950	3,350	3,450	18.4%	Price History Prior 12 months: High (100.42), Current (75.02), Low (67.58). Price Target Next 12 months: Upside (120.00), Target (80.00), Downside (60.00).	
Inventories	14,868	18,000	18,430	19,080	8.7%		
Net PP&E	21,885	30,850	29,660	27,980	8.5%		
Total assets	121,318	146,300	147,640	151,030	7.6%		
Accounts payable	9,650	13,850	14,170	14,680	15.0%		
Pension liabilities	1,247	310	310	310	-37.1%		
Total liabilities	71,022	85,590	84,500	83,670	5.6%		
Shareholders' equity	50,296	60,710	63,140	67,360	10.2%		
FS book value	17,324	20,120	22,410	24,620	12.4%		
Margin and return data					Average		
Gross margin (%)	19.8	17.2	17.2	16.7	17.7		
EBIT margin (%)	12.0	10.2	9.9	9.5	10.4		
EBIT (adj) margin (%)	10.7	12.3	11.0	10.6	11.1		
Industrial EBIT margin (%)	10.3	8.8	8.9	8.6	9.2		
Industrial EBIT (adj) margin (%)	8.7	11.3	10.1	9.8	10.0		
Industrial ROCE (%)	12.5	17.4	15.4	14.7	15.0		
Valuation, leverage and performance data					Average		
Industrial net debt/EBITDA (x)	-1.4	-1.7	-1.7	-1.9	-1.7		
R&D/sales (%)	6.4	5.5	5.6	5.7	5.8		
Capex/sales (%)	6.6	8.1	8.0	7.7	7.6		
P/E (reported) (x)	4.0	2.9	5.5	5.5	4.5		
P/E (adj) (x)	3.7	5.1	5.5	5.5	5.0		
Dividend yield (%)	7.7	10.7	7.3	7.3	8.2		
Equity FCF yield (%)	13.6	23.6	15.7	16.2	17.3		
EV/sales (%)	35.3	26.6	26.2	23.6	27.9		
EV/EBITDA (x)	2.0	1.6	1.6	1.5	1.7		
EV/EBITDA (adj) (x)	2.1	1.4	1.5	1.4	1.6		
EV/EBIT (x)	2.9	2.6	2.7	2.5	2.7		
EV/EBIT (adj) (x)	3.3	2.2	2.4	2.2	2.5		

The Story in 6 Charts

FIGURE 1

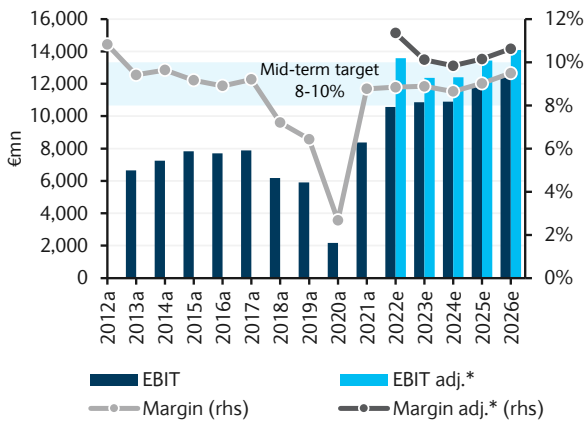
BMW's 3m 2030 unit target has proven unpopular with the market (and more recently MBG gets similar pushback)...



Source: BMW, Barclays Research estimates

FIGURE 3

But the full consolidation of its BBA China JV has brought a step-change in absolute EBIT and (adj.) margins...



Source: BMW, Barclays Research estimates. *ex BBA consolidation effects / PPA

FIGURE 5

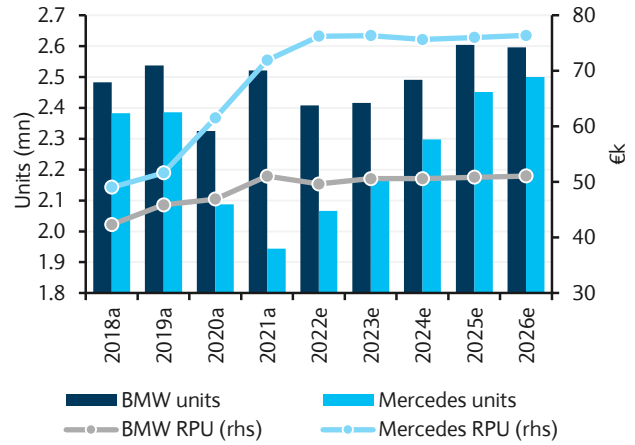
And while BMW's EV and digital targets have resonated well at times, its narrative appears 'less refined' than MBG's...

50% BEV share by 2030 while "ensuring balance between product offering and profitability"	13 BEVs by 2023 – covering 90% of market segments	BEV sales growth >50% per year over the next few years to more than 10x 2020 BEV sales
Mini brand fully electric by 2030, likewise for Rolls-Royce	Intelligent architecture allows single production structure for ICE, PHEV, BEV (with arguably no margin sacrifice)	OS.8 enables to install, buy or book "functions on demand" over-the-air at a later date
BEVs to grow >20% in 2025-30 with launch of electric-first "Neue Klasse" in 2025	Digital features during vehicle lifecycle generate significant revenue in the future	8-10% Auto EBIT margin target range (despite & because of EV and digital transformation)

