

## Autos Snapshot

### SAAR Outlook Mixed in Summer; Chrys. Vols One Wk Into Filing

#### Trading Thoughts

- **Chrysler Week One -- Dealers Say Not Much Changed:** Our conversations with several auto dealers towards the end of last week suggest sales/traffic at Chrysler dealerships in its first week as a bankrupt company has not fallen off a cliff, and pricing may not have substantially deteriorated either. Dealers are indicating that more customers than usual came into showrooms last week expecting fire sale pricing but it does not appear dealers we selling inventory at such prices. This feedback is anecdotal, but we are inclined to believe that Chrysler's bankruptcy will not be overly disruptive to the industry. Because Chrysler has halted all production during its bankruptcy, our understanding is that the inventory of the (roughly one-quarter of the) Chrysler dealers that will be shuttered will be reallocated to surviving dealers to replenish their inventories, an astute move that is likely to provide some support to new vehicle pricing during the bankruptcy (this may be a critical reason why GM has halted so much of its NA production).
- **SAAR Outlook Mixed In Summer Months --** Aside from the impact of a potential cash-for-clunkers program, the US SAAR may show some temporary near-term weakness, perhaps the perfect catalyst for the automotive stocks to pullback a bit, although we are fundamentally convinced US auto sales have bottomed in this cycle. (1) Fleet sales (which have accounted for roughly 1-2MM units of the SAAR in recent months) have the risk of moderating during GM/Chrysler's production shutdowns. Fleet purchases, unlike retail purchases, are procured directly from the factory (not dealerships). As such, when factories are shutdown (typically to clear out excess retail dealer inventories), fleet sales tend to plummet temporarily. (2) In addition, JPM economists have noted that real disposable personal income could hit a temporary but sizable pothole in Q3.09 (-3.2% vs. +4.1% in Q2.09 and +6.2% in Q1.09) driven by a fall in public-sector support (eg, gov't transfers) to personal income. As Table 1 shows, monthly public-sector support payments fall precipitously in June 09 driven by a sharp fall in tax refunds and the elimination of May's one-time \$250 per recipient social security outlay. While changes in month-to-month public support funds tend to primary influence non-durable consumer purchases (casual diners, retailers, etc.), these swings could also place some modest incremental pressure on the SAAR. All that said, the impact of the aforementioned two factors could be overwhelmed by the launch of a potential scrappage program.

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**Table 1: Support to Personal income from Public Sector (a partial tally)**

	Jan	Feb	Mar	Apr	May	Jun	Jul-Dec
COLA	3	3	3	3	3	3	3
Make Work Pay	0	0	0	5	5	5	5
Soc. Sec One time	0	0	0	0	14	0	0
Tax Refunds	<u>3</u>	<u>9</u>	<u>10</u>	<u>9</u>	<u>3</u>	<u>0</u>	<u>0</u>
Total	6	12	13	17	25	8	8
Change (month-to-month)	<b>6</b>	<b>6</b>	<b>1</b>	<b>4</b>	<b>8</b>	<b>-17</b>	<b>0</b>

Source: J.P. Morgan Economics Research

**Stock Price Performance (last week) (source: Factset)**

- **Top Gainers:** AXL (267%), LEA (213%), DAN (207%), VC (159%), ARM (158%), TEN (88%), HTZ (37%), CTB (36%), TRW (18%), GT (17%), MGA (11%), F (10%), BWA (8%), JCI (8%), SPX (6%).
- **Top Losers:** GM (-11%), GNTX (-4%)

**Consensus '09 EPS (last week) (source: FirstCall)**

- **Top Gainers:** MGA (29%), ARM (26%), F (23%), TRW (22%), LEA (20%), GT (2%), CTB (1%), AXL (1%), JCI (1%)
- **Top Losers:** HTZ (-28%), TEN (-7%)

**Recent US news**

- GM posted a \$6 billion net loss and burned through \$10.2 billion in the first quarter as it relied on a federal bailout to ride out a decline in global sales that overwhelmed cost-cutting efforts. (Automotive News)
- GM is eyeing a 30% stake in Fiat in exchange for the U.S. automaker's European and Latin American operations. Fiat CEO Marchionne has indicated a willingness to give up less than 10 percent of Fiat to GM. (Automotive News)
- Chrysler is offering sales incentives of up to \$6,000 per vehicle for the month of May in a bid to prop up revenue during its bankruptcy restructuring. (Automotive News)
- GM told suppliers that it will move up its next monthly supplier payment from June 2 to May 28. Advancing the payment will provide a financial boost for the automaker's 1,500 North American suppliers. It also gets money to suppliers ahead of a possible GM bankruptcy filing at the end of May. (Automotive News)

