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Slow and steady

Volkswagen

VOW3 GR

Pivot and soar

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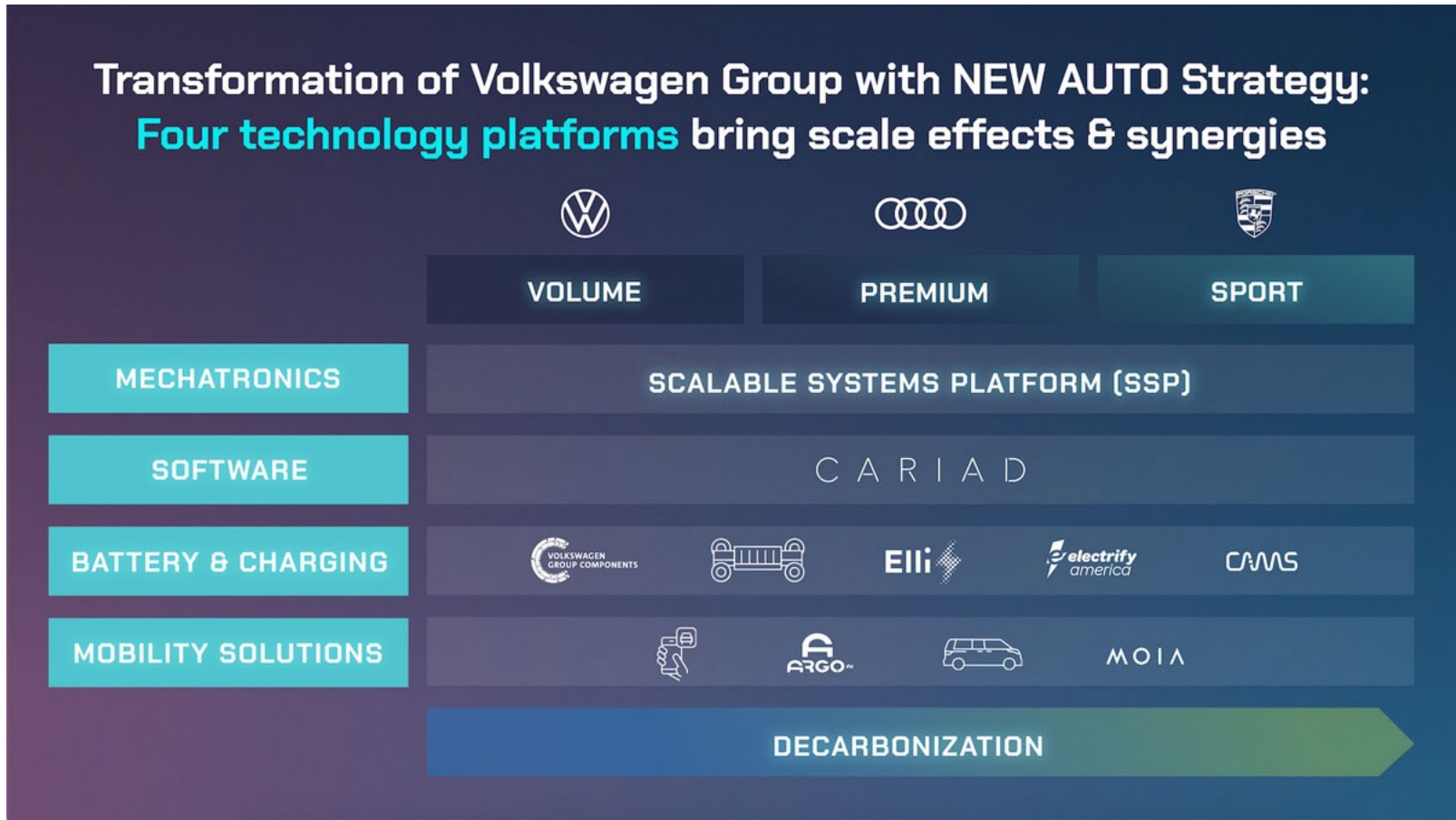
Volkswagen's Business Portfolio

- Geographies : Germany, China, global
 - Cars: 70 plants ; produce more than 40,000/day
- Brands: Apart from Volkswagen
 - Cars: Audi, Skoda, Porsche, Lamborghini, Bentley
 - Bikes: Ducati
 - Trucks, buses: Scania, MAN