Source: Barclays Research, BMW

FIGURE 2

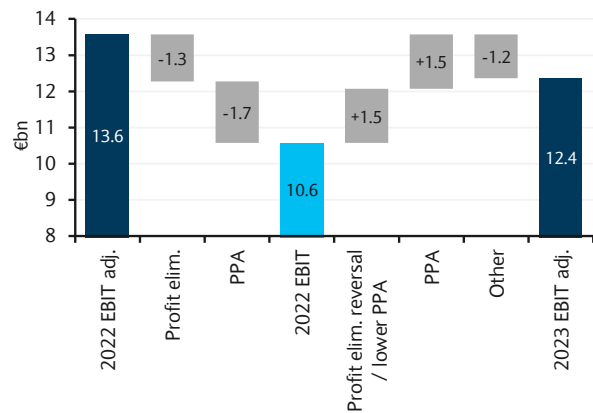
... while MBG has managed to turn necessity into virtue and leverage its top-end prioritisation as deliberate 'luxurisation'



Source: BMW, Mercedes-Benz, Barclays Research estimates

FIGURE 4

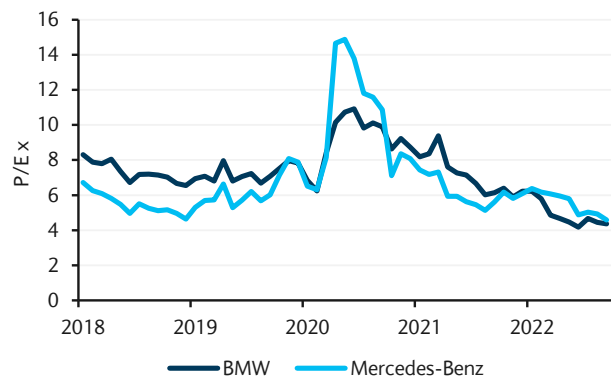
...and the reversal of negative one-offs and lower PPA will lead to a €1.5bn EBIT tailwind in 2023e (ceteris paribus)



Source: BMW, Barclays Research estimates.

FIGURE 6

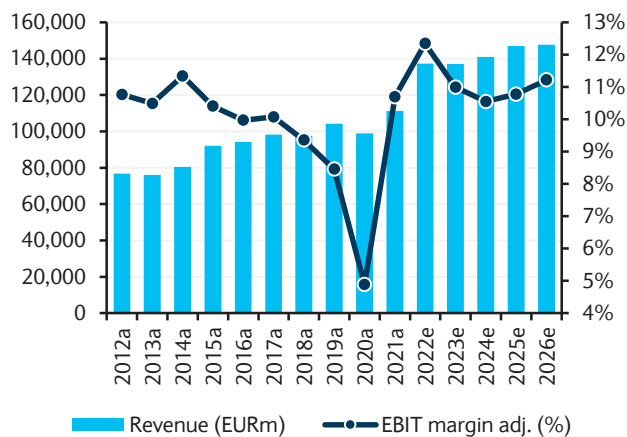
... so that we think MBG is more likely to re-rate from their equally inexpensive level, once market sentiment improves



Source: Bloomberg

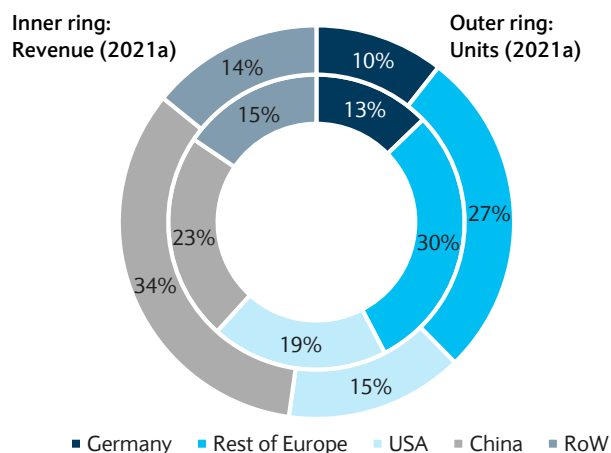
COMPANY OVERVIEW

FIGURE 7
BMW Group – Revenue and EBIT adj. development



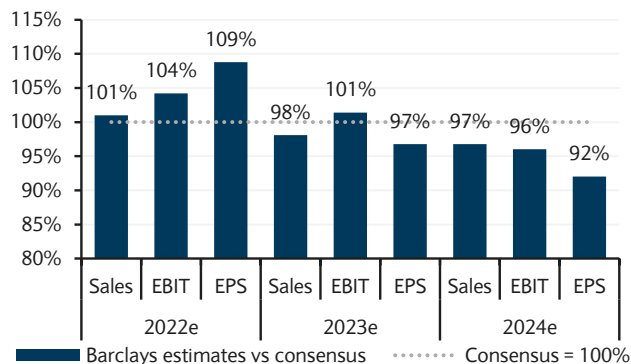
Source: BMW, Barclays Research estimates

FIGURE 9
BMW revenue and unit sales by region (2021a)



Source: BMW

FIGURE 11
Barclays estimates vs consensus



Source: Barclays Research estimates, Bloomberg consensus

FIGURE 8
Company description

- BMW has been the largest global premium carmaker in 2021a (22% market share; source S&P Global Mobility).
- Three divisions: BMW Automotive, with BMW, Mini and Rolls-Royce brands (73% revenue/68% adj. EBIT in 2021a); Motorcycles (2%/2% adj. EBIT); and Financial Services (25%/30%).
- The BMW Automotive division has high sales exposure to both Europe and China. In China, >75% of cars are locally produced by in BMW's BBA JV with its partner Brilliance – in February 2022 BMW increased its stake in the JV from 50% to 75% for €3.7bn, allowing full line-by-line consolidation in BMW's accounts.
- BMW has moved into EVs very early with its i-series models (starting in 2013), but it has since adopted a different EV strategy vis-à-vis Mercedes-Benz and VW, pursuing a “flexible architecture” approach (except for the iX SUV) and will only transition to its dedicated ‘Neue Klasse’ EV platform in 2025. BMW's BEVs are selling very well, however, and so BMW feels “misunderstood” by the market, which views it (perhaps too harshly) as lagging its German peers in EVs.