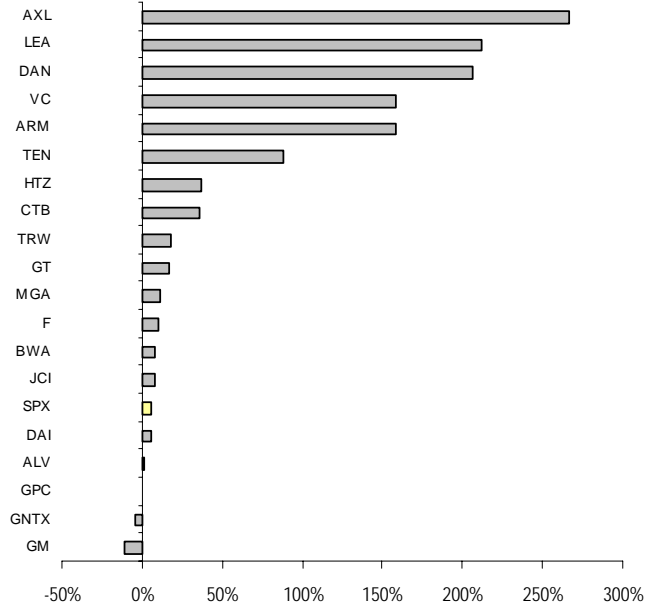
**Recent International News**

- Porsche Automobile Holding halted attempts to take over partner VW and instead agreed to explore a merger with Europe's biggest automaker. The deal would represent a setback because Porsche is

abandoning its goal of trying to dominate Volkswagen by building a 75 percent stake. It now owns about 51 percent of VW. (Automotive News)

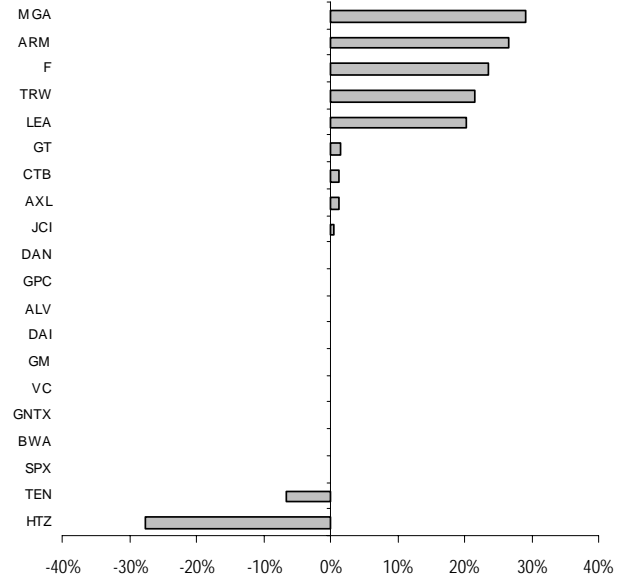
- Toyota reported its first annual loss in nearly six decades Friday after losing 766 billion yen, or \$7.7 billion, in the fourth quarter of the Japanese fiscal year -- a loss even bigger than General Motors Corp.'s for the same three-month period. (Detroit News)

Figure 1: Weekly Stock Performance: 1 May 09 through 8 May 09



Source: : Factset

Figure 2: Consensus 09E EPS Change: 1 May 09 through 8 May 09



Source: Factset, FirstCall estimates

Valuation Sheet

Table 1: Global OEMs Valuation Multiples

Ticker	Rating	Currency	Price	Market Cap	Current EV	EV/ Sales		EV/ EBITDA		P/E		
						2009E	2010E	2009E	2010E	2009E	2010E	
GM	GM US	N	\$	1.6	981	16,083	14%	17%	NA	NA	NA	NA
Ford	F US	N	\$	6.2	17,873	36,278	36%	34%	NA	5.2x	NA	NA
<b>US Average</b>						<b>26,180</b>	<b>25%</b>	<b>26%</b>	<b>NA</b>	<b>5.2x</b>	<b>NA</b>	<b>NA</b>
DAI	DAI GY								23.3			
		OW	€	27.7	29,410	27,331	42%	45%	x	7.5x	NA	NA
BMW	BMW GY	N	€	26.7	16,923	15,127	38%	40%	5.3x	4.8x	NA	NA
VW	VOW GY											161.7
		N	€	234.0	73,756	68,391	73%	71%	7.6x	8.3x	99.6x	x
PSA	UG FP	UW	€	17.6	4,109	8,868	21%	21%	6.4x	4.3x	NA	NA
Renault	RNO FP								25.1			
		UW	€	26.0	7,418	9,738	34%	34%	x	8.0x	NA	NA
Fiat	F IM	N	€	7.7	9,201	15,974	35%	38%	5.0x	6.0x	NA	NA
Porsche	PAH3 GY							169	11.1			
		N	€	47.4	8,295	9,037	%	137%	x	8.3x	30.3x	11.8x
<b>Europe Average</b>						<b>22,067</b>	<b>59%</b>	<b>55%</b>	<b>x</b>	<b>6.7x</b>	<b>64.9x</b>	<b>86.8x</b>
Toyota	7203 JP		¥	3980	13,723,030	12,428,764	68%	68%	14.1		NA	NA
		N	¥						x	14.1x	265.7	NA
Honda	7267 JP		¥	2950	5,412,744	4,988,956	56%	56%	9.3x	9.3x	x	NA
		OW	¥								NA	NA
Nissan	7201 JP		¥	526	2,377,896	2,334,221	28%	31%	6.1x	7.3x	265.7	NA
<b>Japan Average</b>						<b>6,583,980</b>	<b>50%</b>	<b>52%</b>	<b>9.8x</b>	<b>10.3x</b>	<b>x</b>	<b>NA</b>
Hyundai	005380 KS		KW	65400	15,861	12,960	18%	40%	2.9x	3.8x	17.2x	9.8x
Kia	000270 KS		KW	11300	3,945	8,738	42%	52%	8.7x	6.3x	NA	8.2x
<b>S.Korea Average</b>						<b>10,849</b>	<b>30%</b>	<b>46%</b>	<b>5.8x</b>	<b>5.0x</b>	<b>17.2x</b>	<b>9.0x</b>
<b>Global Average</b>							<b>41%</b>	<b>45%</b>	<b>9.2x</b>	<b>6.8x</b>	<b>115.9</b>	<b>47.9x</b>

