

BMW	
Ticker Site BiG	BMW
Ticker BiGlobal Trade	BMW
Ticker BT24	BMW
Ticker BiG Power Trade	BMW
P/E Ratio 2019E	6.98
P/BV Ratio	0.86
EV/EBITDA	5.14

Source: Bloomberg;

Price and Performance (Values in EUR)	
Price	73.55
52 week high	93.87
52 week low	68.79
YTD	4.0%
Average daily volume (un)	1,917,203
Market Capitalization (mn)	47,849
Beta	0.94
Dividend	4.00
EPS (Bloomberg Est.)	13.12

Source: Bloomberg;

Analysts Consensus (last 3 months)	
Buy	11
Hold	20
Sell	5

Source: Bloomberg;

Financial Data	
Sales (EUR mn)	98,678
EBITDA (EUR mn)	18,061
Number of Employees	129,932
ROA	4.2%
ROE	15.2%
D/E	205.0%
Dividend Yield	5.44%

Source: Bloomberg;

**Notes:**

All quotes were updated in Bloomberg at 10h20 of February 6th, 2019.

**Relevant Information:**

Use the following link to view our most recent publications:

<https://www.big.pt/InformacaoMercados/TradingIdeas/Index/-1>

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**BMW (Ticker: BMW GY)**

▲ **Description**

BMW was founded in 1916 and designs, produces and sells vehicles and parts. It also has a credit division which provides financing for its clients. Its main segments are Automotive, Motorcycles and Financial Services.

BMW trades in the German stock market with a market capitalization of EUR 47.8bn and employs around 130,000 people.

▲ **Too many risks in the horizon**

**Downturn in auto cycle:** Auto sales are already showing signs that the cycle is ending, by dropping in Europe, US and China (-10%, -3%, -16% respectively in December, YoY).

**New trend in the industry will require a higher capex:** BMW is expecting to have between 15-25% sales of electrified vehicles in 2025. To enable this and the innovation of autonomous vehicles and mobility services, BMW is spending the highest amount ever in Capex, more than EUR 7 bn per year. This capex will be hard to sustain in a cycle downturn which may delay BMW implementation of these projects.

**Negative cash flows:** The operational cash flows have not been enough to pay for the company's capex. For this reason, BMW has to continuously raise new debt to finance its operations. Capex is expected to increase even further due to investments in electric and autonomous technologies, so debt needs will keep increasing.

Free Cash Flow (EUR mn)	2017	2016	2015	2014
Operational Cash Flow	5909	3173	960	2912
Capex	-7082	-5813	-5851	-6063
Debt change	3640	1968	3601	2631

Source: Company's data;

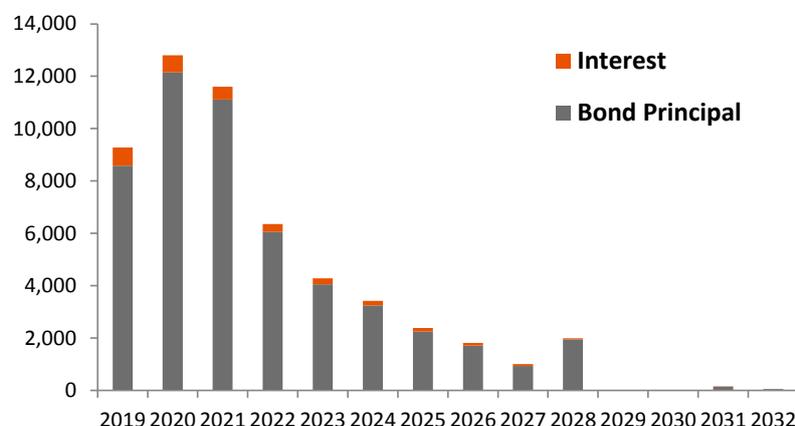
**Dividend will probably be cut as liquidity needs increase:** Given that BMW has to raise debt to finance its Capex needs, it is very likely that higher liquidity needs (when the auto sales decline) will force BMW to cut dividends as it happened in 2009.

