

Autos transition risk pricing: Renault and Stellantis implications for EV adoption

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Renault (ticker RNOFP), a French automaker rated BB+/Ba1, and Stellantis (ticker STLA), a Dutch automaker rated BBB+/Baa1, both reported Q2 earnings on 25 Jul 2024.

The stock market's reaction was poor; both companies opened down 10% and closed 8% down. However, credit spreads were more resilient. This presents an opportunity to consider the recent performance of these two companies against earlier analysis of climate pricing in the auto sector.[1]

Our earlier analysis observed some quantitative relationships between climate performance and the cost of capital for Original Equipment Manufacturers (OEM). That analysis sorted automakers into three categories. If an automaker has more than 5% of revenues in fully Electric Vehicles (EV), it belongs to the 'EV strategy'. If it has at least 5% of revenues in only hybrid vehicles (hybrids), it is a member of the 'hybrid strategy'. Lastly, companies with more than 5% of revenues from EV and hybrid separately are classified as 'dual strategy' automakers.

When looking at business strategy, in our last analysis we found that 'dual strategy' automakers underperformed their 'hybrid strategy' peers. This movement was exemplified by the basis between Renault (a dual manufacturer) and Stellantis (a hybrid producer).

Our latest analysis identifies a different trend with dual strategy providers outperforming hybrid suppliers. Figure 1 shows updated bond pricing for the switch in question, which has tightened from 79bps to 53bps since our December publication.

This may be evidence that bond markets are starting to reward EV investments. This, we believe, is mainly due to the higher cost of funding the same investments now compared to a few years ago and the challenges of mass market adoption.

Figure 1. Z spreads of Renault and Stellantis comparable bonds. Source: Bloomberg, accessed 25 Jul 24.



[1] For full analysis see "Auto manufacturers: Climate performance and the cost of capital", AFII, 15 Dec 2023.

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EV market developments

One important differentiator in our auto analysis has been strategies around EV / hybrid vehicle production. In 2023, it was clear that EV automakers were somewhat struggling while traditional automakers enjoyed tighter spreads. In light of recent events, it is the EV market, in general, that has questions to answer about a slowdown in sales.

A recent EV outlook report from the International Energy Agency shows EV car sales continue to grow more quickly in the US than in the EU.[2] China is the market leader, with other emerging economies not far behind. There are three main EV growth drivers. Firstly, consumers and governments are motivated to reduce carbon emissions. Secondly, countries want to improve their energy security by increasing their reliance on domestic electricity and reducing their exposure to volatile oil prices and geopolitical risks. Thirdly, a shift in industrial policy. Legislation such as the IRA (Inflation Reduction Act) in the US has created opportunities and risks for auto manufacturers. While there is now more emphasis on domestic EV production, with opportunities in battery technology especially prominent, there are risks that EV manufacturing support could be curtailed in the future.

The report also emphasises the role of government policy, explaining that a slowdown in production is occurring where governmental support is contracting. The EU specifically has relaxed its support and is looking to impose tariffs on Chinese automakers, which seems to be impacting their relative adoption rates. In the US, the number of vehicles eligible for government support has gone down, which is affecting EV pricing.

US automakers, with historically more changeable attitudes to EVs, are facing particular headwinds. A report from BNEF, Bloomberg's research organisation focused on energy professionals, highlights these differences.[3] Tesla, Mercedes-Benz, General Motors, and Ford have all cut their near-term EV production goals. This compares starkly to Asian and European automakers like Hyundai and Volvo, which are reporting record growth in sales. The corresponding equity market moves have been poor, as these US automakers' EV investments are not yet profitable, though their bond performance remains strong.

In our earlier analysis, we grouped GM and Volvo into the 'EV strategy' bucket, as they were already quite ahead on this technology compared to Ford. Renault and Hyundai were in 'dual strategy' category as they are focused on EVs and hybrids. Stellantis was in the 'hybrid strategy' bucket. We show the equity performance of a few selected automakers year-to-date (YTD) in Figure 2. GM, Renault, and Hyundai have considerably outperformed Ford, Volvo, and Stellantis. Table 1 shows a summary of that performance YTD and the last one-day price move, which depicts a considerable repricing. While GM and Renault outperformed, Stellantis and Ford have been the prime underperformers. Hyundai was the best-performing equity.