Source: Company data, J.P. Morgan estimates, Bloomberg. Prices as of COB 5/8/2009

Includes Preference shares market cap as well

Note EV Calculation: Market Cap + /(-) Net Debt/(Net Cash) + Unfunded Pension and Healthcare costs + Minorities - Affiliates at Market Value- Financial Company at Book Value. Net Debt, Pension, Healthcare cost, Financial company BV and Minorities are last reported figures.

Coverage: Himanshu Patel: GM, Ford; Ranjit Unnithan: BMW, Daimler, Fiat, Porsche, VW, Renault, Peugeot; Wan Sun Park: Hyundai, Kia; Takaki Nakanishi: Toyota, Honda, Nissan.

Table 2: Global Tire Valuation Multiples

Ticker	Rating	Currency	Price	Market Cap	Current EV	EV/ Sales		EV/ EBITDA		P/E		
						2009 E	2010 E	2009 E	2010 E	2009 E	2010 E	
Michelin	ML FP	(€)	43.0	6,232	11,816	77%	75%	6.5x	5.4x	34.2x	14.3x	
Bridgestone	5108 JP	(¥)	1,560	1,268	1,887	72%	68%	6.5x	5.4x	64.3x	19.9x	
Continental	CON GR	(€)	21.6	3,642	5,725	27%	26%	2.6x	2.1x	33.3x	9.9x	
Goodyear	GT US	N	(\$)	13.3	3,163	8,748	55%	52%	5.9x	4.9x	NA	10.3x
Cooper	CTB US	N	(\$)	11.6	593	1,143	43%	41%	4.4x	3.2x	NA	8.9x
Nokian	NRE1V FH	(€)	13.4	1,677	1,779	203%	193%	9.2x	7.7x	21.9x	14.3x	
Hankook	000240 KS		15,00									
		(KW)	0	2,283	2,494	92%	93%	3.3x	5.4x	13.6x	9.3x	
Sumitomo	5110 JP	(¥)	709.0	186	281	52%	50%	4.6x	5.0x	32.3x	16.3x	
Yokohama	5101 JP	(¥)	459.0	157	319	61%	70%	8.3x	6.2x	NA	17.7x	
<b>Global Average</b>							<b>76%</b>	<b>72%</b>	<b>5.7x</b>	<b>5.0x</b>	<b>33.3x</b>	<b>15.4x</b>

Source: Priced as of COB 5/8/2009

\*Market Cap & EV - ¥ and KW in billions, € and \$ in millions

Goodyear & Cooper are J.P. Morgan estimates, rest are I/B/E/S Consensus estimates.