Source: BMW, Barclays Research estimates

FIGURE 10
Recent relevant events

- Increase in China JV stake to 75% from 50% and full consolidation: BMW has acquired an additional 25% stake in its Chinese JV BBA for €3.7bn which allows it to fully consolidate the business from Feb 2022. Besides a step change in EBIT and FCF, this also allows more IP transfer to China, eg allowing the localisation of the X5 SUV which will lead to strong local unit sales growth (and bodes well for more similar strategic projects)
- 3 August: Q2'22 results – 8.2% Auto margin and €3.0bn FCF.
- 11 Oct: BMW China Day – Relatively limited incremental information. BMW target “same market share in BEVs as in ICEs”, but only once all models are available as BEVs, ie well beyond 2025 (with ‘Neue Klasse’)

Upcoming events and potential catalysts

- 18 Oct: Rolls Royce CMD – Positive signal in our view, playing to en vogue ‘luxury’ theme. RR is a great brand but quite small in BMW's context.
- 3 Nov: Q3 results - we estimate Q3 Automotive revenue of €30.7bn, 9.2% Auto margin (incl. -€375m PPA) and a €2.5bn FCF.

Source: BMW. Excludes eliminations.

FIGURE 12
Consensus EPS revisions (EUR)



Source: Bloomberg

Q3-22 PREVIEW

We forecast +€8.1bn Q3 revenue yoy, o/w +€6.7bn from China consolidation, and 9.2% Auto EBIT margin

Overall, we forecast €3.6bn Group EBIT in Q3 (+5% above consensus), and €2.5bn FCF

Q3'22 on 3 Nov: 9.2% Auto EBIT margin (BARCe) and €2.5bn FCF – BARCe +5% vs consensus Group EBIT, but -5% below on EPS

BMW's reported total unit sales (retail; including China; like-for-like) down -0.9% in Q3'22 on very strong comps, with Europe down -11.2% yoy. Formerly consolidated unit sales (ex China local) were down -1.7% (retail). We assume wholesales were about 5% higher than retail for BMW in Q3'22 (still a much smaller spread than MBC's c15%). We add BBA's external revenue (c€9.5bn; +25% vs Q2; in line with unit sales yoy) and subtract former "Parts & Services" sales to BBA of c€2.8bn for Q3'22 (BARCe). With this we forecast +€8.1bn yoy, o/w +€6.7bn from China consolidation, and 9.2% Auto EBIT margin (as reported, incl -€375m PPA for the quarter but no longer any negative one-offs unlike the €1.3bn in H1'22). This puts BMW well on track for FY22 EBIT margin near the top-end of its 7-9% FY22 guidance. Q3 FCF should be strong as well at €2.5bn and position BMW to end the year well above its (reduced) >€10bn FY22 FCF guidance (and perhaps not too far from the original €12bn guide).

Besides the neutral volume, we forecast also relatively neutral mix, due to strong growth in xEVs which are contribution margin dilutive. Price should have remained positive, but less so than in Q1/Q2, while FX should continue to be a very strong tailwind in Q3. We forecast clearly less negative "other cost changes" than in Q1/Q2, partly due to the absence of negative BBA consolidation effects on EBIT from Q3 onwards.

Overall, we forecast €3.6bn EBIT, €3.48 EPS and €2.5bn FCF. Our EBIT and EPS estimates are +5% and -5% vs. BGC consensus for Q3'22e, respectively (but the consensus EPS forecast appears mechanically incorrect, so we view our Q3 forecast as overall slightly above consensus).

FIGURE 13

BMW – Q3-22 preview

€m unless otherwise stated	2021a	Q1-22a	Q2-22a	Q3-22e	Cons.	vs Cons.	Q4-22e	2022e
Automotive	95,476	26,726	30,015	30,720	29,757	3%	32,119	119,580
Motorcycles	2,748	799	864	700	710	-1%	507	2,870
Financial Services	32,867	8,486	8,765	8,480	8,223	3%	9,109	34,840
Eliminations & Others	(19,852)	(4,869)	(4,874)	(4,919)			(5,363)	(20,025)
Revenue	111,239	31,142	34,770	34,981	35,385	-1%	36,372	137,265
Automotive	18.1%	17.4%	20.1%	35.8%	31.5%	+430bps	27.9%	25.2%
Motorcycles	20.3%	6.1%	-0.5%	9.2%	10.8%	-160bps	4.3%	4.4%
Financial Services	9.4%	7.3%	6.9%	5.0%	1.9%	+320bps	4.8%	6.0%
Revenue YoY	12.4%	16.3%	21.6%	27.3%	28.8%	-150bps	28.0%	23.4%
Automotive	9,870	2,367	2,463	2,826	2,776	2%	2,917	10,573
Motorcycles	227	108	127	50	73	-32%	(45)	240
Financial Services	3,701	966	982	850	809	5%	832	3,630
Eliminations & Others	(398)	(50)	(146)	(155)			(144)	(495)
EBIT	13,400	3,391	3,426	3,571	3,415	5%	3,559	13,948
Automotive	10.3%	8.9%	8.2%	9.2%	9.3%	-10bps	9.1%	8.8%
Motorcycles	8.3%	13.5%	14.7%	7.1%	10.3%	-320bps	-8.9%	8.4%
Financial Services	11.3%	11.4%	11.2%	10.0%	9.8%	+20bps	9.1%	10.4%
EBIT margin, %	12.0%	10.9%	9.9%	10.2%	9.7%	+60bps	9.8%	10.2%
Profit before tax	16,060	12,226	3,929	3,512	3,443	2%	3,535	23,203
Net Profit	12,382	10,141	2,840	2,287	2,012	14%	1,889	17,158
EPS (€)	18.77	15.33	4.31	3.48	3.67	-5%	2.91	26.18
Dividend (€)	5.80							8.00
Automotive FCF	6,354	4,816	2,954	2,464			1,389	11,623
Automotive net cash	22,362	31,393	29,535	31,330			32,140	32,140

