

June 16, 2026 02:00 AM GMT

Autos & Shared Mobility

Going Global: China's Expansion into Europe

China's entry into Europe highlights further downside risk to earnings for European OEMs. We trim our estimates, keeping our In-line sector view despite the bottoming earning cycle and recent underperformance. We maintain our preference for Mercedes-Benz over BMW, and reiterate our UW in Renault.

Our new analysis indicates further earnings risk for European OEMs. In a collaborative analysis involving MS European and China Auto teams, we assess: (i) market share trends in all key European countries, (ii) China OEMs' segment exposure and (iii) European OEMs' defensive features, in order to quantify additional share transfer going forward. In our view, the worst is yet to come, and we still see >10% downside risk to European OEM's FY27 consensus estimates.

Pressure from Chinese OEMs only increases from here. EU OEMs' market share in EU5 has declined from 72% to 67% (2020-25). With continued pressure from Chinese OEMs, we see a decline towards 62% by 2027. Considering OEM exposure to the segments most targeted by Chinese OEMs (SUVs, BEVs, PHEVs, UK, entry-level), we expect downside risk to earnings across the board, and reiterate our preference for premium OEMs over mass market players.

We reduce MBG/BMW estimates, and reiterate our Underweight in Renault.

Lower UK and SUV exposure positions our Top Pick, Mercedes-Benz (OW), well against peer BMW (OW). Stellantis (EW) has been the largest share donor so far, but we're incrementally most concerned about Renault (UW), which is closest to Chinese OEMs' entry-level pricing territory. Volkswagen's (EW) mass market SUV exposure also presents risk. Although a significant degree of competitive pressure is already embedded in our below-consensus estimates for mass-market OEMs, with this report we reduce MBG and BMW estimates to reflect our new analysis.

Chinese OEMs are poised to drive further share transfer in Europe. Among the leading EV players our China team covers, BYD (1211.HK) and Geely (0175.HK) are capturing growth opportunities in Europe, supported by strong uptake of their new EV models. BYD ranks among the top-selling EV brands in the UK and EU YTD, while Geely continues to gain market share through its diversified product portfolio and premium brand, Zeekr.

Approaching, but not quite at the bottom of the cycle. European OEMs have consistently underperformed the market since April 2024. Cyclical troughs have historically been good entry points in the Auto sector, but it may not work this time, as the incremental pressure coming from China suggests a complex medium-term outlook, keeping us very selective in the sector. Tactically, short-term opportunities may arise around the Middle East conflict and USMCA tariff negotiations.

MORGAN STANLEY EUROPE S.E., MADRID BRANCH

Javier Martinez de Olcoz Cerdan

Equity Analyst

Javier.Martinez.Olcoz@morganstanley.com

+34 9 41 51259

MORGAN STANLEY & CO. INTERNATIONAL PLC+

Shaqeal A Kirunda

Equity Analyst

Shaqeal.Kirunda@morganstanley.com

+44 20 7426-0736

Matias Rodriguez Florez-Estrada

Research Associate

Matias.Rodriguez@morganstanley.com

+44 20 7426-1097

MORGAN STANLEY ASIA LIMITED+

Tim Hsiao

Equity Analyst

Tim.Hsiao@morganstanley.com

+852 2848-1962

Joey Xu, CFA

Equity Analyst

Joey.Xu@morganstanley.com

+852 3962-0357

Shelley Wang, CFA

Equity Analyst

Shelley.Wang@morganstanley.com

+852 3962-0047

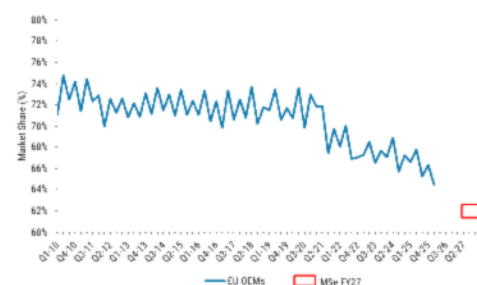
AUTOS & SHARED MOBILITY

Europe

Industry View

In-Line

Exhibit 1 : European OEMs have continued to see their market share in Europe decline – consensus, optimistically, assumes this ceases



Source: Local Auto Associations, Morgan Stanley Research estimates.

Notes: 1) This chart includes Germany, UK, France, Italy and Spain auto sales. 2) This chart includes as EU OEMs: Stellantis, VW, Renault, MBG, BMW, Porsche, Iveco, Lada, Ferrari.

Morgan Stanley does and seeks to do business with companies covered in Morgan Stanley Research. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of Morgan Stanley Research. Investors should consider Morgan Stanley Research as only a single factor in making their investment decision.

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

+ = Analysts employed by non-U.S. affiliates are not registered with FINRA, may not be associated persons of the member and may not be subject to FINRA restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Executive Summary

Consensus expectations remain too optimistic. We see >10% downside risk for European OEM earnings expectations as Chinese players accelerate expansion into Europe amid weak domestic demand. We think consensus assumptions of flat or growing volumes appear optimistic given Chinese OEMs' localised production efforts, highly competitive product, tactical go-to-market strategy and rapid progress in dealerships, fleet sales, and financing offerings.

China is targeting all of Europe's key market segments. Chinese OEMs' entry into Europe is focused on affordable entry-level vehicles, the large and profitable SUV segment, and both BEV and HEV powertrains, widening Chinese OEMs' addressable market. Renault is most exposed to entry-level competition, while Volkswagen, Mercedes-Benz and BMW face greater SUV exposure. Chinese OEMs have made major progress in the UK, Italy and Spain in recent years, with Chinese share up 7–10 percentage points over 2020–25. Germany and France remain more resilient for now, but we suspect pressure may also start to build up here in the years to come.

Mass market OEMs more exposed, already reflected in our estimates. In our analysis, Volkswagen stands out as having the largest exposure to mass market SUVs – placing it in direct competition with Chinese OEMs in a key market segment. Whilst the company has successfully defended, and even grown share so far, we think the breadth of models available at lower price points ultimately drives demand towards Chinese OEMs. Renault is the only major OEM with meaningful exposure to the entry-level segment. Chinese OEMs are much more focused on this segment than the wider market, putting Renault in competition with some of the cheapest models in the market.

We update our estimates to reflect our new analysis. We think the pressure from Chinese OEMs will only intensify from here, supported by localisation efforts and a weak Chinese auto market. This is [already well reflected in our estimates for European mass market OEMs, that, in our view, are more exposed to China competition in Europe and globally](#), and we now prune our estimates for premium players, reducing MBG 2027e EPS by -6% and BMW 2026e EPS by -4%, also reducing its PT by -5%. Whilst Mercedes-Benz and BMW have mostly been shielded by the premium segment for now, we think Chinese OEMs' sustained efforts to target the D-SUV and C-SUV segments will drive continued competitiveness in the market, likely driving pressure on pricing before any meaningful market share losses.

Exhibit 2: Price Target changes

		BMW	Mercedes	Porsche	Volkswagen	Renault	Stellantis	OEMs
New	Base	91.0	65.0	42.0	100.0	29.0	7.1	
	Bull	107.0	76.0	51.0	118.0	35.0	9.4	
	Bear	64.0	44.0	32.0	68.0	22.0	4.0	
Previous	Base	96.0	65.00	42.00	100.00	29.00	7.1	
	Bull	114.0	76.00	51.00	118.00	35.00	9.4	
	Bear	67.0	44.00	32.00	68.00	22.00	4.0	
Change	Base	-5%	0%	0%	0%	0%	0%	-1%
	Bull	-6%	0%	0%	0%	0%	0%	-1%
	Bear	-4%	0%	0%	0%	0%	0%	-1%

Source: Morgan Stanley Research

Do not confuse tactical rallies for underlying improvement. Despite sustained underperformance over the past two years, European OEMs have once again started the year with shares lagging the wider European market. At this time, OEM shares are down ~15-30% YTD, and near-term share price performance is mostly driven by sentiment surrounding the Middle East conflict, and the impact it may have on supply chains, inflation, interest rates, supply chains, and consumer confidence. Valuation multiples are above recent averages, reflecting a degree of optimism about the direction of travel for earnings going forward. Whilst we see the case for a Middle East conflict resolution (or US tariff improvement) related tactical rally, we still think fundamental underlying market dynamics will largely be driven by Chinese OEMs' global expansion efforts. Whilst this is far from a new topic, consensus expectations continue to assume flat or even growing volumes, suggesting further downside could be ahead, and keeping us In-line on the sector for now.

Quantifying the impact on European OEMs

Further downside risk to mass market OEM earnings. Our new analysis implies >10% downside risk to mass market OEMs' FY27 earnings. We see European OEM market shares in EU5 continuing to decline, falling to 62% by FY27, from 67% in FY25. The decline is driven by Chinese OEMs' sharp gains in Italy, Spain and the UK – whilst France and Germany remain relatively resilient.

More Headwinds for European OEMs

The worst is yet to come – market share losses have been modest so far. Despite Chinese OEMs' aggressive plans for growth in Europe, consensus continues to expect flattish volume for European OEMs into the medium term. Chinese OEMs have gained share within the European market, and this has indeed mostly come at the expense of European OEMs, but these losses can be disproportionately attributed to one player – Stellantis, which lost 6%pp during 2020-25. In the meantime, most legacy OEMs have steadily held market share, or even grown it in some cases. EU5 individual country trends highlight that European market share losses are constant, or even accelerating YoY in some countries – suggesting the pressure is likely to continue.

Dissecting China's Go-To-Market Strategy

Chinese players are highly targeted in where they compete. Across Europe, Chinese OEMs employ a range of entry models, focusing on affordable models targeting the, SUVs, BEVs, PHEVs and HEVs market segments. The Chinese offering is particularly suited to the European light vehicle market, which has struggled with affordability issues, has seen rapid growth in hybrids, and continues to favour SUVs over all other model types.

Protective Market Dynamics

European OEMs benefit from inherent defence mechanisms. Whilst we think price is ultimately king for many consumers, the very nature of the European automotive market creates some degree of inherent protection for incumbents. Weak underlying BEV demand, technological preferences, protectionist measures, brand loyalty, financing, fleets and residual value are all critical elements of the market that legacy European OEMs

know best.

Improving Competitiveness

European OEMs are doing everything in their power to improve competitiveness.

Legacy players are engaging in a broad overhaul of fixed and variable cost structures, software capability, and overall product competitiveness. A major focus is battery cost reduction through LFP adoption, localised sourcing, cell standardisation, and partnerships with key battery players, while software-defined vehicle capabilities, 800V charging systems, advanced ADAS, AI-enabled cockpits, and OTA functionality are increasingly being integrated to close the technology gap with Chinese OEMs.

Valuation

Valuation multiples reflecting an improving outlook despite potential earnings risk.

Cyclical sectors tend to trade at low multiples at cycle peaks (exit points), on concerns that OEMs will eventually see a margin reset, and at high multiples at the bottom (entry points). Examining current valuation multiplies implies that the market already expects a considerable portion of earnings cuts to be priced in, with OEM P/E multiples above recent averages. We see valuation multiples as indicative of investor confidence in earnings growth from here, despite the risk of Chinese OEMs continuing to gain share.

Exhibit 3: Report structure

Page	Section / Subsection	Key Messages
2	Executive Summary	
5	Quantifying impact on European OEMs	
8	Analysing China's Entry into Europe	The worst is yet to come
9	- The EU LV market suits Chinese OEMs product suite	China offering is well suited to the EU market
11	- Europe is emerging as a key competitive market	Europe is a strategic focus for China OEMs
12	- Conditions could become more challenging from here	The impact on EU OEMs has only just started
14	- Europe's individual markets paint differing pictures	Penetration rhythm: UK/Italy/Spain vs France/Germany
17	+ Norway	A glimpse into an electrified future
19	+ Germany	EU OEMs holding share well, US/SK/Japan share down
21	+ Italy	Ongoing China share gains to EU OEMs (Stellantis)
24	+ Spain	Receptive market, China share gains accelerating
26	+ UK	The no-tariff reference
29	+ France	Resilient market
31	- BEV growth is not a constraint for Chinese OEMs	China increasingly focused on hybrid, following demand
34	- Chinese OEMs disproportionately target the C/D-SUV segment	SUV focus, driving entry-level growth
37	- Dealership targets imply significant growth ambitions	China OEMs growing fast retail networks
38	- Six key players dominate Chinese OEM sales	China OEMs: wide range of EU strategies
40	- Product mapping highlights Chinese competitiveness	Competitive price offerings
43	Global Profit Pools Attract Chinese OEMs	China competition moving faster than consensus
43	- Building a position in the European market	China competition increasing in Europe
44	- China weakness further weighs on the outlook	Weak Chinese market increases pressure on legacy OEMs
45	- Globalisation continues despite tariffs	From exports to localization, driving China OEMs' volume
46	Protective Market Dynamics	Policy, brand loyalty and residual values
46	- European BEV demand is policy driven	Powertrain flexibility would support legacy OEMs
46	- Policy support is emerging	Driving EU-China OEMs JVs
47	- Could European consumers care less for tech?	China strength may not completely translate into EU
47	- Brand loyalty still matters	Price is testing European brand loyalty
49	- Residual values, FinCos, Fleets provide structural support	The incumbent advantage
50	Improving competitiveness	EU OEMs are not standing still
50	- Battery cost reduction	Key for EV competitiveness
51	- Platforms and commonality	Radical overhaul
52	- Product pipeline	Major launch cycle in 2026-28
54	Valuation	
58	Risk-rewards	

Source: Morgan Stanley Research

Quantifying impact on European OEMs

Further downside risk for mass market OEMs. Across mass market OEMs, Stellantis, Renault and Volkswagen, consensus largely expects improving earnings estimates into FY27. Our new analysis indicates that mass market OEMs could face further downside risk from the threat of Chinese OEMs. Taking into consideration the below conclusions, as well as our view on company specific dynamics, we see risk of >10% earnings declines between FY25-27.

Key Takeaways from our Analysis

European OEM volume expectations face downside risk

- Chinese OEMs are under pressure to sell in Europe due to weakness in the Chinese market
- Consensus volume expectations assume flat or growing volumes for European OEMs
- Europe represents a margin-accretive region for Chinese OEMs, even after shift from imports to localised production
- European OEM market share losses have been modest so far, Stellantis has been a key share donor whilst other players, such as Volkswagen have gained share in Europe during 2020-25
- Chinese OEMs' dealership footprint has significantly grown, and ambitious market share plans are in place
- BYD, SAIC (MG) and Chery (Omoda, Jaecoo) have made substantial advances in dealership, fleet sales, financing and local production plans, thus limiting the impact on inherent defence mechanisms
- Challenges for European OEMs in China continue, with volume declines still underway for Volkswagen, Porsche, Mercedes-Benz and BMW
- We also see RoW as vulnerable markets: given the higher margin some traditional OEMs deliver in EMs, partially compensating for more aggressive pricing in Europe

Chinese OEMs target key segments of the European market

- Chinese players predominantly focus on entry-level models (50% of volumes vs EU market <10%)
 - Renault (37%) is the OEM with most exposure to this segment
- Chinese OEMs are aggressively targeting SUVs across C, D and B segments (70% of volumes vs EU <50%)
 - Volkswagen, Mercedes-Benz and BMW have most exposure to this segment, with Volkswagen closest in price segment
- Chinese players disproportionately target the UK, for its lack of major incumbent and BEV tariffs
 - BMW has most exposure to the UK, and has lost share in the region during 2020-25, alongside other European OEMs
- Chinese OEMs target full hybrids (HEV) in addition to battery electric vehicle

(BEV) segments

- As such they are not constrained to just the BEV segment (~20%) but also grow in HEV (~35%)

The impact on EU5 markets is split

- The UK, Italy and Spain have been key-target markets for Chinese OEMs in recent years
 - Chinese OEM share has grown by 7-10%pp in 2020-25 in these markets
 - Renault, Stellantis, and BMW are most exposed to these markets
 - European OEM market share losses do not appear to be slowing down in these markets
- Germany and France have been relatively resilient in comparison
 - Chinese OEM share has grown just 3%pp in 2020-25 in these markets
 - BMW, Mercedes-Benz, Porsche, Volkswagen are most exposed to these markets
 - European OEMs have been gaining share in these markets in the last two years

European OEMs are shielded through structural advantages, self-help and government support

- European BEV demand is policy driven and has grown inorganically over the years
- The European Commission is introducing a range of protectionist measures through the EU Auto Action Plan
- European consumers are still less interested in the latest ADAS technology than Chinese consumers
- European consumer still exhibit a degree of brand loyalty towards incumbents
- Strong residual values, established captive finance businesses and fleet channels provide structural support to established players in Europe
- European OEMs are coming to market with a wide range of new models, targeting improvements in costs, product and technology, thereby catching up to Chinese competitors
- European OEMs are undergoing structural cost reduction programs aimed at decreasing overheads and increasing speed-to-market

Quantifying the impact

Further downside risk to mass market OEM earnings. Our new analysis implies >10% downside risk to mass market OEMs' FY27 earnings. In order to quantify the impact of Chinese OEMs' market share gains, we evaluate country specific trends within the EU5 and gross up these impacts to the European level. European OEMs' market share within the EU5 has been steadily declining, falling from 72% in 2020 to 67% in 2025. The extent of the decline varies across key markets, with France and Germany relatively more stable than Italy, Spain and the UK. We assume that trend continues, but expect that continued pressure from Chinese OEMs also impacts French and German markets, whilst European market share losses in Italy, Spain and UK continue at pace. This drives EU5 EU OEM

market share to 62% by FY27. This drives assumptions of mid-70s European OEM market share in France and Germany, with 45-60% in UK, Italy and Spain. Against this, we apply an OEM Risk Factor multiple, a measure of each OEM's resilience to market share losses within a specific country. We base this on our judgement of OEMs' historical ability to defend share, competitiveness improvements, cost reduction efforts, product pipeline, market segment exposure, pricing power and powertrain mix. For example, BMW and Mercedes-Benz often score risk factors of 0.7x, reflecting a lower risk of market share losses than the average OEM. Using EU5 unit sales and overall geographic exposure we calculate group revenue at risk, before applying a 2x/3x EBIT drophthrough to arrive at group EBIT impact.

