

Analysis of the Key Financial Value Drivers of Automotive Companies in Selected EU Countries

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Abstract

Purpose of the article This paper examines the market value added (MVA) created by 4 989 automotive companies in the Czech Republic, Slovakia and Germany.

Methodology/methods In our research we use ex ante quantification of MVA which is the present value of economic value added (EVA) to be generated in the future taking fundamental expectations regarding the automotive sector in the countries in question into consideration. The expectations are reflected into key financial value drivers including sales and their growth, operating profit margin, investments into net working capital and long-term assets, capital structure and the cost of capital and sustainability (time horizon) of the business.

Scientific aim Our aim is to uncover the differences between value creation in the countries in question by decomposing EVA created by automotive companies into individual financial value drivers.

Findings Our analysis updates the results of our previous research, and its main conclusion is the same – the highest MVA is generated by the Czech automotive, and it is about two times higher than the MVA of automotive companies in Slovakia. However, the Slovak automotive is decreasing the lead of Czechia significantly. On the other hand, MVA of German automotive is negative in the long run and it seems the value of previous shareholder investments is being destroyed.

Conclusions The automotive industry is crucial for the prosperity of the EU and especially for the Czech Republic, Slovakia and Germany. Our results reflect that the European automotive industry has been undergoing a challenging transition that is negatively affecting value creation across the whole supply chain. Efficient adjustment of the business models of automotive companies to new challenges (such as increased environmental regulation, the self-driving evolution and connected technologies) is a necessary precondition of sustainability.

Keywords: Value creation, EVA, MVA, Profit margin, Investments, Net working capital, WACC, Sustainability

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