In bond markets, US automakers GM and Ford credit spreads told a different story. Bond markets, in general, have been well supported YTD, with most automakers' spreads tightening over the year as inflation has stabilised and rate cut expectations have built up. The US firms' green bonds are trading tighter than their equivalent vanilla issuances, by 10bps (ISIN US37045VAY65, $ GM 5.4 2029) and 35bps (ISIN US345370DB39, $ F 6.1 2032) respectively YTD. Clearly, Ford has outperformed GM.

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[2] "Global EV Outlook 2024 - Moving towards increased affordability", IEA, Apr 2024.
[3] "Electric Vehicle outlook", BNEF Bloomberg, 12 Jun 2024.

Figure 2. Year-to-date equity performance in contrast to credit. Source: Bloomberg, accessed 25 Jul 24.

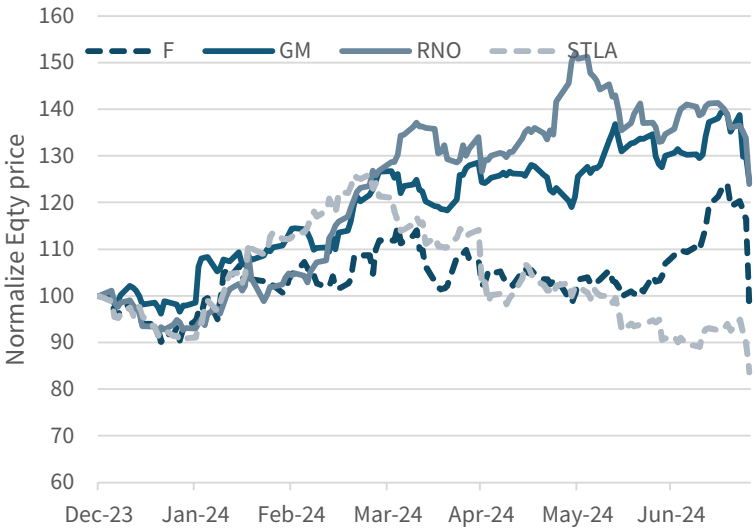


Table 1. Summary of equity return year-to-date and last day. Source: Bloomberg, accessed 25 Jul 24.

Equity performance	YTD	1D
Ford	-3%	**-20%**
GM	25%	-4%
Renault	**24%**	**-8%**
Stellantis	**-16%**	-7%
Hyundai	29%	-3%
Volvo	-4%	-3%

In summary, while EV adoption has not always been smooth, growth continues and may be reaching tipping points in some economies. Automakers that have invested in mass adoption should be well positioned.

Renault / Stellantis performance

Looking at how the OEM bond prices are evolving underlines the importance of automakers' climate transition strategies to the performance of their securities, and is evidence that the market is also factoring these into their pricing.

Both Renault and Stellantis have seen their stock drop since their results announcements on 25 Jul, but for different reasons. Stellantis underperformed due to operational factors, having reported a 48% fall in earnings.[4] Renault, on the other hand, has expanded its margins. Its equity sold off due to losses booked on the Nissan sale.[5]

From a credit point of view, over the past six months, Renault (a sub-investment grade credit) has historically invested in EVs and has largely underperformed the market, as shown in Figure 1.

In our earlier analysis, we expected that Stellantis would be constrained from investing more in EVs by higher financing costs.

In the seven months since that research, the spread between two comparable Renault and Stellantis bonds has compressed from 79bps on 23 Dec to 53bps now (although it was as low as 34bps at the end of May).

This could be indicative of the market pricing EV investments as less risky from a credit perspective.

[4] "Stellantis' Earnings Plunged in First Half on Weak US Sales", Bloomberg, 25 Jul 2024.
[5] "Renault Falls as Car Industry Malaise Eclipses Record Margin", Bloomberg, 25 Jul 2024.

Conclusions

Recent reporting from two European OEMs has focused market attention on the climate strategy of the auto sector.

Despite geographic differences driven by government policy, EV production has returned to strength. As net-zero target dates approach, the global EV fleet is expected to grow 12x by 2035. However, there continues to be differentiated strategies among automakers on how to prepare for this acceleration. [2]

We reviewed an earlier comparison between Renault (a manufacturer focused on EVs and hybrid vehicles) and Stellantis (focused on hybrids and internal combustion engines) which revealed significant movements in the relative pricing of their credit risk. In the last seven months, Renault has outperformed, suggesting the market assigns a lower credit risk to EV investments.

We will continue to monitor this sector and will provide further updates.

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