Source: Barclays Research estimates, BMW, Bloomberg consensus

CHANGES TO BARCLAYS' ESTIMATES

Minor changes to forecasts on Revenue – increase in Auto margin / FCF

Our revenue forecasts are almost unchanged to our previous forecasts...

... while we have become somewhat more constructive on Auto EBIT margin and FCF (on EPS level offset by a lower financial result forecast)

We have comprehensively revisited our BMW model assumptions in the process of transferring coverage to Henning Cosman. Nevertheless, as illustrated in the table below, our changes to 2022-24e are very minor at revenue compared to our last publication on BMW on 4 August 2022 (*Robust Q2 but transparency does not always pay off; EW reiterated*).

We have become somewhat more constructive on Autos EBIT/EBIT margins, increasing our EBIT between +2% to +6% for 2022-24e. This is negated at the net profit/EPS levels again, however, since we have lowered our assumptions for other financial results, believing the run rate seen in H1 for positive valuation effects on interest rate hedges is not sustainable.

Our updated model assumptions have also resulted in higher FCF forecasts by up to +5% vs our last update.

FIGURE 14
BMW – Barclays new vs old forecasts

€m unless otherwise stated	FY 2022E			FY 2023E			FY 2024E		
	New	Old	% chg.	New	Old	% chg.	New	Old	% chg.
Automotive	119,580	117,850	+1%	122,240	119,810	+2%	126,030	123,470	+2%
Motorcycles	2,870	2,870	-	2,900	2,900	-	2,960	2,960	-
Financial Services	34,840	34,840	-	35,890	35,890	-	36,610	36,610	-
Eliminations & Others	(20,025)	(21,205)	-6%	(23,835)	(20,965)	+14%	(24,575)	(21,605)	+14%
Revenue	137,265	134,355	+2%	137,195	137,635	-0%	141,025	141,435	-0%
Automotive	25.2%	23.4%	+180bps	2.2%	1.7%	+60bps	3.1%	3.1%	+00bps
Motorcycles	4.4%	4.4%	+00bps	1.0%	1.0%	+00bps	2.1%	2.1%	+00bps
Financial Services	6.0%	6.0%	+00bps	3.0%	3.0%	+00bps	2.0%	2.0%	+00bps
Revenue YoY	23.4%	20.8%	+260bps	-0.1%	2.4%	-250bps	2.8%	2.8%	+00bps
Automotive	10,573	10,030	+5%	10,861	10,220	+6%	10,893	10,700	+2%
Motorcycles	240	240	-	250	230	+9%	250	250	-
Financial Services	3,630	3,630	-	3,080	3,080	-	2,990	2,990	-
Eliminations & Others	(495)	(515)	-4%	(610)	(320)	+91%	(755)	(335)	+125%
EBIT	13,948	13,385	+4%	13,581	13,210	+3%	13,378	13,605	-2%
Automotive	8.8%	8.5%	+30bps	8.9%	8.5%	+40bps	8.6%	8.7%	+00bps
Motorcycles	8.4%	8.4%	+00bps	8.6%	7.9%	+70bps	8.4%	8.4%	+00bps
Financial Services	10.4%	10.4%	+00bps	8.6%	8.6%	+00bps	8.2%	8.2%	+00bps
EBIT margin, %	10.2%	10.0%	+20bps	9.9%	9.6%	+30bps	9.5%	9.6%	-10bps
Profit before tax	23,203	23,060	+1%	13,536	14,565	-7%	13,383	15,010	-11%
Net Profit	17,158	17,025	+1%	8,811	9,490	-7%	8,648	9,745	-11%
EPS (€)	26.18	25.81	+1%	13.76	14.39	-4%	13.62	14.77	-8%
Dividend (€)	8.00	8.00	-	5.50	5.75	-4%	5.45	5.80	-6%
Automotive FCF	11,623	11,140	+4%	7,521	7,170	+5%	7,723	7,630	+1%
Automotive net cash	32,140	32,900	-2%	33,670	34,790	-3%	37,870	38,630	-2%

Source: Barclays Research estimates

BARCLAYS VS. CONSENSUS

We are +6% above consensus on Autos EBIT for 2022, and up to +9% above on FCF

Marginally below consensus – except 2022 Auto margin and 2022-24 FCF

We generally find ourselves slightly below 2022-24e consensus, with some smaller variations across line items and forecast years.

On revenues, which we have slightly raised with this transfer note, we still remain below consensus, which we attribute to our cautious view of the European market in 2023/24e. On near-term Auto EBIT margins, we are somewhat more constructive than consensus (which could be attributable to treatment of consolidation effects and/or price-mix assumptions). For 2023 we are in line with the consensus Auto margin, but below on Auto EBIT given our lower-than-consensus Autos revenue forecast. For 2024 we are 10% below consensus on Autos EBIT, with our lower than consensus revenue forecast not offset by our negative pricing and cost headwind assumptions (naturally, there is upside risk to our current model assumptions that the price effect may not be negative in 2023/24). On the EPS level, we are 9% above consensus for 2022, where we estimate a FY financial result of €9.3bn, implying a relatively neutral result in H2, while consensus appears to imply a significantly negative financial result. Incorporating the €2bn share buy-back programme in our modelling may explain some further divergence between our numbers for net profit and EPS vs consensus. On FCF we are up to +9% above consensus and think consensus may be underestimating the strong consolidation effects from BBA.