Exhibit 4: We expect European OEMs' market share losses to continue into FY27, driving downside risk for EU5 revenues

EU OEM market share	France	Germany	Italy	Spain	UK
FY25A	76%	77%	65%	57%	51%
EU OEM market share	France	Germany	Italy	Spain	UK
FY27E	73%	74%	60%	50%	45%
EU OEM market share %pp change	France	Germany	Italy	Spain	UK
FY25-27E	-3%	-3%	-9%	-7%	-8%
Average EU OEM volume % change	France	Germany	Italy	Spain	UK
FY25-27	-3.9%	-3.9%	-7.7%	-12.3%	-11.8%
OEM Risk factor	France	Germany	Italy	Spain	UK
BMW	0.6	0.7	0.8	0.8	1.0
Mercedes-Benz	0.6	0.7	0.8	0.8	1.0
Porsche	0.8	0.9	0.7	0.7	0.8
Renault	0.8	1.0	1.4	1.2	0.6
Stellantis	1.8	1.6	1.4	1.4	1.3
Volkswagen	1.0	0.9	1.0	1.0	1.3
Implied FY25-27 OEM volume change	France	Germany	Italy	Spain	UK
BMW	-3.2%	-2.7%	-6.2%	-9.8%	-11.8%
Mercedes-Benz	-3.2%	-2.7%	-6.2%	-9.8%	-11.8%
Porsche	-3.2%	-1.9%	-5.4%	-8.6%	-9.4%
Renault	-3.2%	-6.2%	-10.4%	-16.0%	-7.1%
Stellantis	-7.1%	-6.2%	-10.4%	-17.2%	-15.3%
Volkswagen	-3.9%	-3.5%	-7.7%	-12.3%	-15.3%
% unit sales exposure	France	Germany	Italy	Spain	UK
BMW	9%	29%	8%	6%	19%
Mercedes-Benz	7%	37%	8%	7%	13%
Porsche	5%	32%	8%	3%	21%
Renault	33%	9%	12%	11%	8%
Stellantis	23%	19%	20%	9%	12%
Volkswagen	7%	33%	7%	7%	13%
Implied EU5 revenue at risk	France	Germany	Italy	Spain	UK
BMW	-0.3%	-0.9%	-0.5%	-0.6%	-2.2%
Mercedes-Benz	-0.2%	-1.0%	-0.4%	-0.7%	-1.5%
Porsche	-0.2%	-0.8%	-0.3%	-0.3%	-2.0%
Renault	-1.0%	-0.8%	-1.2%	-1.7%	-0.6%
Stellantis	-1.6%	-1.0%	-2.1%	-1.6%	-1.8%
Volkswagen	-0.3%	-1.2%	-0.6%	-0.9%	-2.0%

Source: Company data, Morgan Stanley Research estimates

Exhibit 5: In our base case, mass market OEMs earnings could see >10% downside risk

Implied European revenue at risk	BMW	Mercedes-Benz	Porsche	Renault	Stellantis	Volkswagen
FY27E	4.4%	3.0%	3.3%	5.1%	8.1%	5.0%
Exposure to Europe	BMW	Mercedes-Benz	Porsche	Renault	Stellantis	Volkswagen
Revenue, % of group	45%	44%	37%	79%	40%	64%
EBIT drophthrough	BMW	Mercedes-Benz	Porsche	Renault	Stellantis	Volkswagen
FY27E	2.0	2.3	2.9	3.9	3.9	3.2
Implied EBIT decline	BMW	Mercedes-Benz	Porsche	Renault	Stellantis	Volkswagen
FY25-27	-4%	-3%	-2%	-12%	-10%	-15%

Source: Company data, Morgan Stanley Research estimates

Analysing China's Entry into Europe

Chinese OEMs' offering is well suited to the European market. Across Europe, Chinese OEMs employ a range of entry models, focusing on affordable models targeting the, SUVs, BEVs, PHEVs and HEVs market segments. The Chinese offering is particularly suited to the European light vehicle market, which has struggled with affordability issues, has seen rapid growth in hybrids, and continues to favour SUVs over all other model types.

Chinese players are highly targeted in where they compete. Chinese OEMs naturally favour the UK, the only EU5 market without specific BEV tariffs, and a market without a large legacy incumbent. As such, it is no surprise that the UK has become one of the major growth regions for Chinese OEMs, alongside Spain and Italy, where Chinese OEMs have gained share despite the presence of incumbents. Germany and France have proven to be tougher markets for Chinese OEMs so far, supported by strong incumbent brands and premium model offerings. The focus on mass market SUVs leaves Volkswagen particularly exposed, but Renault's entry-level models are at risk too. BMW and Mercedes are less exposed for now, but we think they will eventually also feel competitive pressure – similar to the China playbook.

The worst is yet to come – market share losses have been modest so far. Sure, Chinese OEMs have gained share within the European market, and this has indeed mostly come at the expense of European OEMs, but these losses have been rather concentrated. Most of the market share losses can be attributed to one player – Stellantis, which lost 6%pp in EU5 market share over 2020-25. The company's previous strategy failed to pay off and a pivot is [underway](#). In the meantime, most legacy OEMs have steadily held market share, or even grown it in some cases. EU5 individual country trends highlight that European market share losses are constant, or even accelerating in some cases – suggesting the pressure is likely to continue. Chinese OEMs' dealership targets further imply that market share ambitions are significantly higher than today's sales figures.

Local production is the next major milestone. As competition intensifies and trade barriers increase, OEMs are placing greater emphasis on localisation. This includes investments in European assembly capacity, expansion of aftersales and service networks, development of local management teams, and the establishment of regional R&D and design centers. The evolution from export-led growth to a more localized and integrated European presence reflects Chinese OEMs' long-term ambition to become mainstream automotive players across the globe rather than niche import brands – and in the case of Europe, avoid import tariffs.

Exhibit 6: Timeline: Chinese OEMs in Europe



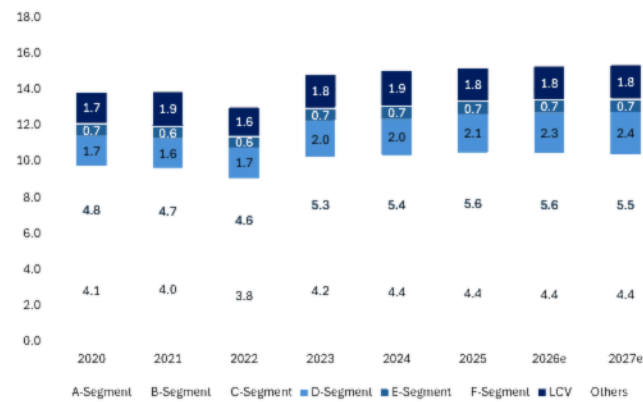
Source: Company data, Morgan Stanley Research. Note: Timeline is illustrative and not exhaustive.

The European Light Vehicle Market suits Chinese OEMs' product suite

Chinese OEMs are targeting a market aligned to their existing product strengths. Most (c.67%) of European light vehicle demand is concentrated in the B- and C-segments, with B-SUVs and C-SUVs representing the largest and fastest-growing sub-segments, while mid-priced vehicles account for roughly 70% of total market volume. At the same time, the entry-level segment is gradually expanding as affordability becomes an increasingly important purchasing criterion. These dynamics play to the competitive advantages of Chinese manufacturers, many of which have built scale around affordable, technology-rich SUVs and EVs in the B- and C-segment categories.

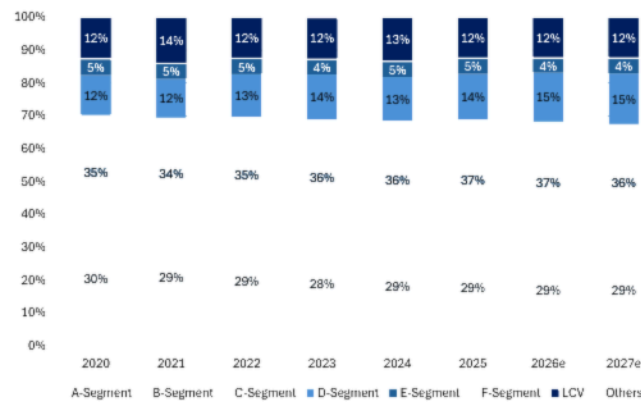
The European light vehicle market is characterized by a high degree of concentration across vehicle segments, pricing tiers, and key national markets. From a segment perspective, the B- and C-segments form the backbone of the European market, together accounting for roughly two-thirds of total light vehicle sales. Within these categories, SUVs have become the dominant body style, reflecting the continued shift in consumer preferences away from traditional hatchbacks and sedans. In particular, C-SUVs and B-SUVs represent the largest individual sub-segments, together accounting for nearly 40% of the market, while the combination of C-SUVs, B-SUVs and B-hatchbacks exceeds half of total European light vehicle demand. Although D-segment vehicles and light commercial vehicles (LCVs) remain important, they represent a substantially smaller share of overall industry volume.

Exhibit 7: The B and C segments represent c. of the European light vehicle market



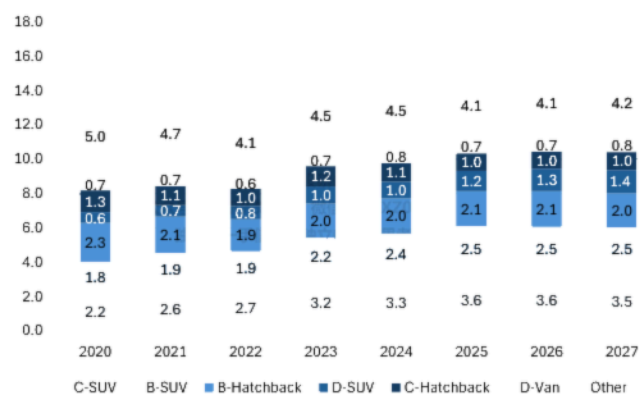
Source: S&P Global estimates, Morgan Stanley Research. Note: West and Central Europe only

Exhibit 8: Other important segments include D and LCVs



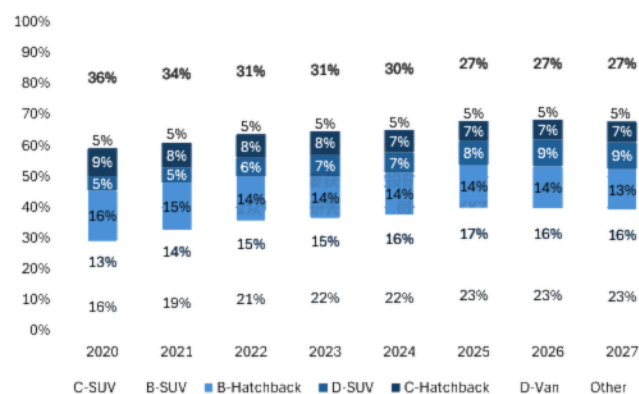
Source: S&P Global estimates, Morgan Stanley Research. Note: West and Central Europe only

Exhibit 9: Amongst sub-segments, the C-SUV and B-SUV are the most important



Source: S&P Global estimates, Morgan Stanley Research. Note: West and Central Europe only

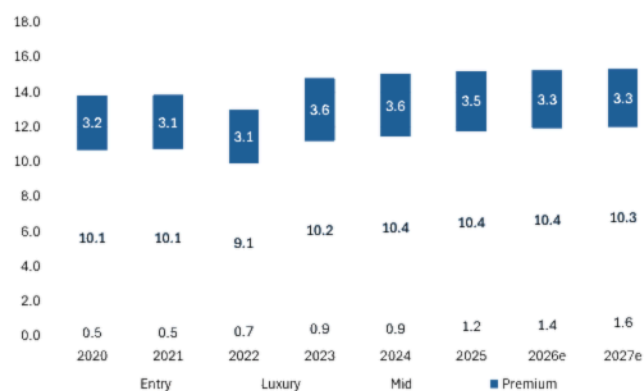
Exhibit 10: C-SUV, B-SUV and B-Hatchbacks make up over half of the market



Source: S&P Global estimates, Morgan Stanley Research. Note: West and Central Europe only

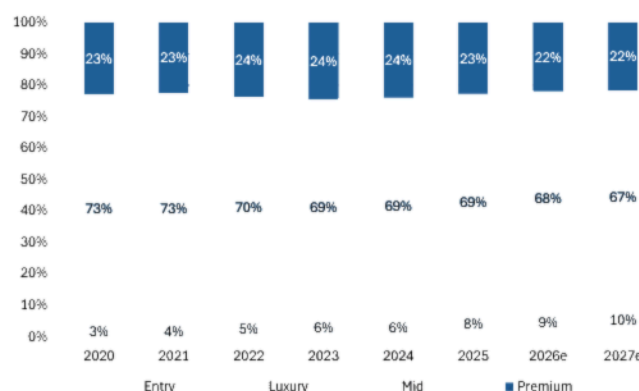
The market is also concentrated around mid-priced vehicles. Mid-segment products account for approximately 70% of European light vehicle sales, significantly outweighing both premium and luxury vehicles. However, the entry-level category has gradually expanded in recent years and is expected, by S&P, to reach around 10% of the market by 2027, reflecting growing affordability concerns among consumers and increasing demand for lower-priced electrified vehicles. Premium vehicles continue to represent roughly 25% of total market demand, underlining the importance of brand positioning and product differentiation in Europe.

Exhibit 11: Most of the European market can be categorised as Mid category pricing



Source: S&P Global estimates, Morgan Stanley Research. Note: West and Central Europe only

Exhibit 12: The entry-level segment has been growing in recent years

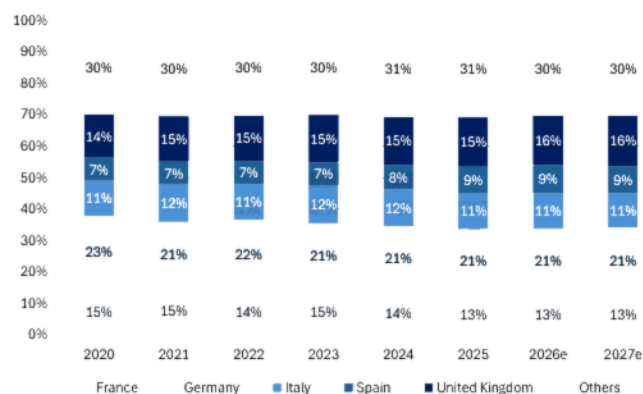


Source: S&P Global estimates, Morgan Stanley Research. Note: West and Central Europe only

The EU5 account for c.70% of regional light vehicle sales. Germany remains the single largest market, representing around 20% of total European demand, while the United Kingdom accounts for approximately 15-16%. France, Italy and Spain collectively contribute a further one-third of regional volume. As a result, successful market entry strategies are typically built around establishing scale in these core markets before expanding into smaller European countries.

Exhibit 13: EU5 are the most important European car markets

Source: S&P Global estimates, Morgan Stanley Research. Note: West and Central Europe only.

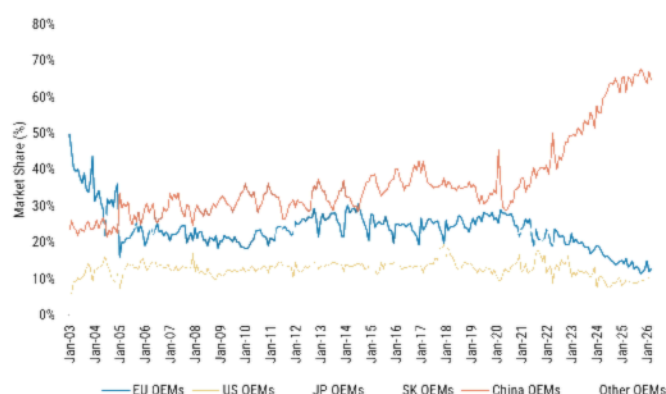
Exhibit 14: Amongst the EU5, Germany and UK represents the largest markets

Source: S&P Global estimates, Morgan Stanley Research. Note: West and Central Europe only.

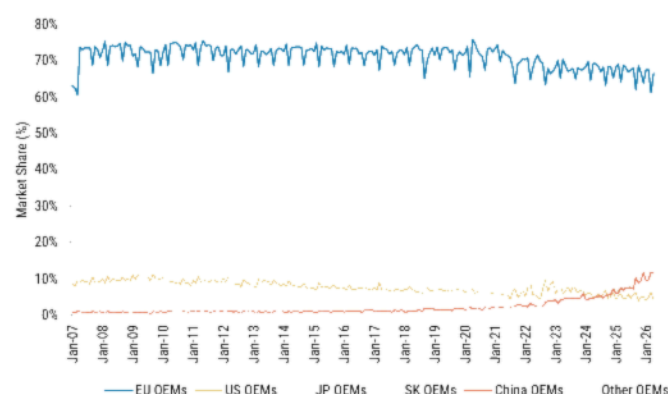
Chinese OEM strategies are well suited to the European market. SUVs have become the dominant vehicle category across many European countries, while electrification continues to grow in popularity, through both hybrids and BEVs. At the same time, affordability remains a key challenge as consumers face elevated vehicle prices and higher financing costs. These trends have created an opportunity for new entrants, particularly Chinese OEMs, whose product portfolios are heavily concentrated in the fast-growing SUV, BEV and PHEV categories and whose cost structures enable competitive pricing in the entry and mid-market segments.