Free Cash Flow (EUR mn)	2017	2016	2015	2009	2008	2007
Dividends	-2324	-2121	-1917	-197	-694	-458

Source: Company's data;

**Debt has a very short maturity:** Until the end of 2021, BMW will have to pay around EUR 34bn in debt. Even if it is able to refinance all this debt in a worse economic environment, the yields will be substantially higher than currently, which will decrease its profitability of its financial services.

**BMW Debt Distribution (bonds, EUR mn)**



Source: Bloomberg;

**Analyst:**  
João Calado, CFA

**Research:**  
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Income Statement (EUR m)	2017	2016
Revenues	98678	94163
Cost of product sales	78744	75442
General and administrative costs	9560	9158
Others	494	177
<b>Operational Costs</b>	<b>88798</b>	<b>84777</b>
EBIT	9880	9386
Interest	211	293
Others	986	572
EBT	10655	9665
Taxes	1949	2755
<b>Net Income</b>	<b>8706</b>	<b>6910</b>
Earnings per share	13,12	10,45

Source: Company Data

Free Cash Flow (EUR mn)	2017	2016
<b>Operational</b>	<b>5909</b>	<b>3173</b>
Net Income	8706	6910
Depreciation and amortization	4822	4998
Change in working capital	166	-104
Others	-7785	-8631
<b>Investment</b>	<b>-6163</b>	<b>-5863</b>
Capex	-5988	-6011
Investments in securities and others	-175	148
<b>Financial</b>	<b>1572</b>	<b>4393</b>
Debt change	3640	1968
Share buybacks	38	20
Dividends	-2324	-2121
Others	218	4526
<b>Change in cash flows</b>	<b>1318</b>	<b>1703</b>
Foreign currency impact	-159	55
<b>Cash at end of period</b>	<b>9039</b>	<b>7880</b>

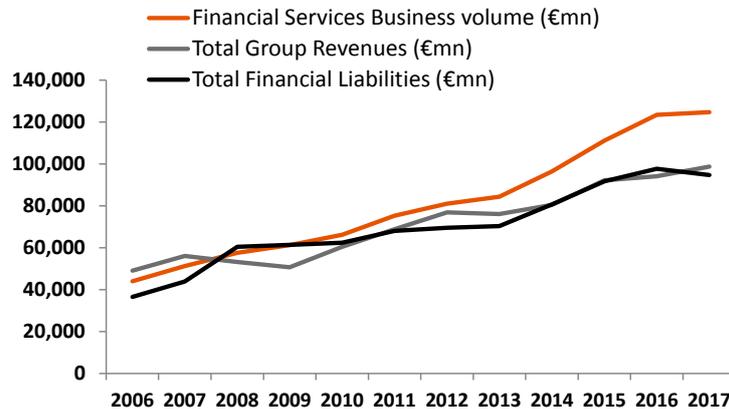
Source: Company Data

Balance Sheet (EUR mn)	2017	2016
<b>Assets</b>	<b>193483</b>	<b>188535</b>
Cash & Equivalents	9039	7880
Receivables from sale financii	80434	78260
Trade receivables	2667	2825
Property Plant & Equipment	18471	17960
Inventories	12707	11841
Intangible Assets & Goodwill	9464	8157
Leased Products	36257	37789
Other Assets	24444	23823
<b>Liabilities</b>	<b>138935</b>	<b>141172</b>
Short term Debt	41100	42326
Long term Debt	53548	55405
Payables	9731	8512
Provisions	11750	10918
Pension liabilities	3252	4587
Other liabilities	19554	19424
<b>Total Shareowner's Equity</b>	<b>54548</b>	<b>47363</b>
<b>Total Equity and Liabilities</b>	<b>193483</b>	<b>188535</b>

Source: Company Data

## Income Statement

BMW is known for having high EBIT margins vs its peers in auto sector. However these high margins do not translate into positive cash flows after accounting for the Capex investments. Consequently debt has to be increased every year. Revenues have been rising, however part of this growth is explained by the aggressive increase in financial services business volume (which includes the credit given and the leasing of vehicles to clients). Before 2008 crisis, revenues were higher than financial services business volume and financial liabilities. Currently financial services business volume is 26% higher than revenues and financial liabilities are at a similar level.