FIGURE 15

BMW – Barclays' estimates vs. consensus

€m unless otherwise stated	2022E			2023E			2024E		
	Barclays	Cons	VS Cons.	Barclays	Cons	VS Cons.	Barclays	Cons	VS Cons.
Automotive	119,580	119,117	+0%	122,240	126,112	-3%	126,030	131,042	-4%
Motorcycles	2,870	2,883	-0%	2,900	2,983	-3%	2,960	3,082	-4%
Financial Services	34,840	34,015	+2%	35,890	34,463	+4%	36,610	35,281	+4%
Eliminations & Others	(20,025)			(23,835)			(24,575)		
Revenue	137,265	135,920	+1%	137,195	139,886	-2%	141,025	145,746	-3%
Automotive	25.2%	24.8%	+50bps	2.2%	5.9%	-360bps	3.1%	3.9%	-80bps
Motorcycles	4.4%	4.9%	-50bps	1.0%	3.4%	-240bps	2.1%	3.3%	-130bps
Financial Services	6.0%	3.5%	+250bps	3.0%	1.3%	+170bps	2.0%	2.4%	-40bps
Revenue YoY	23.4%	22.2%	+120bps	-0.1%	2.9%	-300bps	2.8%	4.2%	-140bps
Automotive	10,573	10,013	+6%	10,861	11,201	-3%	10,893	12,101	-10%
Motorcycles	240	281	-15%	250	261	-4%	250	274	-9%
Financial Services	3,630	3,462	+5%	3,080	3,026	+2%	2,990	2,854	+5%
Eliminations & Others	(495)			(610)			(755)		
EBIT	13,948	13,383	+4%	13,581	13,396	+1%	13,378	13,934	-4%
Automotive	8.8%	8.4%	+40bps	8.9%	8.9%	+00bps	8.6%	9.2%	-60bps
Motorcycles	8.4%	9.8%	-140bps	8.6%	8.7%	-10bps	8.4%	8.9%	-40bps
Financial Services	10.4%	10.2%	+20bps	8.6%	8.8%	-20bps	8.2%	8.1%	+10bps
EBIT margin, %	10.2%	9.8%	+30bps	9.9%	9.6%	+30bps	9.5%	9.6%	-10bps
Profit before tax	23,203	21,019	+10%	13,536	13,844	-2%	13,383	14,054	-5%
Net Profit	17,158	15,316	+12%	8,811	9,572	-8%	8,648	9,999	-14%
EPS (€)	26.18	24.07	+9%	13.76	14.22	-3%	13.62	14.80	-8%
Dividend (€)	8.00	7.46	+7%	5.50	4.93	+12%	5.45	5.15	+6%
Automotive FCF	11,623	10,692	+9%	7,521	7,099	+6%	7,723	7,629	+1%
Automotive net cash	32,140	30,714	+5%	33,670	32,739	+3%	37,870	36,267	+4%

Source: Barclays Research estimates, Bloomberg consensus

VALUATION: UPDATED OEM VALUATION METHODOLOGY

All OEMs now valued on 80:20-blended SOTP:DCF approach

With the transfer of EU OEM coverage to Henning Cosman we introduce a new valuation methodology which we apply consistently across our EU OEM coverage going forward. As such, we use an 80:20 weighted average of a target multiple-based sum-of-the-parts (SOTP) and DCF valuation.

Target multiple-based SOTP approach (80% weight):

- **BMW Automotive:** We value BMW's Automotive division at EV/sales and P/E target multiples of 20% and 5.0x, respectively. These targets imply 25% and 30% discounts to our target multiples for Mercedes-Benz (MBC GY, CP €53.9, Overweight) – on which we have published today as well in a separate report, *Q3 preview: 15% EBIT and guide raise*. We view this discount as justified given MBC's more refined strategy, products, execution and communication - specifically with respect to its credibility on the dimensions: (a) luxury (RpU of €76k/car vs BMW at €50k/car 2022e) with clear and quantified targets to expand its top-end segment share and reduce entry-segment share, lifting the entry price-point into the brand with a "new entry segment" and committing to "consistently raising prices". BMW in turn has provided no mid-term segment targets, but its 3m unit volume target by 2030 suggest more of a volume strategy than Mercedes; (b) technology (eg with EQXX illustrating electric range competence; only OEM with L3-autonomy certification); (c) digitalisation (eg with well liked "hyperscreen" full-car-width displays and "MBUX" user interface). On a like-for-like basis, BMW's Automotive adj. EBIT margins at 12.6% in H1-22 are not too dissimilar from Mercedes at c14% (both with full China JV consolidation, ex PPA & one-offs). Both companies are objectively almost equally inexpensive (eg on a P/E basis), but MBC's sharper profile and more refined communication (paired with impeccable execution) make it the more likely candidate for a re-rating in our opinion and thus a higher multiple.
- **Motorcycles:** We also value BMW's Motorcycles division at EV/sales and P/E target multiples of 20% and 5.0x, respectively.
- **Financial Services:** We value the FS business at 0.75x P/B on the 2023e book value of the FS equity as we do with all EU OEM FS businesses.
- **Net Automotive cash/debt:** Our new approach for valuing EU OEM automotive net cash/debt assumes that 10% of Group revenue is required as working capital-like liquidity in the general course of business. As such, we only value the excess net industrial liquidity (NIL) over and above this level as actual cash and we discount the NIL in excess of 20% of Automotive revenue by 50% (because we view it as inefficient and undesirable for an OEM to hold that much cash).