Europe is emerging as a key competitive market

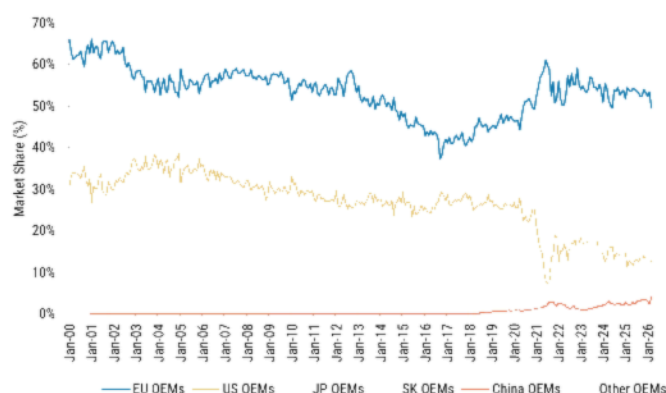
Europe is emerging as a key competitive market. Among major global automotive markets, Europe is arguably the first large-scale arena outside China where the competitive transition is starting to play out. Chinese brands have already established a meaningful presence in several European countries and continue to gain share, albeit from a low base, while incumbent European OEMs still command 2/3 of the EU5 market. In contrast, the US market remains largely insulated due to regulatory barriers and limited Chinese OEM participation. Latin America is the other major competitive arena, although progress in Brazil is slower than in Europe.

Exhibit 15: Market share in **China** by Region (e.g. EU OEMs, US OEMs, JP, SK, CH)

Source: CPCA, Yiche, Morgan Stanley Research. Note: this chart includes as EU OEMs: Stellantis, VW, Renault, MBG, BMW, Porsche; US OEMs: GM, Ford, Tesla; JP OEMs: Toyota, Nissan, Honda, Suzuki, Mitsubishi, Mazda; SK OEMs: Hyundai, Kia; China OEM: Local Chinese OEMs: Volvo; Other OEMs: JLR and Others.

Exhibit 16: Market share in **EU5** by Region (e.g. EU OEMs, US OEMs, JP, SK, CH)

Source: Local Auto Associations, Morgan Stanley Research. Notes: 1) This chart includes Germany, UK, France, Italy and Spain auto sales. 2) This chart includes as EU OEMs: Stellantis, VW, Renault, MBG, BMW, Porsche, Volvo, Lotus, Ferrari; US OEMs: GM, Ford, Tesla; JP OEMs: Toyota, Nissan, Honda, Suzuki, Subaru, Mitsubishi, Mazda; SK OEMs: Hyundai, Kia; China OEMs: Leasemotor, Changan, Chery, Geely, Volvo, BYD, Dongfeng, GWM, SAIC, NIO, Xpeng, SWM, DR; Other OEMs: JLR, Fogg, Mahindra, Tata and Others.

Exhibit 17: Market share in **Brazil** by Region (e.g. EU OEMs, US OEMs, JP, SK, CH)

Source: Anfavea, Morgan Stanley Research estimates. Note: this chart includes as EU OEMs: Stellantis, VW, Renault, MBG, BMW, Iveco; US OEMs: GM, Ford; JP OEMs: Toyota, Nissan, Honda, Suzuki, Subaru; Mitsubishi; SK OEMs: Hyundai, Kia; China OEMs: Leasemotor, Changan, Chery, Geely, Volvo; Other OEMs: JLR, Agrale, Mahindra and Others.

Exhibit 18: Market share in **US** by Region (e.g. EU OEMs, US OEMs, JP, SK, CH)

Source: Motor Intelligence, Morgan Stanley Research. Note: this chart includes as EU OEMs: Stellantis, VW, MBG, BMW, Porsche, Ferrari; US OEMs: GM, Ford, Tesla, Rivian, Lucid, Karma; JP OEMs: Toyota, Nissan, Honda, Suzuki, Subaru, Mitsubishi, Mazda, Suzuki; SK OEMs: Hyundai, Kia; China OEMs: Polestar, Volvo; Other OEMs: JLR and Others.

Conditions could become more challenging from here

The impact on European OEMs has only just started. The rise of Chinese OEMs in Europe has come primarily at the expense of European manufacturers, whose market share declined by ~5%pp in EU5, while Chinese OEMs gained >6%pp between 2020-25. These losses have been highly concentrated, with Stellantis emerging as the clear underperformer following a strategy that prioritised pricing and margins over volume. Volkswagen and Renault have broadly maintained their market positions during this period. Korean and Japanese manufacturers have gained modest share over the period, suggesting that Europe has not yet experienced a broad-based "China shock" but rather an early-stage competitive rebalancing in which Chinese OEMs are primarily benefiting from the weaknesses of specific incumbents, most notably Stellantis.

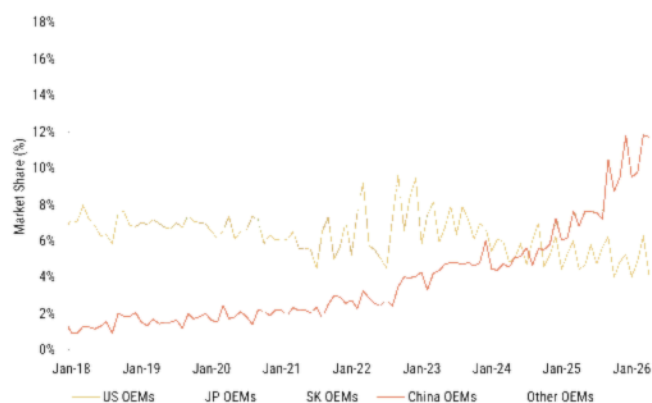
The rise of Chinese OEMs has come primarily at the expense of European players...

European OEM market share declined by c.5%pp between 2020-25, while Chinese OEMs gained >6%pp over the same period. So far, the losses have not been evenly distributed across European incumbents. Stellantis stands out as the clear underperformer, with market share falling from 22% to 16%, representing the largest decline among major European OEMs. This is consistent with the group's previous strategy of prioritising price discipline over volume, while delaying investment in new model launches and allowing product portfolios at key brands such as Peugeot, Citroën, Fiat and Opel to age relative to competitors. The share donated by Stellantis has been rapidly absorbed by Chinese entrants, particularly SAIC, BYD and Chery, all of which have shown strong growth since 2022. SAIC appears to have been the earliest beneficiary, while BYD and Chery have emerged as the fastest-growing players more recently.

...however, most European OEMs have maintained share so far. Volkswagen Group has broadly maintained and even modestly increased its EU5 share over the 2020-25 period, while Renault's position has remained relatively stable despite intensifying competition. This indicates that Chinese OEM gains are not yet being distributed evenly across incumbents but are instead concentrated among manufacturers with weaker product cycles or less competitive value propositions. The aggregate decline in European OEM share therefore masks significant divergence between winners and losers within the group.

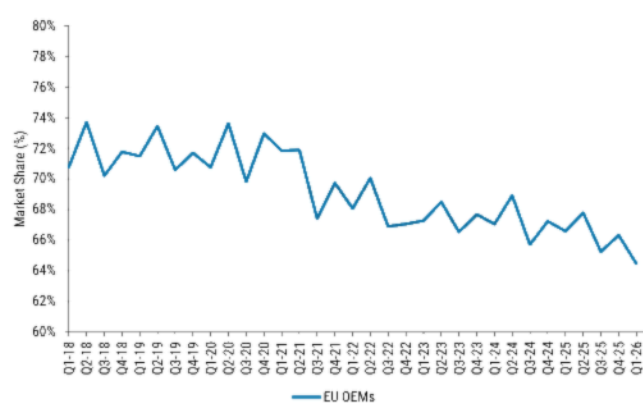
More pain to come for global automotive OEMs. Korean OEMs have gained ~1%pp during the 2020-25 period, while Japanese manufacturers also posted modest gains. In other words, alongside most of the European players, market share for most groups have been relatively stable. We think this highlights how Europe has not yet experienced a true "China shock" on the scale observed in some global markets, but rather an early-stage competitive rebalancing in which Chinese OEMs are emerging as the primary beneficiaries of market share losses among specific European incumbents, most notably Stellantis.

Exhibit 19: Global OEMs' market share in Europe (EU5) has been relatively constant, except for Chinese OEMs



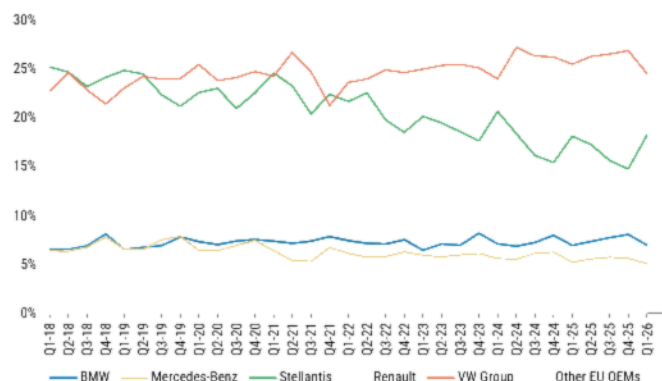
Source: Local Auto Associations, Morgan Stanley Research. Notes: 1) This chart includes Germany, UK, France, Italy and Spain auto sales. 2) This chart includes as US OEMs: GM, Ford, Tesla, JP OEMs: Toyota, Nissan, Honda, Suzuki, Subaru, Mitsubishi, Mazda, SK OEMs: Hyundai, Kia, KGM, China OEMs: Leapmotor, Changan, Chery, Geely, Volvo, BYD, Dongfeng, GWM, SAIC, NIO, Xpeng, SWM, DRC. Other OEMs: JLR, Volvo, Valhalla, Tata and Others.

Exhibit 20: European OEMs have continued to see market share decline in the region as a result



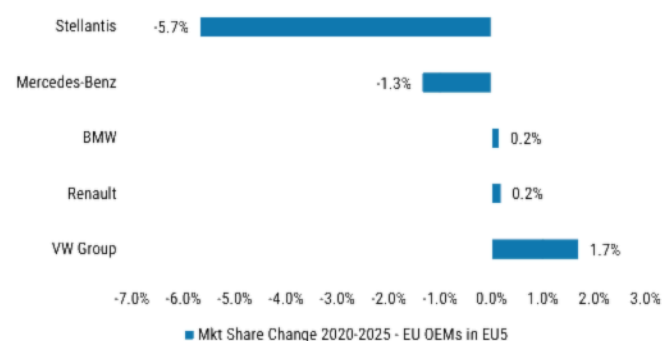
Source: Local Auto Associations, Morgan Stanley Research. Notes: 1) This chart includes Germany, UK, France, Italy and Spain auto sales. 2) This chart includes as EU OEMs: Stellantis, VW, Renault, MBG, BMW, Porsche, Volvo, Lada, Ferrari.

Exhibit 21: At EU5 level, Stellantis has lost the most share amongst European legacy OEMs



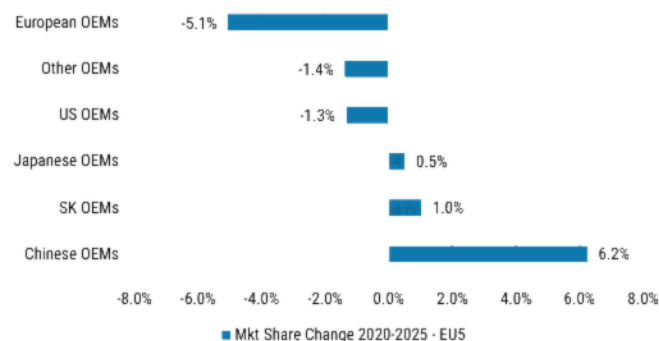
Source: Local Autos Associations, Morgan Stanley research

Exhibit 23: Stellantis stands out as the most meaningful share donor over the 2020-2025 period



Source: Local Autos Associations, Morgan Stanley research

Exhibit 22: European OEMs have lost more share vs Chinese OEMs than any other global group



Source: Local Autos Associations, Morgan Stanley research

Exhibit 24: European OEM market share losses appear to have slowed down, with Japanese and US players losing share in recent years



Source: Local Autos Associations, Morgan Stanley research

Europe's individual markets paint differing pictures

Does Europe take the UK/Italy/Spain path or the France/Germany route? The EU5 markets provide the clearest indication of how Chinese OEM expansion is unfolding across Europe. Penetration has been strongest in the UK, Spain and Italy, where Chinese OEM market share has risen by 7-10%pp since 2020, while France and Germany have proven more resilient due to stronger incumbent brands and customer loyalty.

More pain to come for European OEMs. A consistent theme across almost all markets is that Stellantis has been the largest share donor, while Volkswagen, Renault and, in some cases, BMW have generally maintained or grown share. Overall, Europe appears to be undergoing a gradual and uneven competitive rebalancing rather than a broad-based "China shock", with Chinese OEM success highly dependent on local market characteristics and incumbent positioning. Market share losses are holding constant and even accelerating in some regions, despite OEMs' best efforts. We think the localisation of Chinese manufacturing will only support this trend.

Europe's key markets share an insight into what could be ahead of us. The EU5 markets account for ⅓ of European light vehicle demand, but outcomes for legacy OEMs vary significantly depending on local market structure, incumbent strength and consumer preferences. Norway, for example, provides a potential preview of a more electrified European market. Chinese OEM share has increased from 10% to 18%, while European OEM share has fallen from 53% to 41%, suggesting EV adoption may reduce some of the traditional advantages enjoyed by incumbents.

The UK, Spain and Italy have emerged as the markets most exposed to Chinese competition. Chinese OEM share has risen from 4% to 14% in the UK, from 2% to 11% in Spain, and from 2% to 9% in Italy, while European OEMs have lost 6-10%pp of share in FY20-25. In the UK, Chinese OEMs benefit from the absence of a domestic legacy OEM and exemption from EU tariffs, while Spain's price-sensitive market and Italy's importance in the B- and C-segments have proven fertile ground for Chinese entrants.

France and Germany remain more resilient on the other hand. Chinese OEM share has reached only 4% in France and 5% in Germany, while German OEMs have actually gained share in Germany over the 2020-25 period, supported by strong domestic brands such as Volkswagen. In France, recent market share losses for European OEMs also appear to be stabilising.

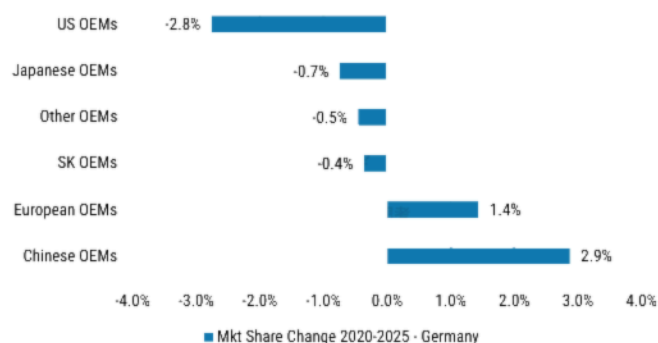
Stellantis consistently the largest donor. Across almost all markets, Stellantis has been the largest share donor, while Volkswagen and Renault have generally proven more resilient. Overall, Europe has not yet experienced a broad-based "China shock", but rather a gradual and uneven competitive rebalancing, with Chinese OEM success heavily influenced by local market characteristics and incumbent positioning.

