Autos

Slower growth amid strains

This report does not constitute a rating action.

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What do we expect over the next 12 months?

Softer demand momentum, intensifying pricing pressure and rising electric vehicle sales will weigh on auto makers' profitability and cashflows.

That said, modest volume growth, product mix adjustment, tightened cost control, and low leverage will anchor steady credit quality for most rated Asia-Pacific auto companies.

Our net rating outlook bias for the sector turned neutral from positive, after recent rating actions on two electric vehicle (EV) battery makers.

What are the key risks around the baseline?

Challenging macro outlook. Economic growth prospects remain clouded in China given weakness in consumption and in the property market. In the U.S, further delays in the timing of rate cuts will further crimp consumer purchasing power. In Europe, higher refinancing costs and less disinflation than we previously expected could squeeze growth and derail a soft landing.

Increasing trade restrictions. Rising trade hurdles in Europe and the U.S. on China-made EVs have limited impact on rated Chinese issuers given their small exposure to those markets. Yet, trade barriers from other markets could arise amid growing Chinese exports, as countries aim to build and expand EV value chains locally.

Slower electrification. We believe electrification will remain the long-term trend globally. However, less aggressive emission reduction targets and a lack of affordable models could slow the EV transition progress.

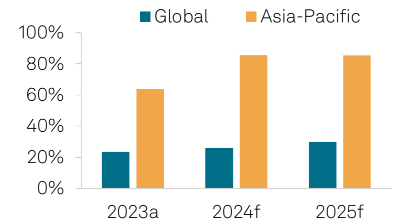
What do they mean for the sector?

Weaker demand. Sales growth of global light vehicles will likely fall below our expected 1%-3% range in 2024, if macro conditions worsen. Price cuts and auto trade-in subsidies can still support modest growth in China. However, volume in U.S. and Europe will see pressure as inflation and high interest rates hurt affordability.

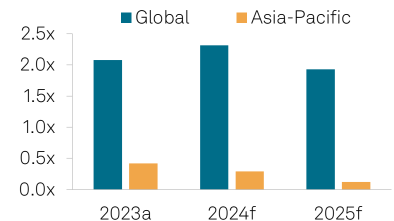
Margin pressure varies. A softer pricing environment, a greater emphasis on lower-margin EV sales, and potentially lower exports will dampen profitability of Chinese auto makers. Cost control and product-mix optimization are vital for margin protection. For Japanese and Korean auto makers, modest volume growth, continuous mix adjustment, more diversified geographical exposure, and strong demand for hybrid vehicles in ex-China markets will be key to the resilience of their profitability over the next 12 months. Nonetheless, there is growing pressure for Japanese auto OEMs to catch up in EVs, given their weakening performance in China.

Rating Metrics

FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



Source: S&P Global Ratings.

All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. a--Actual. f--Forecast.