Our SOTP valuation results in a fair value per share of €87 – implying 16% upside to current share price levels.

FIGURE 16

BMW – SOTP valuation

€bn unless otherwise stated	Sales 2023E	Adj EBIT 2023E	Adj EBIT margin	Adj. net Income 2023e	EV/Sales multiple	EV/Sales value	P/E multiple	P/E value	EV	per share
BMW Automotive	122.2	12.4	10.1%	8.2	20.0%	24.4	5.0x	41.1	32.8	50.1
Motorcycles	2.9	0.3	8.6%	0.2	20.0%	0.6	5.0x	1.0	0.8	1.2
Eliminations / Others	(23.8)	(0.6)	2.6%	(0.4)	20.0%	(4.8)	5.0x	(2.0)	(3.4)	(5.1)
SotP Industrial business	101.3	12.0	11.8%	8.0	20.0%	20.3	5.0x	40.1	30.2	46.1
SGL Carbon									0.1	0.2
Solid Power									0.0	0.1
Value of associates									0.1	0.2
EV Industrial business									30.3	46.3
Financial Services									16.8	25.6
EV Operating Business									47.1	72.0
Industrial Net Cash									16.8	25.7
Group Pension									(0.3)	(0.5)
Minorities									(6.7)	(10.2)
Total EV									57.0	87.0
Holding company discount									-	-
Implied valuation									57.0	87.0
Current share price										75.0
Upside/Downside										16%

Source: Barclays Research estimates

Discounted cash flow approach (DCF; 20% weight):

We use a multi-stage approach for our DCF valuation of the Automotive business, including:

- An explicit forecast period from 2022-26e linked to our operating forecast model, a semi-explicit period 2027-31e, and a terminal period
- For the terminal period, we assume a -5.0% terminal growth rate and a 5.0% terminal EBIT margin. The terminal growth rate reflects structural concerns such as the risk of declining car ownership due to maturing markets and changes in ownership patterns resulting from trends such as urbanisation, much stricter environmental standards, and the emergence of alternative mobility concepts such as ride hailing (ultimately paired with autonomous driving), car sharing and micro mobility.
- Further assumptions include a risk-free rate of 3.0%, an equity risk premium of 5.0% and a beta of 1.25, resulting in a WACC of 8.6%.

Our DCF valuation results in a fair value per share of €124. This is much higher than the value derived from the SOTP approach, as usual for EU OEMs, which don't tend to get credit from the market for mid- to long-term financial and business model sustainability.

At the same time, the longer-term and more "objective" DCF approach illustrates the value potential if the global premium car business model is more sustainable than implied by current share price levels – even if already significantly "marked down" with negative terminal growth rates and undemanding terminal margins.

Calculation of blended fair value and target price (inc. 15% “conglomerate discount”):

So we use the 80:20 weighted average of the target multiple-based sum-of-the-parts (SOTP) and the DCF valuation to derive a blended fair value of €94. To this value we add a discretionary 15% “conglomerate discount” (now consistent across our EU OEM coverage) to reflect what we observe as the market’s treatment of EU OEMs with significant Financial Services activities, significant financial stakes, significant consolidated or non-consolidated Chinese operations and significant net industrial liquidity positions.

Consequently, we set our new target price at €80, implying 7% upside to current levels, and as such resulting in a reiteration of our Equal Weight rating.

FIGURE 17
DCF EV to equity walk

BMW EV	56,010
Automotive net cash > 10% Group sales (2022e)	16,070
Pension (2022e)	(310)
Minorities (2022e)	(5,670)
FS at 0.75x Book Value (2022e)	15,090
Associates (SGL Carbon / Solid Power)	150
BMW Equity Value	81,300
Per share (€)	124
<i>Current Share Price</i>	75
<i>Upside / Downside</i>	65%

Source: Barclays Research estimates

FIGURE 18
BMW target price calculation

€ unless otherwise stated	BMW valuation
SotP Weighting	80%
DCF Weighting	20%
SotP Valuation	87
DCF Valuation	124
Blended Valuation	94
15% discount	(14.0)
Target price	80.0
<i>Current Share Price</i>	75.0
<i>Upside / Downside</i>	7%