Exhibit 25: Key European market trends and OEM exposure

EU market	Status	EU OEM Market Share (2020-25)	CH OEM Market Share (2020-25)	Notable trend	OEM exposure	Characteristics
Norway		12%pp decline, from 53% to 41%	9%pp gain, from 10% to 18%	Broadbased market share losses across European, Japanese, US, South Korean OEMs European OEM share losses decelerating in recent years	All	Highest European EV penetration
Spain		10%pp decline, from 67% to 57%	10%pp gain, from 2% to 11%	European OEM share losses accelerating for three consecutive years Renault grew share during the period despite strong Chinese OEM growth	Renault	Price-sensitive European market
Italy		9%pp decline, from 74% to 65%	8%pp gain, from 2% to 9%	Largest gain for Chinese OEMs in EU5 market with strong incumbent brands European OEM market share losses do not appear to be decelerating	Stellantis	Strong incumbent brands Policy sensitivity Strong B/C segment
UK		6%pp decline, from 57% to 51%	10%pp gain, from 4% to 14%	Chinese OEM market share approaching 20% in April, an EU5 high European market share losses span across mass market and premium OEMs Renault grew share during the period despite strong Chinese OEM growth	BMW	Lack of targeted tariffs Lack of local incumbent brand
EU5		5%pp decline, from 72% to 67%	6%pp gain, from 2% to 8%	European OEMs have consistently lost market share over the past five years Chinese OEMs' market share gains are accelerating	All	~67% of European volumes
France		4%pp decline, from 80% to 76%	3%pp gain, from 1% to 4%	European OEM share losses decelerating in recent years Renault, Volkswagen grew share during the period despite strong Chinese OEM growth Japanese OEMs gaining share alongside Chinese players	Renault and Stellantis	Strong incumbent brands Policy sensitivity Strong B/C segment
Germany		3%pp gain, from 76% to 79%	3%pp gain, from 2% to 5%	Only market with growing share for EU OEMs, led by Volkswagen Chinese OEMs continue to gain, at expense of South Korea and US players	BMW, Mercedes-Benz, Porsche, Volkswagen	Strong incumbent brands High fleet sales Strong premium offering

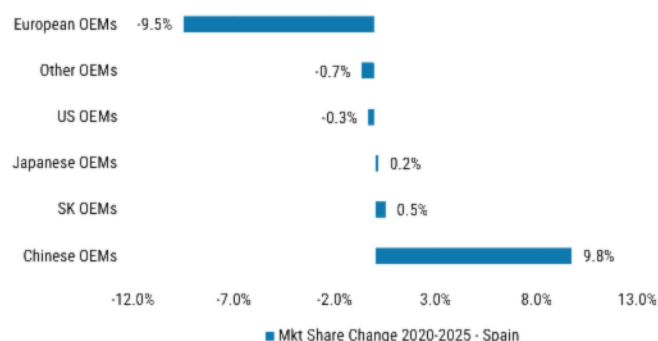
Source: Local auto associations, Morgan Stanley Research

Exhibit 26: Germany Market Share Change 2020-2025 - US OEMs lost most share whilst Chinese OEMs gained



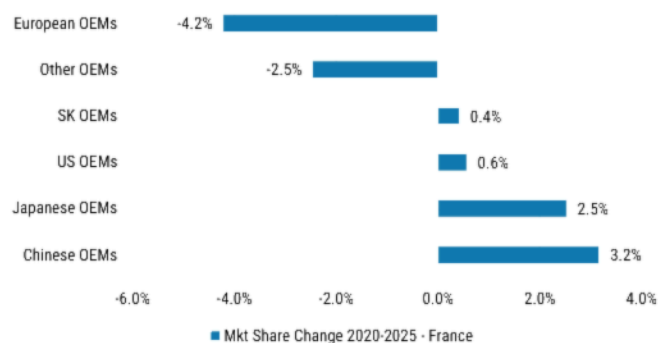
Source: Local Auto Association, Morgan Stanley Research

Exhibit 28: Spain Market Share Change 2020-2025 - EU OEMs lost most share whilst Chinese OEMs gained



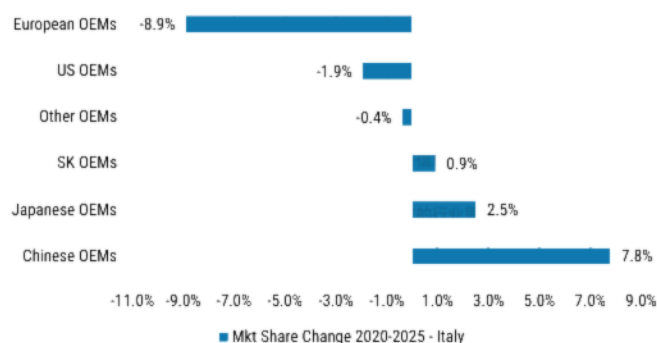
Source: ANI AG, Morgan Stanley Research

Exhibit 30: France Market Share Change 2020-2025 - EU OEMs lost most share whilst Chinese OEMs gained



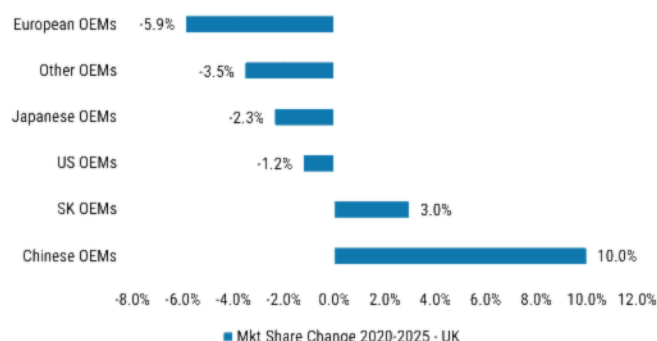
Source: CCA, Morgan Stanley Research estimates

Exhibit 27: Italy Market Share Change 2020-2025 - EU OEMs lost most share whilst Chinese OEMs gained



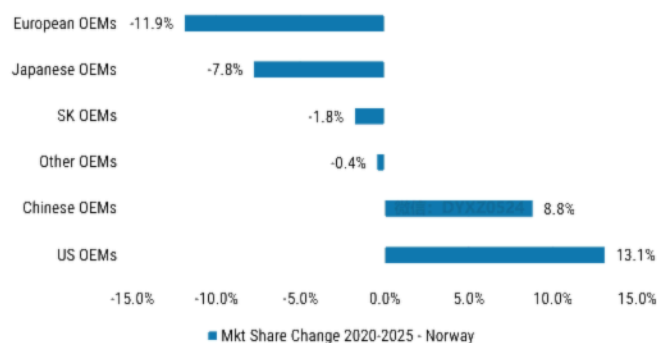
Source: JN-RAL, Morgan Stanley Research

Exhibit 29: UK Market Share Change 2020-2025 - EU OEMs lost most share whilst Chinese OEMs gained



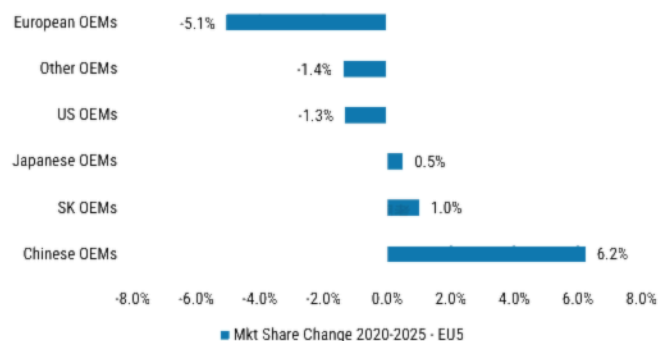
Source: SMM, Morgan Stanley Research

Exhibit 31: Norway Market Share Change 2020-2025 - EU OEMs lost most share whilst Chinese/US OEMs gained



Source: S&P Global, Morgan Stanley Research

Exhibit 32: EU5 Market Share Change 2020-2025 - EU OEMs
have lost most share whilst Chinese OEMs gained



Source: Local Autos Associations, Morgan Stanley Research

Norway

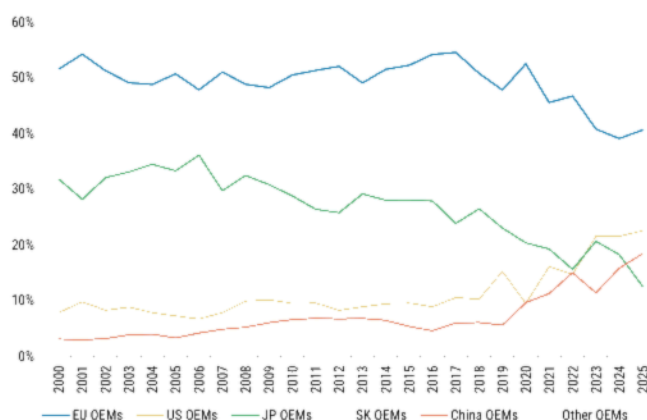
A glimpse into an electrified future. Norway, Europe's most electrified automotive market, provides an indication of how competitive dynamics could evolve across the region as EV adoption matures. Since the pandemic, European OEM market share has fallen from the low-50% range to ~41%, while Chinese OEMs have increased their share to ~18%, with Stellantis emerging as the largest incumbent loser and Geely, SAIC, BYD and Xpeng establishing meaningful scale. We think Norway's unique policy environment means it is not a perfect blueprint for Europe, but the market demonstrates that Chinese OEMs can achieve substantial share gains in highly electrified markets as traditional advantages such as brand heritage become less important.

Norway is the most electrified market in Europe. Norway provides one of the most important case studies for assessing the long-term implications of Chinese OEM expansion in Europe. As the most electrified automotive market in Europe, Norway can be viewed as a leading indicator of what the broader European market may eventually look like as electrification matures. So far, the market share data suggest that the transition to an EV-dominated market has coincided with a meaningful redistribution of share away from traditional incumbents. European OEMs remain the largest group, but their market share has fallen materially since the pandemic, declining from the low-50% range to around 40%, while Chinese OEMs have increased their share from LSD% to ~18%. The gains have not come exclusively at the expense of European manufacturers, with Japanese OEMs experiencing an even steeper decline, while Korean OEMs have remained broadly stable and US OEMs, driven largely by Tesla, have gained meaningful share.

Stellantis leads in losses again. Within the European OEM cohort, Stellantis stands out as the clear loser, with market share falling from around 10-11% in 2018 to ~4-5% today, mirroring the broader European trend. By contrast, Volkswagen has maintained a strong leadership position and BMW and Mercedes-Benz have broadly preserved their market positions despite intensifying competition. Among Chinese manufacturers, Geely has been

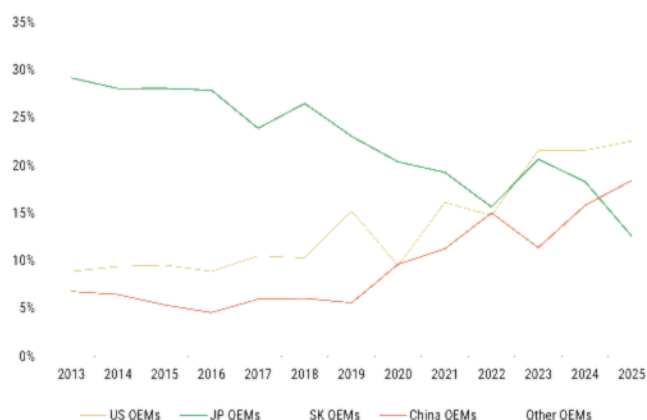
the standout success story, benefiting from its strong Nordic presence, Volvo affiliation and early EV product offerings to become the largest Chinese player in Norway with close to 10% market share. SAIC established an early foothold through MG, while BYD and Xpeng have accelerated rapidly in recent years, indicating that Chinese share gains are becoming increasingly broad-based rather than dependent on a single brand.

Exhibit 33: Norway: European OEM market share started to decline post-covid, though it has improved recently



Source: S&P Global, Morgan Stanley Research. Note: this chart includes as EU OEMs: Aston Martin, BMW, Ferrari, Iveco, McLaren, MBG, Renault, Saab, Stellantis, VW, Think. US OEMs: Fisker, Ford, GM, Karma, Lucid, Rivian, Tesla. JP OEMs: Honda, Isuzu, Mazda, Mitsubishi, Nissan, Subaru, Suzuki, Toyota. SK OEMs: Hyundai, Kia, LGV. China OEMs: BYD, Changan, Chery, Dongfeng, FAW, Geely, Volvo, GWM, Jianghuai, NIO, SAIC, Xpeng. Other OEMs: Morgan, JLR and Others.

Exhibit 34: Norway: Chinese and US OEMs have grown share whilst Japanese & Europe have ceded



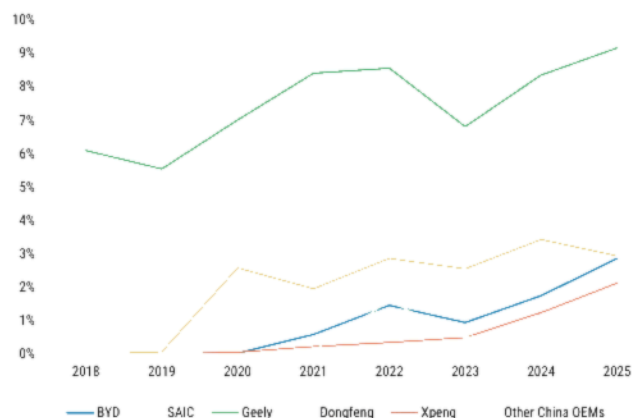
Source: S&P Global, Morgan Stanley Research. Note: this chart includes as US OEMs: Fisker, Ford, GM, Karma, Lucid, Rivian, Tesla. JP OEMs: Honda, Isuzu, Mazda, Mitsubishi, Nissan, Subaru, Suzuki, Toyota. SK OEMs: Hyundai, Kia, LGV. China OEMs: BYD, Changan, Chery, Dongfeng, FAW, Geely, Volvo, GWM, Jianghuai, NIO, SAIC, Xpeng. Other OEMs: Morgan, JLR and Others.

Exhibit 35: Norway: Amongst European OEMs, Stellantis has lost the most share



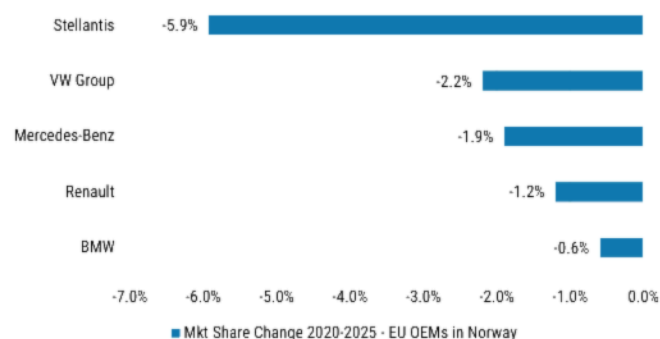
Source: S&P Global, Morgan Stanley Research.

Exhibit 36: Norway: Amongst Chinese OEMs, Geely has been the largest gainer



Source: S&P Global, Morgan Stanley Research.

Exhibit 37: Stellantis stands out as the most meaningful share donor over the 2020-2025 period



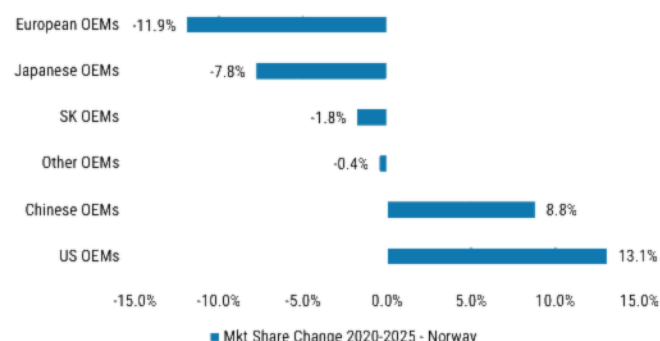
Source: S&P Global, Morgan Stanley Research.

Exhibit 38: On a YoY basis, EU OEM market share losses have been slowing down in recent years, whilst Japan accelerates



Source: S&P Global, Morgan Stanley Research.

Exhibit 39: Norway Market Share Change 2020-2025 - EU OEMs lost most share whilst Chinese/US OEMs gained



Source: S&P Global, Morgan Stanley Research.

Germany

Can Chinese OEMs gain meaningful share in the home of European Autos?

Germany remains a key market in the assessment of the long-term competitive threat posed by Chinese OEMs in Europe. As the home market of Volkswagen, BMW, Mercedes-Benz and Porsche, Germany has remained one of Europe's most resilient markets, with European OEM share stable at around 75% and Chinese OEM penetration reaching only ~5% by 2025. Chinese OEMs have nevertheless gained ~3%pp of share since 2020, but these gains have come primarily at the expense of US, Japanese and Korean manufacturers rather than European incumbents. Volkswagen has been the standout winner, gaining more than 5%pp of market share over the period, demonstrating that strong local brands with competitive product portfolios remain well positioned to defend their home market despite rising Chinese competition.

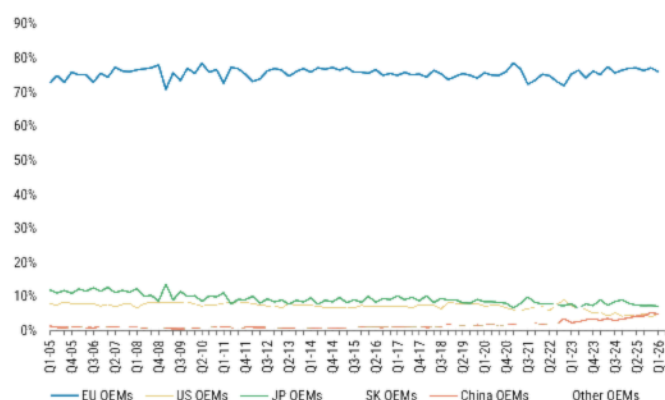
Germany is the home of European Autos. Germany is arguably the most important market to monitor when assessing the long-term competitive threat posed by Chinese

OEMs in Europe. It is the region's largest automotive market and the home market of several global industry leaders, including Volkswagen, BMW, Mercedes-Benz and Porsche, all of which benefit from strong brand equity, extensive dealer networks and a significant premium vehicle presence. These structural advantages have so far made Germany one of the more resilient European markets, with European OEMs maintaining a remarkably stable market share of ~75% over the past decade. Unlike markets such as Norway or the UK, Chinese manufacturers remain relatively underpenetrated, with market share only reaching ~5% by 2025. We think that Chinese OEMs have, to date, focused their European expansion efforts elsewhere, prioritising markets with fewer incumbent advantages and lower barriers to entry.

Chinese brands are establishing a foothold at the expense of US players. Chinese OEM market share has increased by ~3%pp since 2020, making them the largest share gainers among foreign manufacturers. Importantly, these gains do not appear to have come at the expense of German incumbents. Instead, US OEMs have been the largest share donors over the period, losing close to 3%pp of market share, while Japanese and Korean manufacturers have also ceded ground. At the aggregate level, European OEM market share has actually increased modestly since 2020, highlighting the continued strength of domestic brands in their home market and underscoring the fact that Germany remains significantly more defensive than many other European countries.