Key business facts

- Staff: 662,000+
- Countries sold: 153
- Vehicles made: 8.2 mn (2021)
- Production in every continent except Australia
- Main plant at Wolfsburg, Germany is the largest car plant in the world, at 70mn sq ft
- **New Auto** – name of the new strategy (2030)
 - Lower capex
 - Increased return on sales by 50%
 - Increase ROI from negative to over 15% in autos

Strategy overview



Source: Company website

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Fashion and tech

- ❖ 2035: End of Internal combustion engine (CA, EU)
- ❖ 6 gigafactories planned in Europe (240 Gwh)
- ❖ Volkswagen seeks to make internal software, aiming for 60% inhouse by 2025, from current 10%
- ❖ 45,000 High Power Charging spots by 2025
 - ❖ 10,000 in USA
 - ❖ 18,000 in Europe
 - ❖ 17,000 in China
- ❖ 80% of VW cars shall use a single cell from 2023
- ❖ Europcar: forward integration

Ukraine war impact

- ❖ High price of energy across Germany
 - ❖ Wolfsburg plant is unlikely to escape the impact of higher gas prices
- ❖ Revival of East Germany – EV ecosystem developing
 - ❖ East Germany has 90% of its energy from renewables
- ❖ There is one macro assumption that is essential to the thesis:
wars ends by Christmas (2022)

Valuation

- ❖ *Debt: 55% of capital*
- ❖ *Trades well below tangible book value (0.75x)*
- ❖ *PE is <4*
- ❖ *Dividend is over 6% - not counting special dividend*
- ❖ Median TP of 24 analysts shows 70%+ upside.
(10 Oct 2022:Refinitiv)
- ❖ Get the ticker right:
 - ❖ VOW GR : Ordinary share in Germany
 - ❖ VOW3 GR: Preference share in Germany. Non-voting
 - ❖ VWAGY US : ADR of the Ordinary share
 - ❖ VWAPY US: ADR of the Preference share

Shareholder dynamics

- ❖ Shareholder base: Low free float. ~9%
- ❖ Porsche SE (holdco) owns 53%
 - ❖ Not to be confused with Porsche AG, the Opco which makes Porsche
- ❖ 20% Lower Saxony (Germany province)
- ❖ 17% by Qatari Investment Authority
- ❖ 2021 Board: x independent directors out of y. (x women)

Unlocking Porsche AG value

- ❖ Porsche AG listed on Sep 29, 2022, selling 25% of preference shares
 - ❖ Capital raised: USD 9bn+ public; USD 9bn+ in holdco sale
- ❖ Capital is split 50-50 between ordinary shares and preference shares (Porsche total : *911* mn shares)
- ❖ 12.5% of capital was listed (25% of preference shares)
 - ❖ Free float is closer to 10%, as QIA bought 4.99% of preference shares
- ❖ Volkswagen owns 75% of Porsche AG's capital
 - ❖ 75% of ordinary shares ; 75% of preference shares
- ❖ Holdco Porsche SE bought 12.5% of Porsche AG's capital
 - ❖ All of this is held as 25% of ordinary shares

Conclusion

- ❖ Volkswagen is well-positioned to benefit from the shift to EV across Europe and around the world
- ❖ Porsche's value alone is equal to VW, so rest of VW is 'free'
 - ❖ Special dividend makes shares very attractive
- ❖ Ordinary dividend appears safe, giving you 6% while you wait

Appendix A: Ratios and data

- ❖ Ticker: VOW3 GR Equity on Bloomberg
- ❖ Daily trading volume: usually well over USD 120mn
- ❖ Founded: 1937
- ❖ Head office: Wolfsburg, Germany
- ❖ Market cap (11-October-2022): EUR 78.9 bn (**USD 76.5 bn** at 0.97 USD per EUR)
- ❖ Price per share: EUR 123.30
- ❖ 52-week price range: EUR 120.56 – 208.35
- ❖ Shares outstanding: 501.3mn
- ❖ Free float: ~56.8% (**actual free float is even less, ~9%**)
- ❖ Price/ book: 0.38x (Tangible book is EUR 166.95, P/TB = 0.75x)
- ❖ Dividend yield: 6.1% (Special dividend not counted >> **Half** of Porsche AG IPO proceeds)
- ❖ Debt/Capital: 55%
- ❖ Auditor: Ernst & Young. No major flags.

Data is from Refinitiv (11 October 2021), company data is 31 December 2021, unless specified otherwise.