Source: Barclays Research estimates

FINANCIAL SUMMARY

FIGURE 19

BMW – key financial data

€m / % unless stated	2020a	2021a	2022e	2023e	2024e	2025e	2026e
Automotive volume data (k units)							
Europe	914	949	862	886	904	970	940
USA	308	368	339	351	362	370	385
Latam	72	84	79	83	84	95	103
China	778	848	839	795	824	855	856
RoW	253	273	290	301	317	314	313
Total	2,325	2,522	2,409	2,416	2,491	2,604	2,597
YoY	-8.4%	8.4%	-4.5%	0.3%	3.1%	4.5%	-0.3%
Average revenue per unit (€ k)	46.9	51.0	49.6	50.6	50.6	50.8	51.1
Group							
Revenue	98,990	111,239	137,265	137,195	141,025	146,935	147,745
YoY %	-5.0%	12.4%	23.4%	-0.1%	2.8%	4.2%	0.6%
EBIT	4,830	13,400	13,948	13,581	13,378	14,331	15,075
Margin %	4.9%	12.0%	10.2%	9.9%	9.5%	9.8%	10.2%
Pre-tax income	5,222	16,060	23,203	13,536	13,383	14,386	15,180
Net income	3,775	12,382	17,158	8,811	8,648	9,381	9,870
EPS (€)	5.73	18.77	26.18	13.76	13.62	14.77	15.54
DPS (€)	1.90	5.80	8.00	5.50	5.45	5.91	6.22
Automotive FCF	3,395	6,354	11,623	7,521	7,723	8,396	9,300
Automotive net cash (debt)	18,462	22,362	32,140	33,670	37,870	42,810	48,360
Segments							
Automotive							
Revenue	80,853	95,476	119,580	122,240	126,030	132,380	132,660
YoY	-12%	18%	25%	2%	3%	5%	0%
EBIT	2,162	9,870	10,573	10,861	10,893	11,936	12,590
Margin %	2.7%	10.3%	8.8%	8.9%	8.6%	9.0%	9.5%
Motorcycles							
Revenue	2,284	2,748	2,870	2,900	2,960	3,020	3,050
YoY	-4%	20%	4%	1%	2%	2%	1%
EBIT	103	227	240	250	250	270	270
Margin %	4.5%	8.3%	8.4%	8.6%	8.4%	8.9%	8.9%
Financial Services							
Revenue	30,044	32,867	34,840	35,890	36,610	37,340	37,900
YoY	2%	9%	6%	3%	2%	2%	1%
EBIT	1,721	3,701	3,630	3,080	2,990	3,040	3,140
Margin %	5.7%	11.3%	10.4%	8.6%	8.2%	8.1%	8.3%
Eliminations & Others							
Revenue	(14,191)	(19,852)	(20,025)	(23,835)	(24,575)	(25,805)	(25,865)
YoY	-27%	40%	1%	19%	3%	5%	0%
EBIT	844	(398)	(495)	(610)	(755)	(915)	(925)
Margin %	-5.9%	2.0%	2.5%	2.6%	3.1%	3.5%	3.6%

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We, Henning Cosman and Erwann Dagonne, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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Primary Stocks (Ticker, Date, Price)

BMW (BMWG.DE, 14-Oct-2022, EUR 75.02), Equal Weight/Neutral, A/D/E/J/K/L/M/N

Materially Mentioned Stocks (Ticker, Date, Price)

Mercedes-Benz Group AG (MBGn.DE, 14-Oct-2022, EUR 53.86), Overweight/Neutral, A/CD/D/E/FC/J/K/L/M/N

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Mercedes-Benz Group AG (MBCn.DE)	Michelin (MICP.PA)	Porsche Automobil Holding SE (PSHG_p.DE)
Renault SA (RENA.PA)	TRATON (8TRA.DE)	Valeo (VLOP.PA)
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IMPORTANT DISCLOSURES

BMW (BMW GY / BMWG.DE)

EUR 75.02 (14-Oct-2022)

Stock Rating

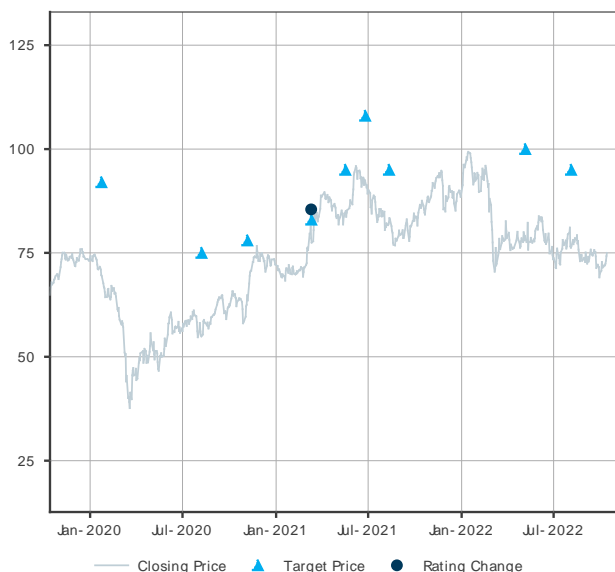
EQUAL WEIGHT

Industry View

NEUTRAL

Rating and Price Target Chart - EUR (as of 14-Oct-2022)

Currency=EUR



Publication Date	Closing Price*	Rating	Adjusted Price Target
04-Aug-2022	76.57		95.00
06-May-2022	78.03		100.00
11-Aug-2021	82.29		95.00
25-Jun-2021	92.40		108.00
17-May-2021	84.69		95.00
11-Mar-2021	78.52	Equal Weight	83.00
05-Nov-2020	64.79		78.00
07-Aug-2020	54.90		75.00
23-Jan-2020	69.69		92.00

On 17-Oct-2019, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 90.00.

Source: Bloomberg, Barclays Research

*This is the closing price referenced in the publication, which may not be the last available closing price at the time of publication.

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

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Valuation Methodology: We determine our price target for BMW using an 80:20 weighted average of a target multiple-based sum-of-the-parts (SOTP) and DCF valuation. In our SOTP (based on 2023e) we value both the Automotive division and Motorcycles at EV/sales and P/E target multiples of 20% and 5.0x respectively, whilst we value the Financial Services business at 0.75x price-to-book (P/B) multiple on 2023e Financial Services equity. We subsequently adjust for Net Automotive cash/debt (only the value in excess of 10% of Group sales, with a further 50% discount for cash in excess of 20% of Group sales), pensions and minorities. For our DCF, we use an explicit forecast period from 2022-26e linked to our operating forecast model, a semi-explicit period 2027-31e, and a terminal period. For the terminal period, we assume a -5.0% terminal growth rate and a 5.0% terminal EBIT margin. Further assumptions include a risk-free rate of 3.0%, an equity risk premium of 5.0% and a beta of 1.25, resulting in a WACC of 8.6%.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: The main downside risks to our price target, in our view, are: 1) GLVS recovery - BMW could benefit more strongly than we anticipate from the strong premium market and therefore beat our earnings forecasts. Conversely, a slowdown in premium car demand or an inability to meet customer demand due to constraints in the supply chain would be detrimental; 2) The transition to BEVs stalls - this would benefit BMW's flexible platform and strong PHEV offering, thus favour it vs its closest peers Volkswagen and Mercedes-Benz; 3) China JV consolidation - BMW's earnings profile could improve greater than we have estimated now that it fully consolidates its JV BBA in its financials. Moreover, investors might apply a higher multiple to the now higher margin Automotive business, leading to more upside vs our estimates; 4) BMW has benefited from strong pricing in recent years. Were BMW to lose its strong pricing discipline this would likely result in downward earnings revisions.