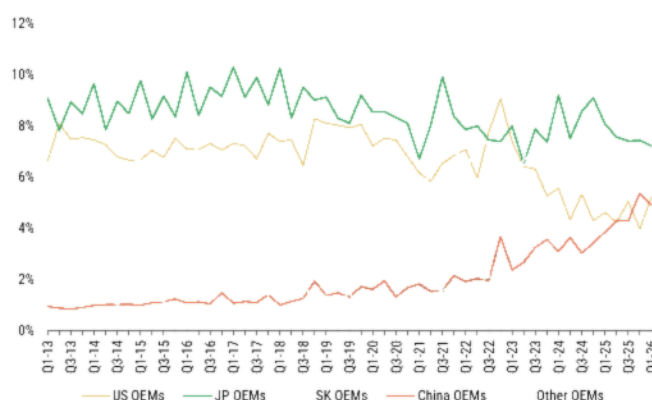
Volkswagen the winner in recent years. Volkswagen Group has been the standout performer, gaining more than 5%pp of market share since 2020 and reinforcing its dominant position in the market. By contrast, Mercedes-Benz, Renault and Stellantis have all lost share, with Mercedes-Benz emerging as the largest individual share donor over the period. The Volkswagen share gains are particularly notable given the rise of Chinese competition, suggesting that strong local brands with competitive EV offerings and broad model portfolios remain well positioned to defend share even as new entrants arrive.

Exhibit 40: Germany: European OEM market share stable recently



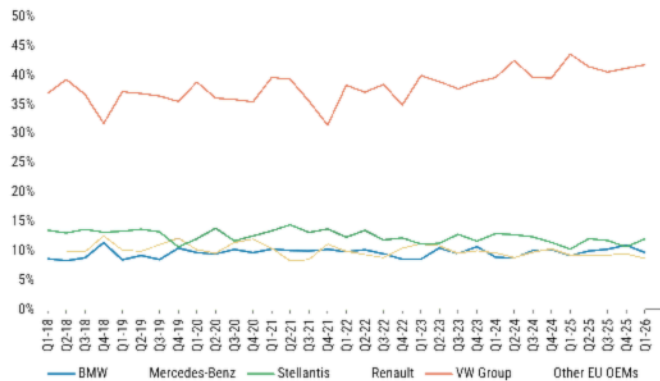
Source: KBA, Morgan Stanley Research. Note: this chart includes as EU OEMs: Stellantis, VW, Renault, VAG, BMW, Porsche, Iveco, Jaca, Ferrari. US OEMs: GM, Ford, Tesla. JP OEMs: Toyota, Nissan, Honda, Suzuki, Suzuki, Vitsuzish, Mazda. SK OEMs: Hyundai, Kia, KGM. China OEMs: Leapmotor, Changan, Chery, Geely, Volvo, BYD, Dongfeng, GWM, SAIC, NIO, Xpeng. Other OEMs: JLR, Fogg and Others.

Exhibit 41: Germany: Chinese OEMs have grown share whilst US & SK have ceded



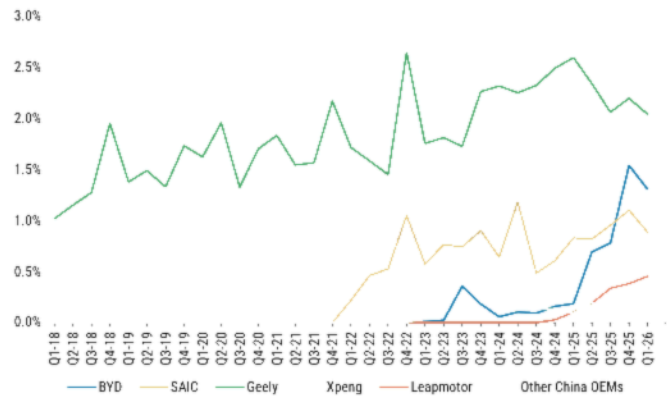
Source: KBA, Morgan Stanley Research. Note: this chart includes as US OEMs: GM, Ford, Tesla. JP OEMs: Toyota, Nissan, Honda, Suzuki, Suzuki, Vitsuzish, Mazda. SK OEMs: Hyundai, Kia, KGM. China OEMs: Leapmotor, Changan, Chery, Geely, Volvo, BYD, Dongfeng, GWM, SAIC, NIO, Xpeng. Other OEMs: JLR, Fogg and Others.

Exhibit 42: Germany: Amongst European OEMs, Mercedes-Benz lost the most share, whilst VW has continued to gain



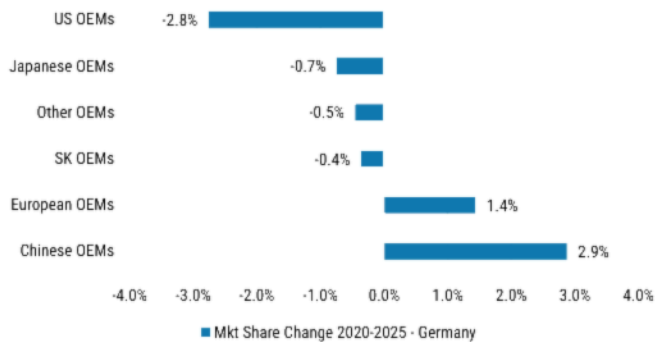
Source: KBA, Morgan Stanley Research

Exhibit 43: Germany: Amongst Chinese OEMs, BYD has been the largest gainer, though Geely remains strong



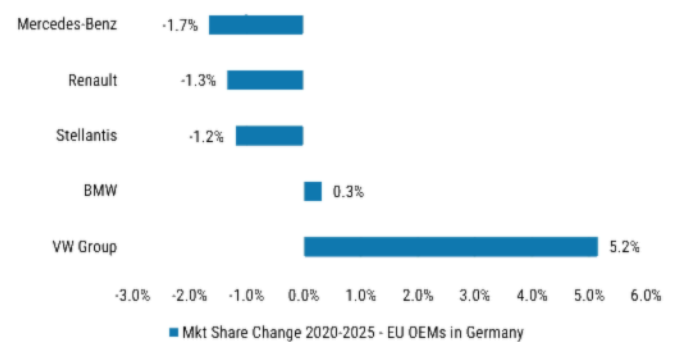
Source: KBA, Morgan Stanley Research

Exhibit 44: Germany Market Share Change 2020-2025 - US OEMs have lost most share whilst Chinese OEMs gained



Source: Local Auto Association, Morgan Stanley Research

Exhibit 45: Mercedes-Benz stands out as the largest share donor over the 2020-2025 period



Source: Local Auto Association, Morgan Stanley Research

Exhibit 46: On a YoY basis, EU OEM market share gains are starting to slow down



Source: Local Auto Association, Morgan Stanley Research

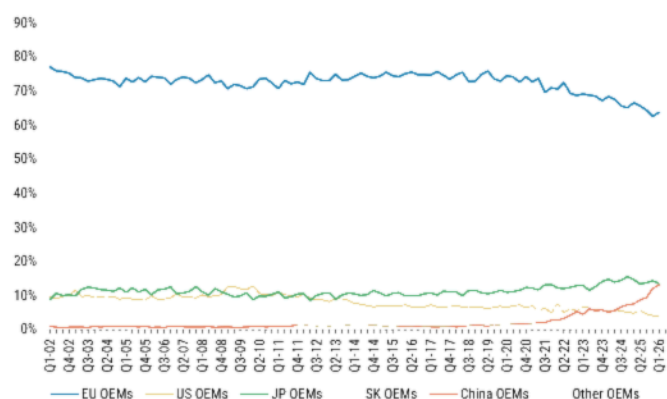
Italy

Chinese OEM share gains continue and show no signs of slowing. Italy has emerged as one of the most successful entry markets for Chinese OEMs in Europe, with market share rising from ~2% to 11% since 2020 despite the country's historical status as a Stellantis stronghold. Over the same period, European OEM share has fallen from ~74% to 65%, representing one of the largest declines among major European markets and highlighting the ability of Chinese brands to gain traction even in traditional incumbent markets. Stellantis has been the primary share donor, losing >11%pp of market share since 2020, while Volkswagen, BMW and Renault have broadly maintained or modestly improved their positions. Importantly, European OEM market share losses show little sign of stabilising, suggesting Italy remains one of the clearest examples of the competitive pressure Chinese manufacturers can exert in Europe.

Italy has emerged as a focal market for Chinese OEM expansion in Europe. The Italian market has historically been dominated by Stellantis brands and remains highly relevant to the B- and C- segments that form the core of European demand. However, since the pandemic, European OEM market share has fallen sharply from the ~74% to ~65%, representing one of the largest declines among major European markets. Over the same period, Chinese OEMs have increased their market share from ~2% to 11%, a high level for a major incumbent market and significantly above current penetration levels in Germany and France (4-5%). Italy has become one of the most successful large-market entry points for Chinese manufacturers in Europe, despite the presence of established domestic brands and strong historical customer loyalty.

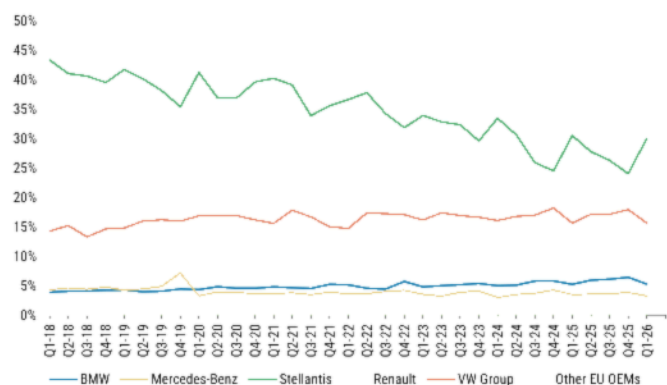
European OEM market share losses do not appear to be slowing down. Among all European OEMs, Stellantis has been by far the largest share donor, losing >11%pp of market share between 2020 and 2025. This is in line with the broader European trend and reinforces the view that Stellantis' previous strategy has left it vulnerable to Chinese competitors. By contrast, Volkswagen, BMW and Renault have broadly maintained or modestly improved their positions. Importantly, examining the YoY losses of European OEMs, the most recent data does not show a meaningful slowdown. Unlike other markets, YoY European market share losses in Italy remain persistent while Chinese OEMs continue to gain share. Italy may represent one of the clearest examples within Europe of the competitive pressure that Chinese manufacturers can exert, even in a market traditionally considered an incumbent stronghold.

Exhibit 47: Italy: European OEM market share started to decline post-covid



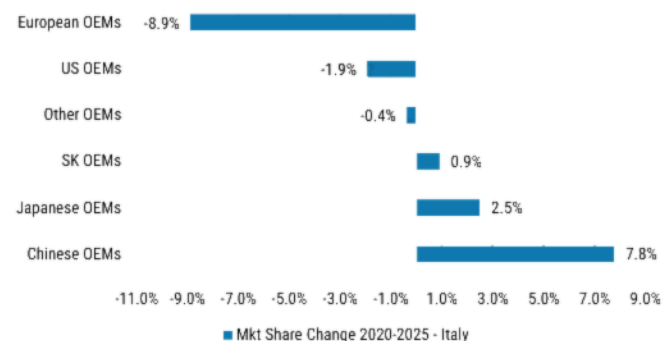
Source: UNRAI, Morgan Stanley Research. Note: this chart includes as EU OEMs: Stellantis, VW, Renault, VAG, BMW, Porsche, Lada, Ferrari; US OEMs: GM, Ford, Tesla; JP OEMs: Toyota, Nissan, Honda, Suzuki, Subaru, Mitsubishi, Mazda; SK OEMs: Hyundai, Kia, KGM; China OEMs: Leapmotor, Chery, Geely, Volvo, BYD, Dongfeng, GWM, SAIC, SWV, DR; Other OEMs: JLR, Mahindra, Tata and Others.

Exhibit 49: Italy: Amongst European OEMs, Stellantis has lost the most share



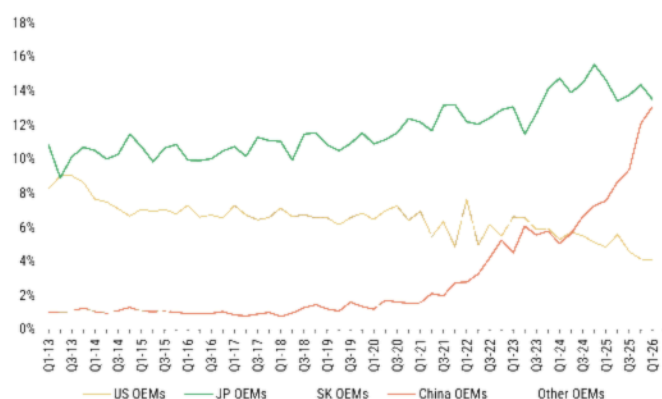
Source: UNRAI, Morgan Stanley Research.

Exhibit 51: Italy Market Share Change 2020-2025 - EU OEMs have lost more share whilst Chinese OEMs gained



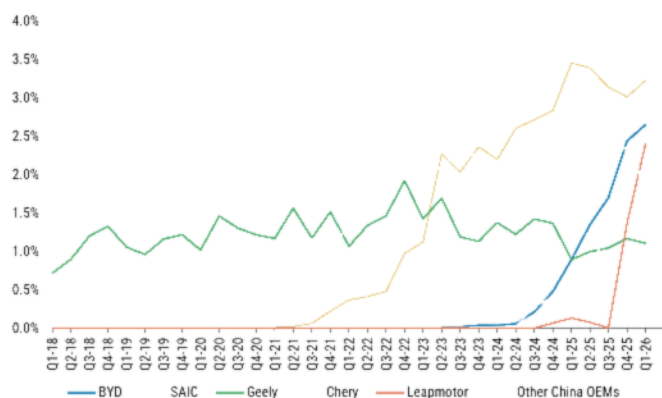
Source: UNRAI, Morgan Stanley Research.

Exhibit 48: Italy: Chinese and Japanese OEMs have grown share whilst Europe, US & Other have ceded



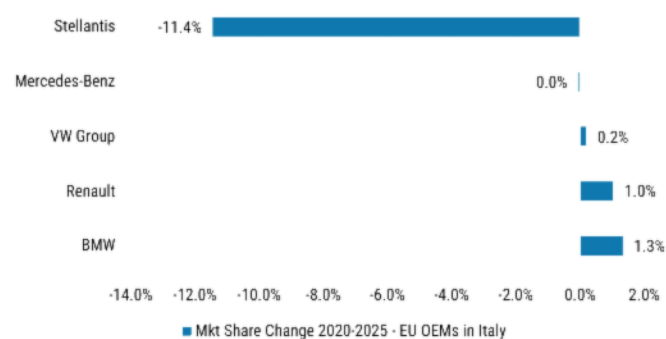
Source: UNRAI, Morgan Stanley Research. Note: this chart includes as US OEMs: GM, Ford, Tesla; JP OEMs: Toyota, Nissan, Honda, Suzuki, Subaru, Mitsubishi, Mazda; SK OEMs: Hyundai, Kia, KGM; China OEMs: Leapmotor, Chery, Geely, Volvo, BYD, Dongfeng, GWM, SAIC, SWV, DR; Other OEMs: JLR, Mahindra, Tata and Others.

Exhibit 50: Italy: Amongst Chinese OEMs, SAIC have been the largest gainer



Source: UNRAI, Morgan Stanley Research.

Exhibit 52: Stellantis stands out as the most meaningful share donor over the 2020-2025 period



Source: UNRAI, Morgan Stanley Research.

Exhibit 53: On a YoY basis, EU OEM market share losses are stable and do not appear to slow down



Source: UNRAI, Morgan Stanley Research.

Spain

Spain has emerged as one of the most receptive markets for Chinese OEMs in Europe. We think driven by the country's price-sensitive consumer base, large B- and C- segment exposure, and relatively limited premium brand dominance. Since 2020, Chinese OEMs have gained almost 10%pp of market share, lifting penetration into the mid-teens and placing Spain alongside the UK and Italy as one of the most penetrated major European markets. Stellantis has been the largest share donor, losing ~8%pps of market share, while Renault has gained share despite the headwinds and Volkswagen has remained relatively resilient. Examining the latest data, market share losses for European OEMs appear to be accelerating, indicating further pain may be ahead.

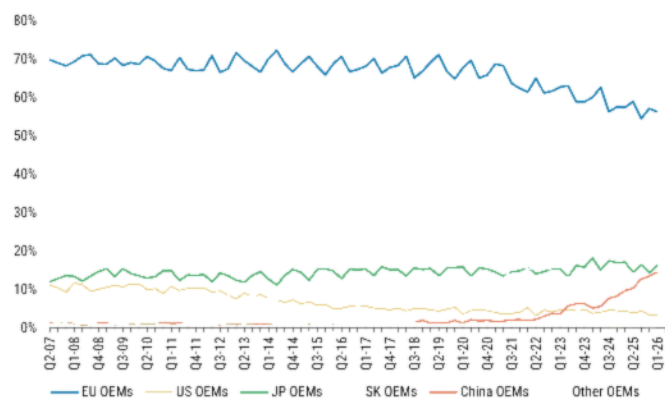
The price-sensitive Spanish consumer appreciates Chinese cars. Spain's price-sensitive consumer base makes it a natural testing ground for the value proposition of Chinese OEMs. The market exhibits many of the characteristics that should favour new entrants: a large B- and C- segment mix, strong demand for affordable vehicles, and less entrenched premium brand dominance than Germany. The data suggest that Chinese OEMs have been particularly successful in exploiting these dynamics. Since 2020, Chinese manufacturers have gained almost 10%pp of market share, one of the largest increases observed across Europe, with European OEMs the key share donors. Chinese OEM penetration has now reached mid-teen levels, placing Spain among the most penetrated major European markets alongside Italy and the UK.

