



Eurozone Car Manufacturers

- The New Retail Banks - March 2026



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In May 2021, I wrote an essay titled *"The last truly undervalued asset globally – Eurozone retail banks"*, stating that one day eurozone retail banks were to become momentum stocks. My assertions were greeted with major disbelief, and my conclusions were largely laughed at. Fast forward 4 ½ years and our holdings had moved up 3 to 8-fold, become anyone's darling and the ultimate momentum stocks moving in sync with semiconductor stocks. We have harvested this incredible alpha and left the space. "Structurally challenged and un-investable" was the most often regurgitated statement I kept hearing. European car manufacturers will not deliver an 8-bagger, but a 2-3-fold return is well within reach.

As with every sector, the investment team analyses the European automotive sector intensively and maintains regular dialogue with industry executives. Today, we meet the same prejudices with regards to eurozone car manufacturers. First, it was Tesla eats it all before BYD assumed the Tesla mantle. Last summer, I had a great dinner with a long-standing client and friend of mine. With him being a horsepower junky and a collector of classic cars, autos were the natural topic. Prior to this engagement, he had been a big fan of Tesla, but when I started laying out the investment case for European car manufacturers, my 'lecture' was cut short with his statement "oh, Tesla is dead, everyone knows". Below we will try to address the numerous prejudices re European car manufacturers and depict

as to why BYD and its compatriots are unlikely to eat the lunch of our car manufacturers.

Brand Loyalty and Design = Hermes

In early 2016, I had a small group dinner with the CEOs and COOs of all German car manufacturers, aiming to distil the key differentiators for the future of the BEV (Battery Electric Vehicle) market. Brand loyalty, design, efficiency and quality were readily identified. This very much holds true today in the battle to prevail in this new market. Multiple reports in the meantime have gone at length to explain as to why brand loyalty is so sticky. For those of you old enough to remember; it took Toyota 26 years to seriously start penetrating the European car market (at the time we used to call those cars rice bowls). We had systematically asked our clients worried about Chinese competition, whether they would consider buying a Chinese car or whether their wife would be happy owning a Chinese leather bag of identical quality as Hermes or LVMH. The answer was unilaterally "No, never".

Efficiency = Reach

European car manufacturers, with over 100 years of production experience, are the world champions when it comes to process optimisation, quality and efficiency. European car drivers are spoiled with quality, comfort and passenger compartment insulation. Attributes the Chinese manufacturers struggle to match.

The new Mercedes CLA BEV launched in 2025, the "one-litre-car" consumes 12.2 kWh/100 kilometres (WLTP) allowing it a reach of 866 kilometres. The 85 kWh Accu, designed for ultrafast recharging, can charge 325 kilometres within 10 minutes – the time of a pitstop. The current prototype, expected to hit the market in some 18 months, equipped with the new solid-state technology with increased cell

energy density of up to 450 Wh/kg, will only consume 8.9 kWh/100 kilometres, pushing reach to some 1'200 kilometres. The panic related to charging network buildout currently manifested by European politicians will be solved before the planned build-out is reached. Other than the latest small model from BYD consuming 12.4 kWh/100 kilometres, their range is dominated by vehicles consuming 17.5-18.5 kWh/100 kilometres. Tesla does not even have a single model in this low consumption range.

Best Price = Dacia Spring

In Germany, the largest car market of the eurozone with 30% of sales, the cheapest BEV available is the Dacia Spring from Renault with a list price excluding subsidies of EUR16'900. Factor in dealer discounts, that price comes down to EUR11'900. The Dacia is followed by Leapmotor T03 (Chinese) at EUR18'900 and Citroën ë-C3 and BYD Dolphin Surf both at EUR19'990 (all other BYD models are priced above EUR30'000). Including dealer discounts the Citroën can get down to EUR13'990 and the BYD to EUR12'990. Looking at the vast and reliable dealership and car repair shop network from Dacia/ Renault and the very scarce one of BYD (in Switzerland three dealership/car repair shops) the decision seems to be straightforward.

FCF at trough of the cycle earnings - The Works of Luca de Meo

Over the last 50 years, the management of European car manufacturers always panicked when the top line (sales) started to slow in an economic downturn and embarked on aggressive price discounts, thus burning FCF and suffering losses. For the last two decades, I have tried to explain to management that a 10% sales slowdown does not necessarily trigger a negative operational leverage, but a 30% discount, bringing the operational margin from 5% to 3.5% certainly will, thus



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pushing the car company to burn FCF and possibly even lose money. My protestations were to no avail. In July 2020, Luca de Meo assumed his role as CEO from Renault, embarking on a major successful restructuring and vocalising to the market that Renault would no longer discount when confronted with sales weakness. Covid was the acid test to prove him right. In the following 12 months all other European car companies followed suit, thus protecting their FCF in economic downturns.

Since 2022, all our European car companies have, in the challenging economic environment triggered by the Russia/Ukraine and US tariff war, suffered relentless negative earnings revisions (earnings have more than halved) thus touching the trough of the cycle of earnings. Historically, they would all have bled cash heavily, were it not for Luca de Meo. All of them today happily continue to generate FCF and offer at very depressed trough earnings FCF yields of 10%+ - previously unheard of.

FCF and Net Cash = Rich Dividends and Share Buybacks

As was the case with our retail banks over the last couple of years, the arguments for car companies are tangible. While our retail banks had relentlessly delivered rising core tier 1 equity surplus every quarter, our car companies are continuing to generate FCF thus accruing ever higher net industrial cash positions on their balance sheets.

They currently hold between 58% (Mercedes-Benz) and 90% (BMW) of their market capitalisation in net cash on their balance sheets. This not only allows them to pay generous and growing dividends (dividend yields of 5%-8%), but savings also allow them to buy back some 5% of their shares p.a. into perpetuity, thus enhancing earnings growth.

Valuations = Paradise

Back in September 2024, BMW traded down to a market capitalisation of EUR39.8 billion. With a net cash position on its balance sheet of some EUR43 billion, the market not only valued this prestigious luxury car company as worthless, but it even paid us EUR3.2 billion for investing in the company that day. Despite the challenging environment since then, the shares are up 20%, in line with the market.

Volkswagen pref. just reported FY25 results and issued their guidance for FY26. They are guiding for a FCF of EUR3-6 billion (midpoint FCF yield of 10%) and a net industrial cash position of EUR32-34 billion, equalling 73% of their market capitalisation. When adjusting the P/E ratio of normalised earnings for this huge net cash position (if you liquidated the company today you would receive net cash proceeds of EUR33 billion), you get a revised P/E of just 1.75x. Historically, our car companies typically traded on 6-8x normalised earnings - mind the gap.