Source: Company Data;

## Free Cash Flow

Besides the Capex, BMW has to finance also its current dividend and with the investments expected for the electrification of its vehicles, the dividend will probably be cut as happened with Daimler.

## Balance Sheet

BMW's majority of assets are receivables from credits to clients and leased vehicles which total around EUR 116bn. Despite historically, credit loss ratios being low (<1%) at BMW, a 1% loss would amount to EUR1bn. In US, Ford had loss ratios on average of 1.23% between 2007 and 2009.

## Last Earnings

In the 3Q18, BMW sales reached EUR 24.74bn vs est. EUR 23.59bn and EBIT of EUR 1.75bn, vs est. EUR 1.91bn, due to lower prices in Europe and recall costs. Profit before taxes fell 26% in the quarter yoy, to EUR 1.8bn.

BMW expects an EBIT margin in automotive segment of at least 7% for the full year of 2018, a decreased from around 10% in 2017.

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▲ **Comparative Analysis**

Name	Country	Market Cap (mn)	Currency	P/E 2019E	YTD	1 Yr. Price Δ	Margin EBITDA
FIAT CHRYSLER AUTOMOBILES NV	BRITAIN	23,577	EUR	5.2	20.3%	-13.6%	10.0
TATA MOTORS LTD-SPON ADR	INDIA	7,770	USD	21.8	1.1%	-57.9%	10.4
FORD MOTOR CO	UNITED STATES	34,807	USD	7.2	14.4%	-18.7%	7.2
GENERAL MOTORS CO	UNITED STATES	55,468	USD	6.3	17.5%	-6.1%	13.7
TESLA INC	UNITED STATES	55,186	USD	57.5	-3.4%	-3.8%	7.0
PEUGEOT SA	FRANCE	19,798	EUR	6.7	17.4%	21.2%	8.3
RENAULT SA	FRANCE	17,930	EUR	4.3	11.1%	-27.5%	11.5
VOLKSWAGEN AG	GERMANY	75,642	EUR	6.1	9.5%	-8.4%	15.5
DAIMLER AG-REGISTERED SHARES	GERMANY	55,300	EUR	6.3	12.6%	-25.6%	10.3
BAYERISCHE MOTOREN WERKE AG	GERMANY	47,849	EUR	7.0	4.0%	-16.5%	18.7
Average exc. BMW				13.5	11.16%	-15.60%	10.4

Source: Bloomberg; BiG Research

▲ **Rating**

Rating		
Agency	Rating	Outlook
S&P	A+	STABLE
Moody's	A1	STABLE

Source: Bloomberg;

▲ **Graph**



Source: BiGlobal Trade (partner Saxo Bank); BiG Research

▲ **Calendar**

March 20th, 2019: 2018 earnings

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- Clarification of the qualitative terms implied in the recommendations:
  - Buy, expected absolute return above 15%;
  - Accumulate, expected absolute return between +5% and +15%;
  - Keep/Neutral, expected absolute return between -5% and +5%;
  - Reduce, expected absolute return between -5% and -15%;
  - Sell, expected absolute return below -15%;
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PSI20 Notes in the last 12 months as of 31st of December of 2018:

	Number of Recommendations	%
Accumulate/Buy	2	66,7%
Keep/Neutral	1	33,3%
Reduce/Sell	0	0,0%
<b>Total</b>	<b>3</b>	<b>100,0%</b>

Source: BiG Research

Trading Ideas in the last 12 months as of 31st of December of 2018:

	Number of Recommendations	%
Profit Taking	9	56,3%
Stop Loss	7	43,8%
In Place	0	0,0%
<b>Total</b>	<b>16</b>	<b>100,0%</b>

Pair Trades in the last 12 months as of 31st of December of 2018:

	Number of Recommendations	%
Profit Taking	0	0%
Stop Loss	0	0%
In Place	0	0%
<b>Total</b>	<b>0</b>	<b>0%</b>

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