Growth has been shared amongst several Chinese players. Stellantis has been the dominant share donor, losing ~8%pp of market share since 2020, by far the largest decline among incumbent OEMs. Renault stands out as a notable exception, having increased its market share over the period, while Volkswagen Group has been relatively resilient. Unlike Italy, where SAIC has been the clear leader, Spain appears to be evolving into one of the most diversified Chinese markets in Europe. Chery has emerged as the largest individual winner, rapidly approaching 5% market share, while BYD and SAIC have also built meaningful positions and continue to grow. The breadth of these gains suggests that Chinese success in Spain is no longer dependent on a single brand or business model,

but rather reflects growing acceptance of Chinese vehicles across multiple customer segments and distribution channels.

European OEM market share losses are accelerating. While Chinese OEMs have been gaining share consistently since 2020, the pace of gains increased materially during 2023 and 2024, coinciding with sharper declines in European OEM market share. The year-on-year data show that these losses are in fact accelerating. As a result, Spain may represent one of the clearest examples of a market where Chinese OEMs are successfully translating their cost competitiveness and expanding product portfolios into sustained share gains.

Exhibit 54: Spain: European OEM market share started to decline post-covid



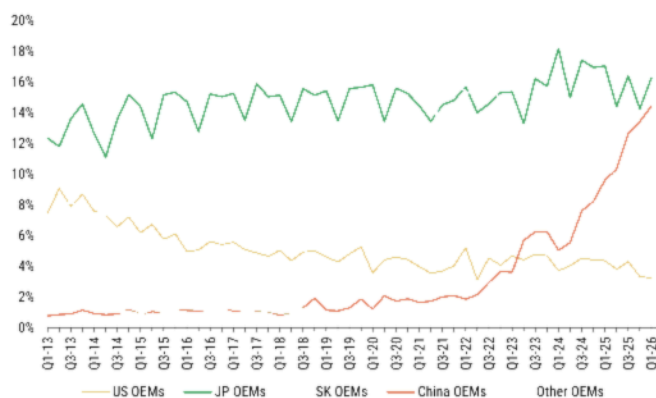
Source: ANI AC, Morgan Stanley Research. Note: this chart includes as EU OLVs: Stellantis, VW, Renault, VAG, BMW, Porsche, Iveco, Jaca, Ferrari. US OLVs: GV, Ford, Tesla. JP OLVs: Toyota, Nissan, Honda, Suzuki, Subaru, Mitsubishi, Mazda. SK OLVs: Hyundai, Kia, KGM. China OLVs: Leapmotor, Changan, Chery, Geely, Volvo, BYD, Dongfeng, SAIC, Xpeng, SWM, DR. Other OLVs: JLR, Mahindra, Tata and Others.

Exhibit 56: Spain: Amongst European OEMs, Stellantis has lost the most share



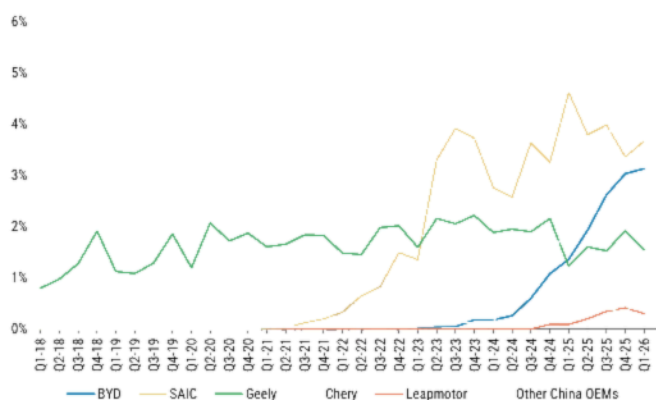
Source: ANI AC, Morgan Stanley Research.

Exhibit 55: Spain: Chinese and Japanese OEMs have grown share whilst Europe, SK, US & Other have ceded



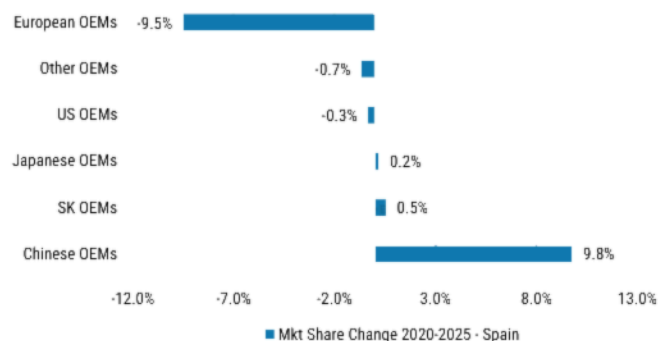
Source: ANI AC, Morgan Stanley Research. Note: this chart includes as US OLVs: GV, Ford, Tesla. JP OLVs: Toyota, Nissan, Honda, Suzuki, Subaru, Mitsubishi, Mazda. SK OLVs: Hyundai, Kia, KGM. China OLVs: Leapmotor, Changan, Chery, Geely, Volvo, BYD, Dongfeng, SAIC, Xpeng, SWM, DR. Other OLVs: JLR, Mahindra, Tata and Others.

Exhibit 57: Spain: Amongst Chinese OEMs, Chery have been the largest gainer



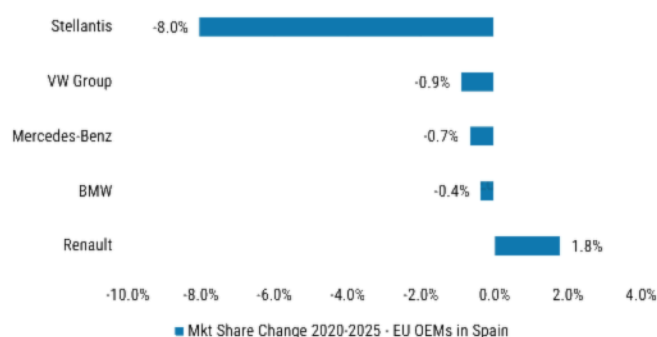
Source: ANI AC, Morgan Stanley Research

Exhibit 58: Spain Market Share Change 2020-2025 - EU OEMs have lost more share vs Chinese OEMs



Source: ANI AC, Morgan Stanley Research.

Exhibit 59: Stellantis stands out as the most meaningful share donor over the 2020-2025 period



Source: ANI AC, Morgan Stanley Research.

Exhibit 60: On a YoY basis, EU OEM market share losses appear to be accelerating



Source: ANI AC, Morgan Stanley Research.

UK

The UK represents the no-tariff, no-incumbent scenario. The UK has become a key European market for assessing Chinese OEM expansion, combining large market scale with the absence of a domestic OEM and exemption from EU tariffs on Chinese-made EVs. These factors have helped Chinese OEM market share rise by ~10%pp since 2020 to nearly 20%, making the UK one of the most penetrated major automotive markets in Europe. The gains have come at the expense of almost all incumbent groups, with European, Japanese and US manufacturers all losing share. Stellantis has been the largest share donor, while Mercedes-Benz and BMW have also lost ground. Renault stands out as the key exception, having grown share through a strong product cycle and competitive positioning in affordable electrified vehicles, while the latest data suggest Chinese OEM gains and legacy OEM share losses continue to accelerate.

The UK is arguably the most important European market for assessing the progress of Chinese OEMs. As Europe's second-largest automotive market, the UK combines significant scale with a unique competitive structure: unlike Germany, France or Italy, it

lacks a domestic volume OEM champion and, due to Brexit, is not directly subject to the EU's tariffs on Chinese-made EV imports. These characteristics have made the UK a natural entry point for Chinese manufacturers, and the data suggest that they have been highly successful. Chinese OEM market share has increased by ~10%pp since 2020, and is now [approaching](#) ~20% in 2026, making the UK one of the most penetrated major automotive markets in Europe.

Broadbased market share losses for legacy OEMs. European OEM market share has declined by ~6%pp since 2020, while Japanese, US and other manufacturers have also lost share. In contrast to Germany, where domestic brands have remained relatively resilient, the UK appears much more exposed to competitive disruption from new entrants. The absence of a dominant local manufacturer and the openness of the market have created a more level competitive playing field, allowing Chinese brands to compete primarily on product, technology and pricing rather than having to overcome entrenched loyalties.

Chinese OEMs have a strong focus on the UK market. Chinese brands appear to be following a more selective market-entry strategy rather than mirroring the geographic footprint of established European OEMs. Most notably, Chinese OEMs are disproportionately exposed to the UK, which represents ~24% of their European volumes versus ~16% of the overall European market. Nearly all major Chinese brands shown exhibit above-market exposure to the UK, with Chery, SAIC and BYD deriving particularly large shares of their European sales from the country. Several factors likely contribute to this trend: the UK is Europe's second-largest vehicle market, has high EV adoption, lacks a domestic volume OEM champion, and operates outside the EU tariff regime applied to Chinese-made EV imports. Based on current sales footprints, BMW appears most exposed through its relatively high UK concentration.

Both mass market and premium OEMs are losing share. Stellantis once again emerges as the largest share donor, losing ~2.5%pp of market share over the period. Mercedes-Benz and BMW have also ceded meaningful share, highlighting that both volume and premium manufacturers have faced competitive pressure. The most notable exception is Renault, which has actually increased market share during the period. This suggests that Renault's product cycle, pricing strategy and positioning in affordable electrified vehicles have resonated well with UK consumers. Volkswagen's market share has also been relatively resilient, but Renault is the clearest example of a European manufacturer that has managed to grow despite the influx of Chinese competitors. The latest data indicates that the market share losses continue for legacy OEMs however. After strength in 2024, Chinese OEMs continued to gain share in 2025, with European OEM market share losses re-accelerating on a year-on-year basis.

Exhibit 61: UK: European OEM market share started to decline post-covid

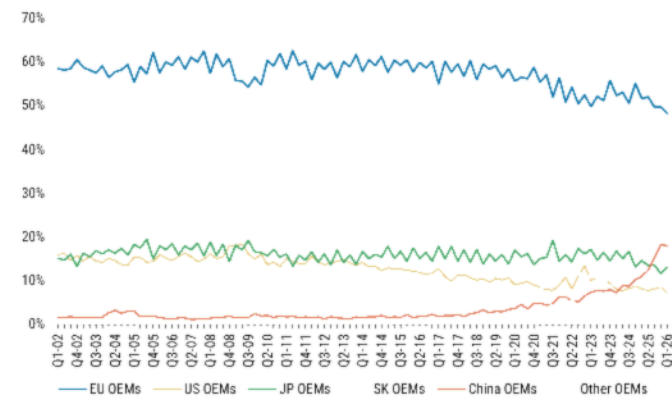


Exhibit 63: UK: Amongst European OEMs, Stellantis has lost the most share

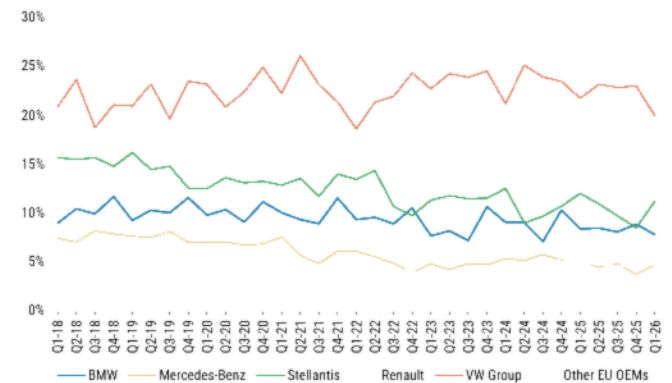
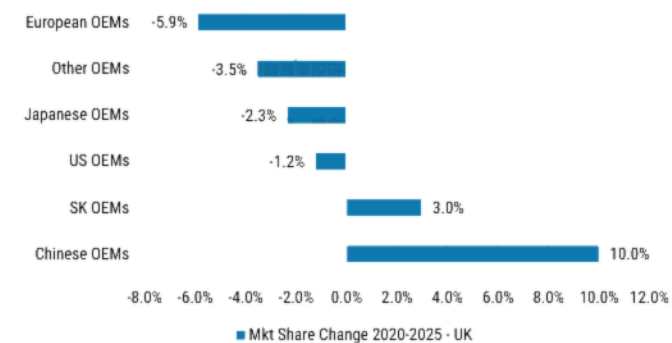


Exhibit 65: UK Market Share Change 2020-2025 - EU OEMs have lost most share whilst Chinese OEMs gained



Source: SVM*, Morgan Stanley Research.

Exhibit 62: UK: Chinese and SK OEMs have grown share whilst Europe, Japanese, & US have ceded

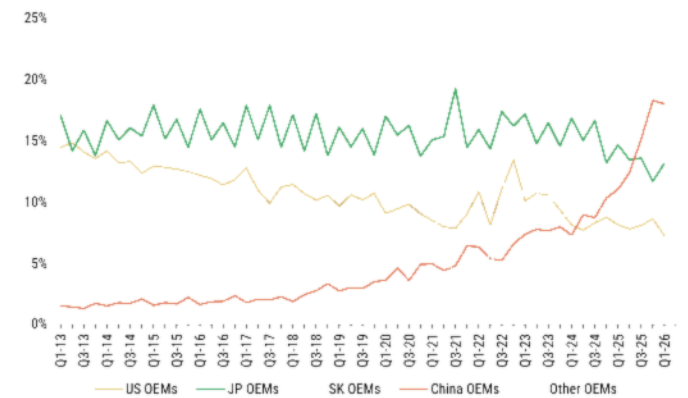


Exhibit 64: UK: Amongst Chinese OEMs, Chery have been the largest gainer

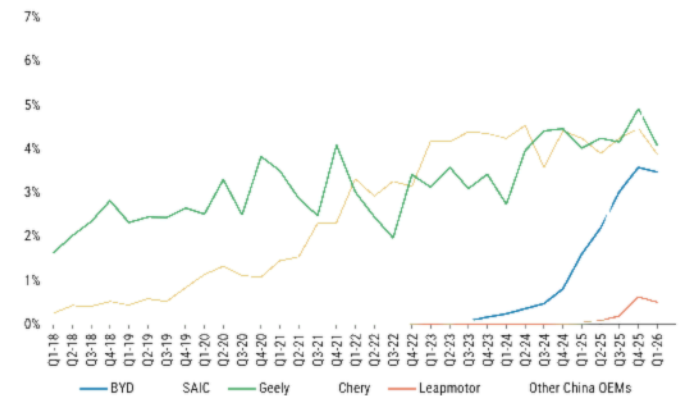
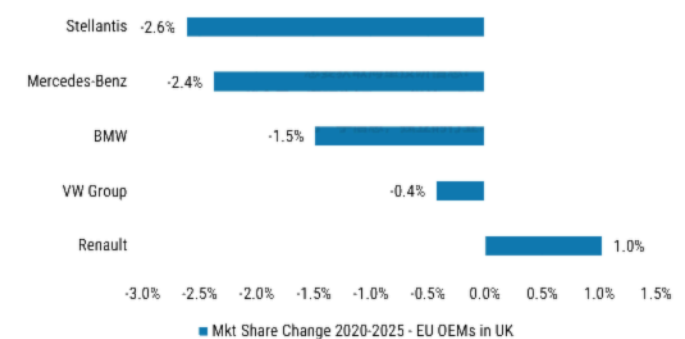


Exhibit 66: Stellantis stands out as the most meaningful share donor over the 2020-2025 period



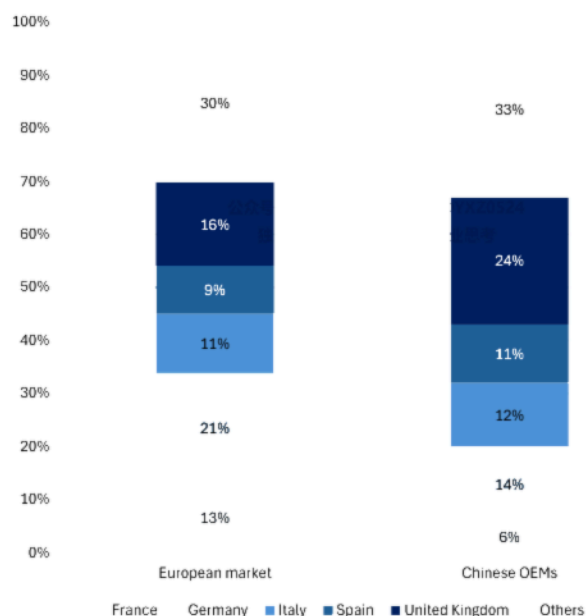
Source: SVM*, Morgan Stanley Research.

Exhibit 67: On a YoY basis, EU OEM market share losses re-accelerated in 2025



Source: SMMT, Morgan Stanley Research.

Exhibit 68: EU5 exposure: Chinese OEMs are much more exposed to the UK



Source: S&P Global, Morgan Stanley Research. Note: West and Central Europe only.