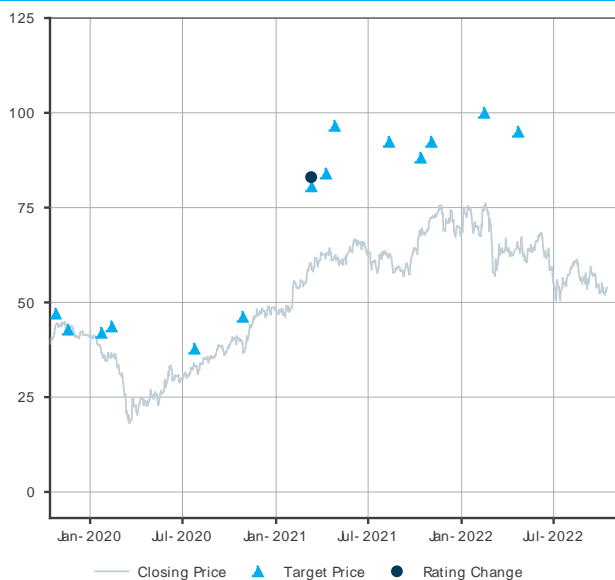
IMPORTANT DISCLOSURES

Mercedes-Benz Group AG (MBG GY / MBGn.DE)
EUR 53.86 (14-Oct-2022)

Stock Rating
OVERWEIGHT

Industry View
NEUTRAL

Rating and Price Target Chart - EUR (as of 14-Oct-2022)



Currency=EUR

Publication Date	Closing Price*	Rating	Adjusted Price Target
22-Apr-2022	65.85		95.00
14-Feb-2022	74.44		100.00
02-Nov-2021	73.11		92.34
12-Oct-2021	69.10		88.14
11-Aug-2021	62.86		92.34
26-Apr-2021	62.70		96.54
09-Apr-2021	62.88		83.95
11-Mar-2021	60.52	Overweight	80.59
27-Oct-2020	39.50		46.17
24-Jul-2020	33.54		37.78
12-Feb-2020	36.93		43.65
23-Jan-2020	37.30		41.97
18-Nov-2019	42.17		42.81
25-Oct-2019	44.39		47.01

On 17-Oct-2019, prior to any intra-day change that may have been published, the rating for this security was Equal Weight, and the adjusted price target was 45.33.

Source: Bloomberg, Barclays Research

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Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

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D: Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from Mercedes-Benz Group AG in the past 12 months.

E: Barclays Bank PLC and/or an affiliate expects to receive or intends to seek compensation for investment banking services from Mercedes-Benz Group AG within the next 3 months.

FC: Barclays Bank PLC and/or an affiliate beneficially owns a short position of more than 0.5% of a class of equity securities of Mercedes-Benz Group AG, as calculated in accordance with EU regulations.

J: Barclays Bank PLC and/or an affiliate is a liquidity provider and/or trades regularly in the securities by Mercedes-Benz Group AG and/or in any related derivatives.

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Valuation Methodology: We determine our price target for Mercedes-Benz using an 80:20 weighted average of a target multiple-based sum-of-the-parts (SOTP) and DCF valuation. In our SOTP (based on 2023e) we value Mercedes-Benz Cars at EV/sales and P/E target multiples of 25% and 6.5x respectively, and Mercedes-Benz Vans at EV/sales and P/E target multiples of 15% and 4.0x. We value Mercedes-Benz Mobility at 0.75x price-to-book (P/B) multiple on 2023e Financial Services equity. MBC's 30% stake in Daimler Truck we value at a 25% holding discount to its market value, whilst the 49% stake in its Chinese JV BBAC we value at 12.5x P/E. We subsequently adjust for Net Automotive cash/debt (only the value in excess of 10% of Group sales), pensions and minorities. For our DCF, we use an explicit forecast period from 2022-26e linked to our operating forecast model, a semi-explicit period 2027-31e, and a terminal period. For the terminal period, we assume a -5.0% terminal growth rate and a 6.5% terminal EBIT margin. Further assumptions include a risk-free rate of 2.8%, an equity risk premium of 5.0% and a beta of 1.2, resulting in a WACC of 8.2%.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: The main downside risks to our price target, in our view, are: 1) GLVS trends - we think the biggest risk is a slowdown in the premium car market, which will continue to be an underlying driver for Mercedes-Benz. Further lockdown restriction measures would also negatively weigh on MBC's financials, as would an inability to meet customer demand due to constraints in the supply chain. 2) BEV competition - the premium BEV market is becoming increasingly packed with new high-end players competing for the typical German premium-brand customers. Thus, Mercedes-Benz may struggle to gain share in this competitive market. 3) Mercedes-Benz has benefited from strong pricing in recent years. Were Mercedes to lose its strong pricing discipline this would likely result in downward earnings revisions. 4) Mercedes-Benz is investing significantly in its transition to BEVs - higher R&D and capex numbers than we have forecast would impact MBC's profitability and cash generation.

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