Time to look at overcapacity in global motor vehicles

The next decade will bring more change in the way that people and products move than any decade since the invention of the Ford Model T.

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Nov 20, 2019 — 12.00am

The future of mobility has a cleaner and increasingly more exciting future. But motor vehicle transport as we know it is rapidly reaching an inflection point that affects the ways we model our financial investments.

The obvious overcapacity in the global motor vehicle complex is not a position in search of an argument but rather a clear megatrend.

Other than Tesla, no other motor vehicle maker has a stable transitionary blueprint. *Supplied*

According to Thomas Gatley of Gavekal Dragonomics, in the Chinese auto market alone “the downturn is unprecedented, with passenger car sales set to fall for two straight years".

Gatley astutely evidences this by highlighting that the simplest way to calculate the auto sector’s impact on China’s gross domestic product (GDP) is just to use the total value of automobile sales.

The final sales price of an automobile captures all the value-added generated by all the firms which contributed to its manufacture, since the input costs of a downstream firm are the same as the sales of their upstream suppliers.

In China, retail sales of automobiles totalled 3.9 trillion yuan ($710 billion) in 2018, down 8 per cent from 2017 and equivalent to 4.5 per cent of China’s 90 trillion yuan GDP.

But with every decline, there are new opportunities. The next decade will bring more change in the way that people and products move than any decade since the invention of the Ford Model T.

Emerging technologies and business models like ride-hailing and sharing, autonomous driving and delivery, micro-mobility and even eVTOL (electric vertical takeoff and landing, or flying cars) stand to disrupt incumbents.

Other than Tesla, which harbours plenty of self-inflicted restraints and complications, no other motor vehicle incumbent has a stable transitionary blueprint or viable roadmap. For global investors, this should raise justifiable concern given the constituency of automakers – such as Ford, Daimler, GM, Suzuki, Groupe PSA, Fiat Chrysler, Honda, Hyundai, Renault–Nissan–Mitsubishi, Toyota and Volkswagen – across key flagship equity bourses.

Regarding ride-hailing, investors have generally questioned the potential impacts to the auto cycle, sales levels and fleet size, with some predicting dire consequences for auto manufacturers.

So far, vehicles in operation (VIO) have grown faster than US population growth as the post-recession recovery has been coupled with vehicle scrappage rates that have decreased below the long-term average into a sub-five per cent range.

On the electrification of mobility to the detriment of traditional motor vehicles, although the internal combustion engine (ICE) is entering its twilight years, the decline could be steadier and shallower in the near term relative to consensus, with electric vehicles (EVs) accounting for just eight per cent of global auto sales by 2030.

For those with ESG and efficiency front of mind, the electrification of the mobility complex brings unilateral opportunities. India, which sells twenty-two million vehicles annually, is not only the third-largest and fastest-growing major auto market but also the third-largest oil consumer with $US80 billion ($117.6 billion) of annual oil imports and home to 10 of the top 20 most polluted cities globally.

India is aiming to shift to EVs like the rest of the world (targeting 40 per cent penetration by 2032 from a zero base), however, the opportunities and challenges will be uniquely Indian.

Other geographies are still in dire need of newer solutions, such as Indonesia, where, according to the Castrol Stop-Start Index, Jakarta has the worst traffic conditions globally. Jakarta has 11.9 million motorcycles and 3 million cars as of 2019 and is one of the few megacities in the world without a metro.

Global investors already know that there is no "holy grail" for renewable energy. Even a wholesale shift to electrified, shared, autonomous mobility that delivers newer ways of moving people and product will bring legacy and newer challenges too. But before ascertaining where we've landed, it is timely for the astute investor to appraise what value global auto makers have priced into their existing investment exposures and whether these values will remain into the near future.

No one summed it up better than Henry Ford himself, reminding us that we should not find faults but instead find remedies.

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