France

Incumbents resilient under pressure. France remains one of the most resilient incumbent markets in Europe, supported by strong domestic brands, customer loyalty and a policy environment that has historically favoured local manufacturers. Chinese OEM market share has increased to ~5% by 2025, but penetration remains well below levels seen in the UK, Spain and Italy, while European OEM share losses have been comparatively modest. Although Stellantis has been the largest share donor, losing around 10%pp of market share since 2020, much of this has been offset by gains at Volkswagen, Renault and BMW. Unlike other major European markets, Japanese OEMs have gained almost as much share as Chinese manufacturers. Similar to Germany, recent data suggest European OEM market share is growing, supporting the case for legacy OEM resilience.

France represents a strong incumbent market. As the home market of both Renault and Stellantis, France has historically been characterised by strong domestic brand loyalty, a vehicle mix heavily skewed towards the B- and C- segments, and policy frameworks that have often favoured local manufacturing. These structural advantages appear to have slowed, though not prevented, Chinese expansion. Chinese OEM market share has increased from near-zero levels to ~5% by 2025, which remains materially below penetration levels seen in the UK, Spain and Italy. While European OEMs have lost ~4%pp of share since 2020, the decline is notably less severe than in other major European markets.

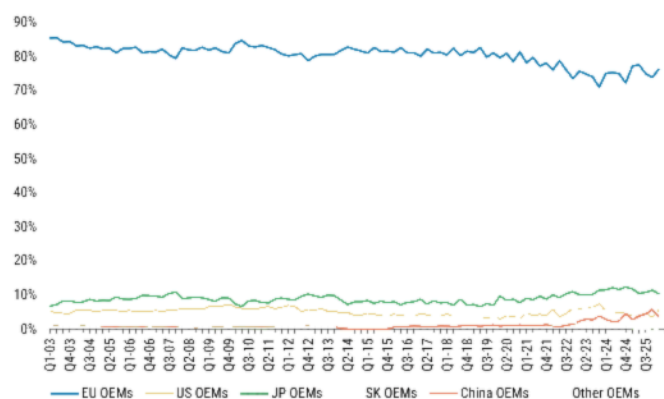
As elsewhere in Europe, the losses among European OEMs have been highly concentrated. Stellantis is again the key donor, surrendering ~10%pp of market share

since 2020, a remarkably large decline in one of its most important home markets. Unlike Italy or Spain, the losses at Stellantis have been partially offset by gains elsewhere within the European OEM group. Volkswagen has gained >3%pp of market share, while Renault and BMW have also expanded their positions.

Japanese players gaining alongside Chinese OEMs. Chinese OEMs have increased market share by ~3%pp since 2020, making them one of the largest gainers, but Japanese OEMs have gained almost as much share over the same period. Japanese OEMs remain the largest foreign OEM group in France, with market share comfortably above 10%. This contrasts with markets such as the UK and Spain, where Chinese OEMs have become the dominant source of competitive disruption. The French market therefore appears more balanced, with incumbent European manufacturers facing competition from both Chinese entrants and established Asian brands rather than from Chinese OEMs alone.

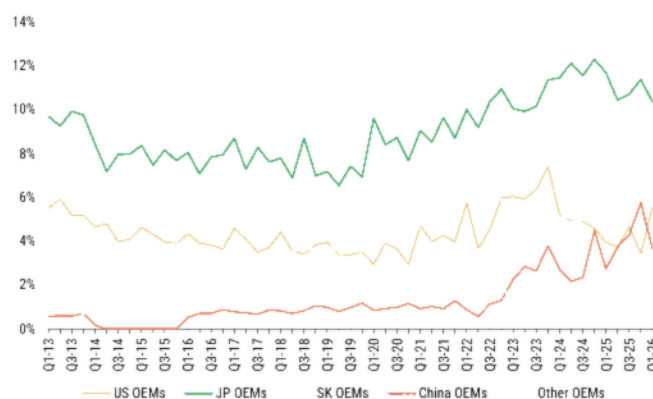
Competitive pressure on European OEMs may be moderating. While Chinese brands recorded strong gains in recent years, the YoY data for FY24 and FY25 show European OEM market share recovering, mirroring a trend also observed in Germany. This stands in contrast to Italy, Spain and the UK, where European OEM share losses are accelerating. France therefore appears to be one of the markets where incumbent manufacturers have responded more effectively through refreshed product portfolios, pricing actions and improved EV offerings. While Chinese OEMs have unquestionably established a foothold, the French market currently looks less vulnerable to rapid disruption than other major European markets and remains one of the strongest examples of how domestic incumbents can defend share when brand strength, product relevance and policy support align.

Exhibit 69: France: European OEM market share started to decline post-covid, though it has improved recently



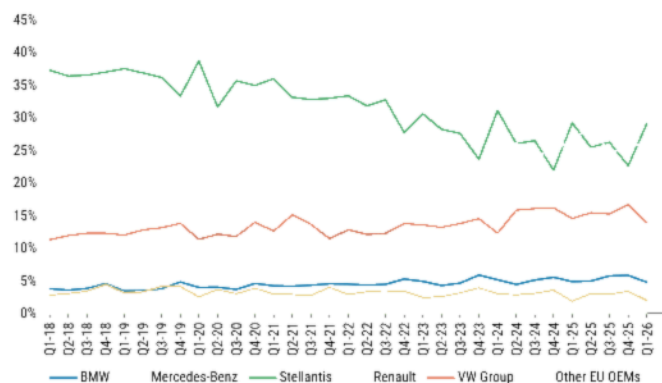
Source: CCF A, Morgan Stanley Research. Note: this chart includes as EU OEMs: Stellantis, VW, Renault, VAG, BMW, Porsche, Lada, Ferrari; US OEMs: GM, Ford, Tesla; JP OEMs: Toyota, Nissan, Honda, Suzuki, Subaru, Mitsubishi, Mazda; SK OEMs: Hyundai, Kia; China OEMs: Leapmotor, Geely, Volvo, BYD, SAIC, Xpeng; Other OEMs: JLR and Others.

Exhibit 70: France: Chinese and Japanese OEMs have grown share whilst Europe, SK & Other have ceded



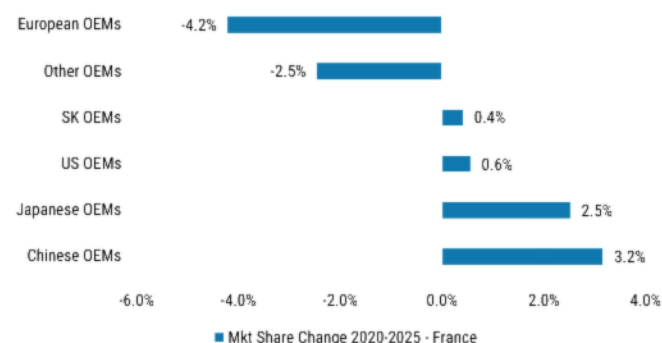
Source: CCF A, Morgan Stanley Research. Note: this chart includes as US OEMs: GM, Ford, Tesla; JP OEMs: Toyota, Nissan, Honda, Suzuki, Subaru, Mitsubishi, Mazda; SK OEMs: Hyundai, Kia; China OEMs: Leapmotor, Geely, Volvo, BYD, SAIC, Xpeng; Other OEMs: JLR and Others.

Exhibit 71: France: Amongst European OEMs, Stellantis has lost the most share



Source: CCFA, Morgan Stanley Research.

Exhibit 73: France Market Share Change 2020-2025 - EU OEMs lost most share whilst Chinese OEMs gained



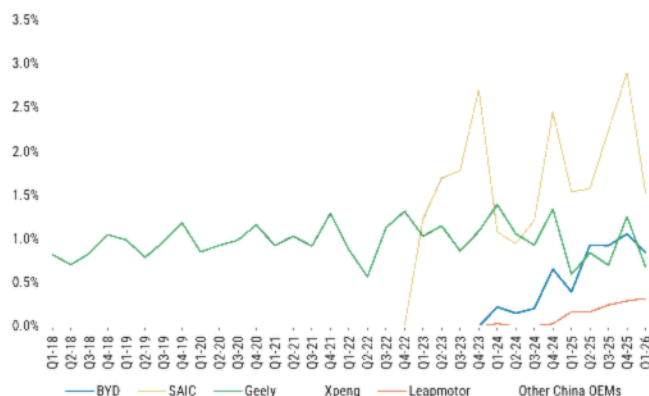
Source: CCFA, Morgan Stanley Research.

Exhibit 75: On a YoY basis, EU OEM market share has been improving in recent years



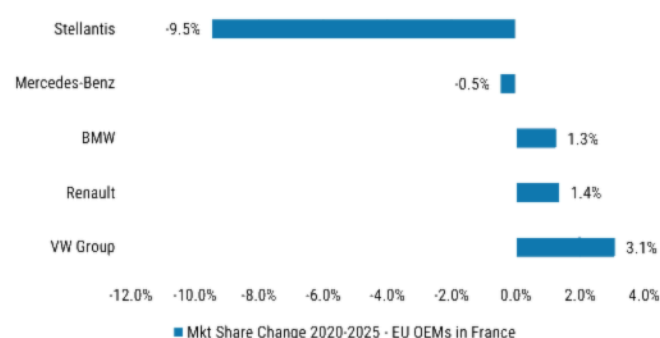
Source: CCFA, Morgan Stanley Research.

Exhibit 72: France: Amongst Chinese OEMs, SAIC have been the largest gainers



Source: CCFA, Morgan Stanley Research.

Exhibit 74: Stellantis stands out as the most meaningful share donor over the 2020-2025 period



Source: CCFA, Morgan Stanley Research.

BEV growth is not a constraint for Chinese OEMs

Growing beyond BEV. Chinese OEMs are broadening their European strategy beyond BEVs, targeting the hybrid segment, an area where demand is currently

strongest in Europe. Full hybrids (HEVs) account for ~35% of European registrations in 2025, making them the largest powertrain category in the region, and plug-in hybrids (PHEVs) represent a further ~9%. This gives Chinese manufacturers access to a significantly larger addressable market than BEVs alone, which account for ~16% of registrations. Brands such as Chery and BYD are therefore positioning themselves around multi-powertrain lineups that includes BEVs, HEVs and PHEVs, particularly in SUV segments where European demand remains robust. Importantly, this means Chinese OEM growth is not constrained by the pace of BEV adoption, instead, they are increasingly competing in the hybrid categories that dominate European demand.

Chinese OEMs are increasingly focused on hybrid segments. The Chinese OEM strategy in Europe is becoming less about cheap EVs and more about hybrids, SUVs in particular. Most Chinese entrants are targeting the parts of the market where European demand is actually growing: full hybrids (HEVs), plug-in hybrids (PHEVs), and range-extender-style electrified SUVs.

Full hybrids (HEVs) are at the centre of the European market. ACEA data shows hybrid vehicles represented 34.5% of EU registrations in 2025, making HEVs the single largest powertrain category in Europe, just ahead of petrol and BEVs. ICE (petrol + diesel) vehicles make up ~36% of the market. Plug-in hybrids also rebounded strongly, reaching c. 9%, with particularly strong growth in Germany, Spain and Italy, whilst BEVs accounted for c.16%, making c.43% of the EU market is now hybrid or plug-in hybrid. Chinese OEMs are now focused on this segment, targeting the transition segments that offer EV-like tax and emissions advantages without requiring consumers to fully commit to charging infrastructure or pure-electric usage patterns.

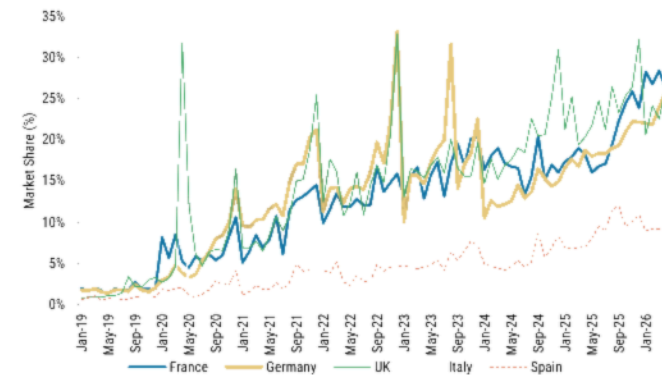
Chery's (Omoda, Jaecoo) entry into Europe highlights this trend. Chery offers petrol, HEV and PHEV SUVs, making them well aligned with mainstream European buyer behaviour. The Jaecoo 7 SHS, for example, is positioned as a long-range plug-in hybrid SUV rather than a pure EV. At the same time, the group has rapidly scaled distribution, with Omoda and Jaecoo building a 70+ UK dealer [network](#) within months of launch.

BYD is also taking the multi-powertrain route. In Europe, BYD is now promoting its DM-i "Super Hybrid" system alongside BEVs. The [European lineup](#) includes several plug-in hybrids with long electric ranges and very high combined range capability, designed specifically for consumers who are hesitant about full electrification.

Mild hybrids (MHEVs) still a strong point for legacy OEMs. Chinese OEMs are not focused on mild hybrids as much (MHEVs). Mild hybrids are essentially ICE vehicles with limited electric assistance and relatively modest fuel economy improvements. They are cheaper and easier to integrate into legacy platforms, which is why European incumbents relied heavily on them during the early stages of emissions reduction and fleet electrification. By contrast, HEVs and especially PHEVs are much closer to EV architectures. They depend more heavily on batteries, software integration, power electronics and electric drivetrain capability. Those are areas where Chinese OEMs have stronger structural advantages because of their battery supply chains, vertical integration and EV manufacturing scale. [ICCT](#) European market data shows Chinese OEMs such as SAIC already have very high HEV mix in Europe, while BYD is increasingly leaning into

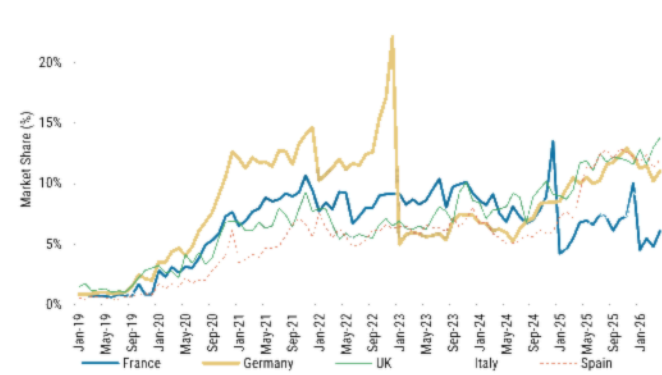
PHEV expansion.

Exhibit 76: EU5 BEV penetration rate



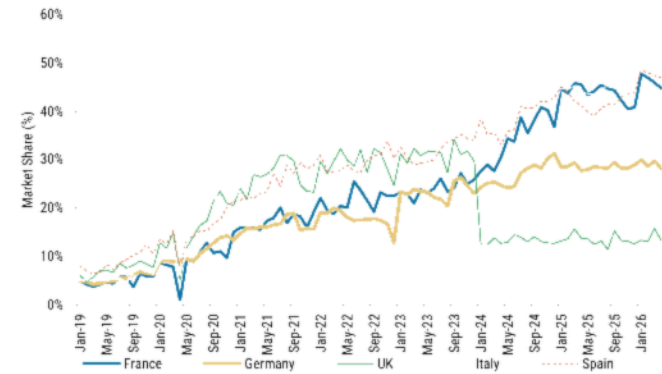
Source: ACIA, Morgan Stanley Research

Exhibit 77: EU5 PHEV penetration rate



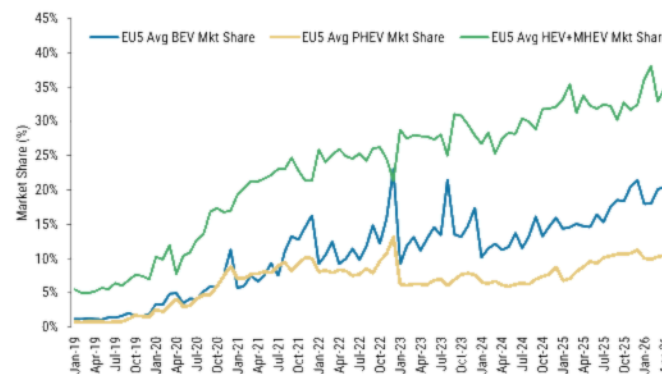
Source: ACIA, Morgan Stanley Research

Exhibit 78: EU5 HEV+MHEV penetration rate



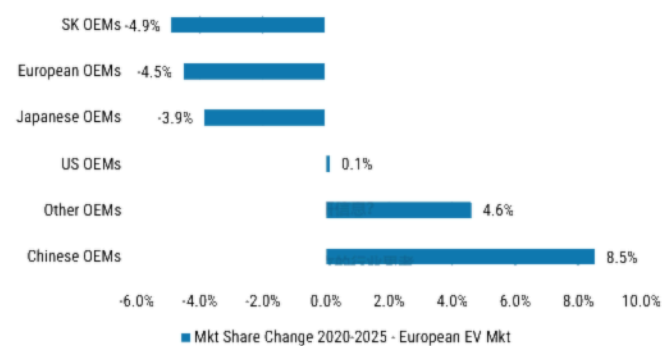
Source: ACIA, Morgan Stanley Research

Exhibit 79: EU5 powertrain mix



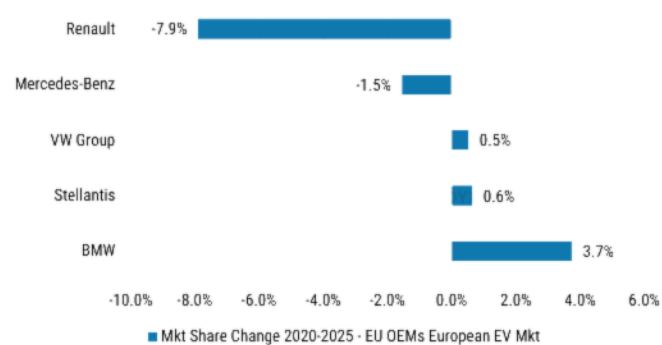
Source: ACIA, Morgan Stanley Research

Exhibit 80: EU BEV Market Share Change 2020-2025 – SK and EU OEMs lost most share whilst Chinese OEMs gained



Source: Local Auto Associations, Morgan Stanley Research

Exhibit 81: EU BEV Market Share Change 2020-2025 – Renault stands out as the most meaningful share donor over the 2020-2025 period



Source: Local Auto Associations, Morgan Stanley Research

Exhibit 82: On a YoY basis, Chinese OEMs have consistently gained EV market share in EU5



Source: Local Auto Associations, Morgan Stanley Research

Chinese OEMs disproportionately target the C-SUV and D-SUV segment

Chinese OEMs are aggressively targeting the SUV segment. Chinese OEMs are highly concentrated in Europe's SUV segments, with C-SUVs, D-SUVs and B-SUVs accounting for >70% of sales and D-SUV exposure almost three times higher than the broader market. This reflects a deliberate focus on Europe's largest and fastest-growing profit pools, while maintaining a strong bias toward entry-level vehicles, which account for roughly half of Chinese OEM sales versus <10% of the overall market. The strategy places Chinese OEMs directly against mass market OEMs with significant SUV exposure, particularly Volkswagen. Renault is most exposed from a price segment point of view, due to its entry-level exposure. Whilst BMW and Mercedes appear shielded from the lower price market segments, we expect pressure from Chinese OEMs to grow in the years to come, as the European consumer becomes more and more familiar with new Chinese brands.