Source: Company Data, J.P. Morgan estimates, Bloomberg

2009E, 2010E Continental nos are inclusive of VDO

Table 3: Global Auto Parts Suppliers Valuation Multiples

Ticker	Rating	Currency	Price	Market Cap	Current EV	EV/ Sales		EV/ EBITDA		P/E		
						2009 E	2010 E	2009 E	2010 E	2009 E	2010 E	
Autoliv	ALV US	OW	\$	24.9	1,744	2,846	67%	64%	8.1x	5.3x	NA	27.7x
American Axle	AXL US	N	\$	4.0	182	1,583	95%	77%	8.8x	5.5x	NA	NA
ArvinMeritor	ARM US	N	\$	3.1	223	1,985	39%	38%	11.2x	7.8x	NA	NA
Borg Warner	BWA US	OW	\$	31.1	3,623	4,491	116%	93%	11.3x	7.1x	76.2x	16.8x
Dana	DAN US	N	\$	2.2	358	1,354	27%	24%	5.6x	3.5x	NA	NA
Gentex	GNTX US	N	\$	12.5	1,628	1,295	284%	251%	17.2x	13.3x	65.9x	32.6x
Genuine Parts Corp.	GPC US	N	\$	33.5	5,307	5,975	59%	58%	7.3x	7.1x	14.2x	13.4x
Johnson Controls	JCI US	N	\$	20.2	12,021	17,118	59%	55%	14.0x	7.9x	76.7x	16.1x
Lear	LEA US	N	\$	2.5	191	2,382	25%	22%	8.4x	4.7x	NA	NA
Magna	MGA US	N	\$	38.8	4,342	3,009	18%	16%	7.7x	3.3x	NA	NA
TRW	TRW US	N	\$	10.1	1,024	3,766	36%	34%	12.7x	7.6x	NA	NA
Tenneco	TEN US	N	\$	6.3	286	1,995	44%	38%	7.5x	4.6x	NA	NA
<b>US Average</b>							<b>53%</b>	<b>47%</b>	<b>9.3x</b>	<b>5.8x</b>	<b>58.3x</b>	<b>21.3x</b>
Beru	BZL GR		€	78.3	783	765	NA	NA	NA	NA	NA	NA
Brembo	BRE IM		€	4.4	291	551	61%	59%	4.9x	4.7x	14.2x	11.0x
Continental	CON GR		€	21.6	3,642	5,725	27%	26%	2.6x	2.1x	33.3x	9.9x
Faurecia	EO FP		€	8.5	759	2,615	27%	26%	9.0x	5.7x	NA	NA
GKN	GKN LN		€	1.4	986	1,625	NA	NA	NA	NA	93.2x	12.7x
Tomkins	TOMK LN		€	1.7	1,500	2,003	NA	NA	4.4x	3.8x	14.2x	8.7x
Valeo	FR FP		€	16.6	1,302	2,902	40%	39%	4.8x	3.7x	NA	NA
<b>Europe Average</b>							<b>38%</b>	<b>37%</b>	<b>5.1x</b>	<b>4.0x</b>	<b>38.7x</b>	<b>10.6x</b>
<b>US&amp; Europe Average</b>							<b>51%</b>	<b>46%</b>	<b>8.2x</b>	<b>5.4x</b>	<b>48.5x</b>	

Source: Priced as of COB 5/8/2009

\*Market Cap & EV in € millions for GKN & Tomkins, ALV, AXL, ARM, BWA, DAN, GNTX, GPC, JCI, LEA, MGA, VC, TRW, TEN in \$ millions, rest in € millions

Beru, Brembo, Continental, Faurecia, GKN, Tomkins and Valeo are I/B/E/S Consensus estimates rest are J.P. Morgan estimates

Source: Company Data, J.P. Morgan estimates, Bloomberg

2009E, 2010E Continental nos are inclusive of VDO

Table 4: Global Auto Retailers Valuation Multiples

Ticker	Rating	Currency	Price	Market Cap	Current EV	EV/ Sales		EV/ EBITDA		P/E		
						2008 E	2009 E	2008 E	2009 E	2008 E	2009E	
AutoNation	AN US Equity	N	\$	\$16.6	2945	6021	43%	36%	10.8x	8.2x	16.7x	15.5x
Group 1 Automotive	GPI US Equity	OW	\$	\$22.3	534	1899	33%	32%	14.8x	12.0x	31.3x	24.8x
Penske Automotive Group	PAG US Equity	OW	\$	\$13.2	1205	3764	32%	35%	11.9x	13.2x	12.3x	17.5x
Sonic Automotive	SAH US Equity	-	\$	\$7.2	289	1954	37%	32%	12.2x	9.7x	18.6x	11.4x
CarMax	KMX US Equity	-	\$	\$12.6	2773	3105	49%	47%	19.1x	12.9x	53.5x	26.5x
Lithia Motors	LAD US Equity	-	\$	\$4.7	97	244	13%	13%	5.9x	4.8x	40.9x	14.9x
<b>Average</b>							<b>35%</b>	<b>32%</b>	<b>12.5x</b>	<b>10.1x</b>	<b>28.9x</b>	<b>18.4x</b>
Hertz	HTZ US Equity	N	\$	\$8.8	2853	13231	155%	185%	4.3x	4.9x	21.1x	NA

Source: Priced as of COB 5/8/2009

CarMax and Lithia Motors are Bloomberg Consensus estimates rest are J.P. Morgan estimates

Source: Company Data, J.P. Morgan estimates, Bloomberg.

Debt, cash, pension are latest reported

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