A sustained focus on small, medium and large SUVs. Chinese OEMs unit sales are highly concentrated in a small number of vehicle segments, with C-SUVs, D-SUVs and B-SUVs accounting for >70% of their European sales. Chinese OEMs are much more focused on SUVs than their European and global peers, particularly in the D-SUV segment where Chinese OEMs derive ~24% of sales versus just 9% for the overall market. The strategy reflects a deliberate focus on Europe's most attractive and growing profit pools, particularly as SUVs now account for more than half of all new vehicle registrations in Europe and remain the dominant body style across the region.

Price competitiveness remains top of mind for now. Chinese OEMs are naturally focused on the most affordability-sensitive segments of the market. According to S&P, around half of projected Chinese OEM sales are expected to come from entry-level vehicles versus <10% for the broader European market, while exposure to premium vehicles is gradually declining as OEMs shift toward higher volume segments. The focus on the entry level segment creates direct competitive pressure for Renault, the only major European OEM with meaningful exposure. Chinese OEMs are also concentrated in the Mid segment where

Volkswagen and Stellantis remain key players.

Volkswagen faces direct competitive pressure from Chinese OEMs. The bestselling Chinese models in Europe are overwhelmingly SUVs, including the MG ZS, MG HS, BYD Seal U, Volvo XC40, Volvo XC60, Omoda 5 and Jaecoo 7. Renault and Stellantis are structurally underexposed to C-SUV and D-SUV segments relative to Chinese competitors and the wider market, whereas Volkswagen, BMW and Mercedes-Benz have greater participation in these categories. Examining pricing segments, for now Volkswagen is much more exposed than its premium peers, although it has maintained, and even grown market share relatively well for now.

No rest for BMW and Mercedes. For now, premium vehicles are a secondary focus, accounting for a smaller proportion of Chinese OEM sales than for BMW and Mercedes-Benz. However, the Chinese playbook in the domestic market suggests this may be a sequencing issue rather than a structural limitation: manufacturers initially build scale through entry-level and mass-market products before expanding into higher-margin premium segments. As a result, the immediate competitive pressure is likely to be felt most acutely by volume manufacturers in the entry and mid-market categories, while premium European OEMs may face greater disruption later as Chinese brands build scale, brand recognition and distribution across Europe.

Chinese OEMs are driving entry-level sales growth. The entry-level segment has grown materially as a proportion of Chinese OEM sales over the past several years, with manufacturers offering higher levels of technology, range, ADAS functionality and electrification at lower price points than many incumbent competitors. Rather than competing solely for existing EV demand, Chinese OEMs appear to be broadening the addressable market and accelerating growth at lower price levels where their cost advantages, battery supply chains and vertically integrated manufacturing models are most difficult for legacy manufacturers to replicate. This could suggest that growth in Chinese OEM volumes may not always be at the expense of legacy OEMs.

Exhibit 83: Europe's best-selling Chinese models

Rank	Brand	Model	Segment	Bodytype	CY25 Sales
1	MG	ZS	B	SUV	126,000
2	Volvo	XC60	D	SUV	89,000
3	Volvo	XC40	C	SUV	83,000
4	BYD	Seal U	D	SUV	80,000
5	MG	HS	C	SUV	77,000
6	MG	3	B	Hatchback	62,000
7	Chery	Jaecoo 7	C	SUV	53,000
8	Volvo	EX30	B	SUV	49,000
9	Chery	Omoda 5	C	SUV	43,000
10	Volvo	EX40	C	SUV	34,000
11	Volvo	XC90	E	SUV	33,000
12	MG	4	C	Hatchback	27,000
13	Geely	Polestar 4	D	SUV	26,000
14	BYD	Sealion 7	D	SUV	33,000
15	BYD	Dolphin Surf	B	Hatchback	27,000
16	Leapmotor	T03	A	Hatchback	26,000
17	BYD	Seal	D	Sedan	23,000
18	Volvo	V60	D	Wagon	22,000
19	Geely	Polestar 2	D	Hatchback	20,000
20	BYD	Atto 3	C	SUV	20,000

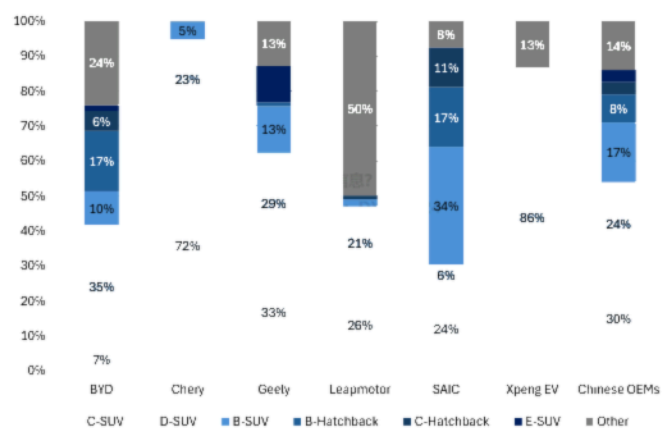
Source: S&P Global estimates, Morgan Stanley Research. Note: West and Central Europe only.

Exhibit 84: Chinese OEMs are significantly exposed to the C-SUV, D-SUV and B-SUV sub-segments

Segment/Type	2025	% of total sales
C-SUV	372,096	32%
D-SUV	276,874	24%
B-SUV	200,479	17%
B-Hatchback	100,443	9%
E-SUV	53,005	5%
C-Hatchback	26,915	2%
Other	122,892	11%

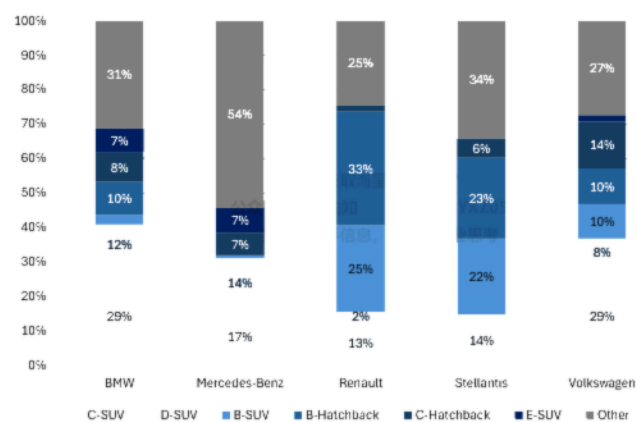
Source: S&P Global, Morgan Stanley Research. Note: West and Central Europe only.

Exhibit 85: Chinese OEM sub-segment exposure in Europe – sustained focus on D-SUV and C-SUV



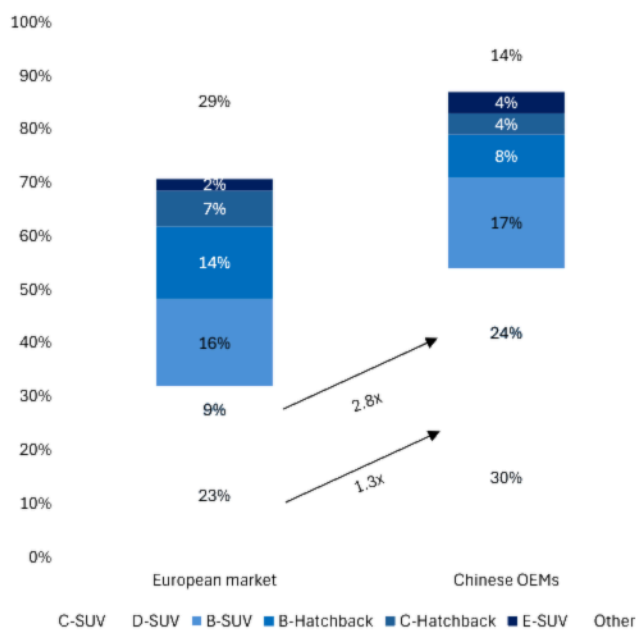
Source: S&P Global, Morgan Stanley Research. Note: West and Central Europe only

Exhibit 86: D-SUV and C-SUV segments: Renault and Stellantis less exposed than Volkswagen



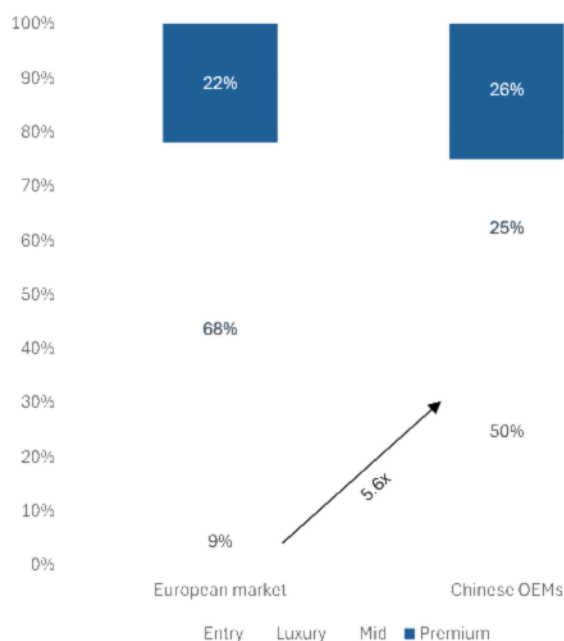
Source: S&P Global, Morgan Stanley Research. Note: West and Central Europe only

Exhibit 87: SUVs make up more than 70% of Chinese OEMs' EU unit sales



Source: S&P Global, Morgan Stanley Research. Note: West and Central Europe only

Exhibit 88: The entry level segment represents half of Chinese OEM volumes



Source: S&P Global, Morgan Stanley Research. Note: West and Central Europe only

Exhibit 89: BMW, Mercedes and Volkswagen have more exposure to C-SUV and D-SUV than the wider market

	C-SUV	D-SUV	B-SUV	B-Hatchback	C-Hatchback	E-SUV	Other
European market	23%	9%	16%	14%	7%	2%	29%
Chinese OEMs	30%	24%	17%	8%	4%	4%	14%
BMW	29%	12%	3%	10%	8%	7%	31%
Mercedes-Benz	17%	14%	1%	0%	7%	7%	54%
Renault	13%	2%	25%	33%	2%	0%	25%
Stellantis	14%	1%	22%	23%	6%	0%	34%
Volkswagen	29%	8%	10%	10%	14%	2%	27%

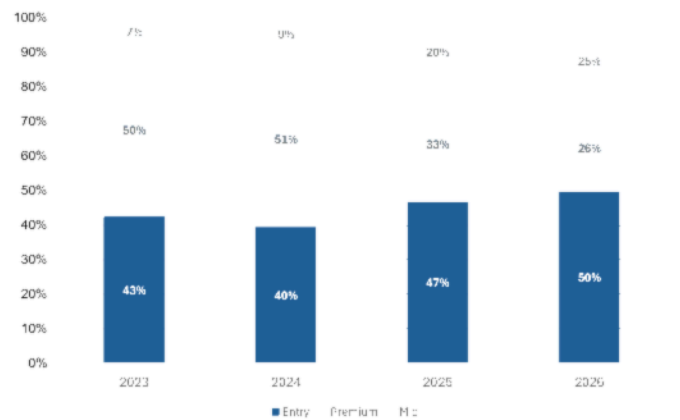
Source: S&P Global, Morgan Stanley Research. Note: West and Central Europe only

Exhibit 90: Chinese OEMs have much more entry level exposure than their European peers

	Entry	Mid	Premium	Luxury
European market	9%	68%	22%	1%
Chinese OEMs	50%	25%	26%	0%
BMW	0%	0%	100%	0%
Mercedes-Benz	0%	0%	100%	0%
Renault	37%	63%	0%	0%
Stellantis	0%	96%	4%	0%
Volkswagen	0%	81%	16%	2%

Source: S&P Global, Morgan Stanley Research. Note: West and Central Europe only

Exhibit 91: Over the past few years, Chinese OEMs have grown exposure to the entry segment



Source: S&P Global, Morgan Stanley Research. Note: West and Central Europe only

Dealership targets imply significant growth ambitions

Chinese OEMs are rapidly moving past physical distribution being a barrier to scale. In the UK, MG, BYD and Chery’s Omoda and Jaecoo brands already have dealer footprints that look comparable with several legacy OEMs. Progress is rapidly being made – at the brand level, MG sold more UK cars than Renault in 2025, and in April 2026, Chinese OEMs took almost 20% of the UK market. Examining BYD’s dealership targets further highlights the group’s ambitions. Should it be able to achieve similar productivity to established OEMs, then this could imply >10% market share targets. With physical space no longer an issue, the question now shifts to aftersales depth, residual values, insurance costs, finance offers, fleet acceptance and service quality.

Chinese OEMs are growing dealerships across the continent. Stellantis and Leapmotor International began [European operations](#) in September 2024 through 250 points of sale

Exhibit 92: Chinese OEM global expansion roadmap

Stock	Company	Key Metric	Current Value	Target Value	Notes
BYD	BYD Auto	EV sales target for 2025	1.5 million units	2.0 million units	BYD is targeting 20% EV sales by 2025, up from 10% in 2023. BYD is also targeting 1.5 million units of EV sales by 2025, up from 1.0 million units in 2023.
Chery	Chery Automobile	EV sales target for 2025	1.0 million units	1.5 million units	Chery is targeting 20% EV sales by 2025, up from 10% in 2023. Chery is also targeting 1.0 million units of EV sales by 2025, up from 0.5 million units in 2023.
Geely	Geely Auto	EV sales target for 2025	1.0 million units	1.5 million units	Geely is targeting 20% EV sales by 2025, up from 10% in 2023. Geely is also targeting 1.0 million units of EV sales by 2025, up from 0.5 million units in 2023.
SAIC Motor	SAIC Motor	EV sales target for 2025	1.0 million units	1.5 million units	SAIC is targeting 20% EV sales by 2025, up from 10% in 2023. SAIC is also targeting 1.0 million units of EV sales by 2025, up from 0.5 million units in 2023.
Xiang	Xiang Auto	EV sales target for 2025	1.0 million units	1.5 million units	Xiang is targeting 20% EV sales by 2025, up from 10% in 2023. Xiang is also targeting 1.0 million units of EV sales by 2025, up from 0.5 million units in 2023.
Leapmotor	Leapmotor	EV sales target for 2025	1.0 million units	1.5 million units	Leapmotor is targeting 20% EV sales by 2025, up from 10% in 2023. Leapmotor is also targeting 1.0 million units of EV sales by 2025, up from 0.5 million units in 2023.

BYD's dealership targets indicate plans for large market share gains. BYD is targeting a step-change in European reach, with reported plans for c.2,000 [European sales points](#) by end-2026. If BYD reaches 1,000 to 2,000 European outlets, the implied volume ambition is significant. Using UK sales-per-dealer benchmarks, a conservative 250 units per outlet would imply 250k units at 1,000 outlets and 500k units at 2,000 outlets, equal to roughly 2% and 4% of the 2025 European passenger-car market. If BYD (Europe) were eventually to reach current UK BYD productivity of around 467 units per full dealership, the implied volume would be 467k to 934k units, or roughly 4% to 7% European share. If BYD converged toward mass-market legacy benchmarks such as Peugeot or Renault, the implied volume at 2,000 outlets would be around 1.0m to 1.1m units, equivalent to ~8% of the European market. Of course Europe is more fragmented than the UK, and BYD still needs stronger brand awareness, residual values, fleet penetration, aftersales confidence and localised production. But the dealership plan gives BYD the physical capacity to become a material European volume player.

Exhibit 94: BYD's dealership rollout targets imply significant potential market share growth

Brand	UK registrations (2025)	Dealer network	Sales per outlet
VW	179k	160+ full dealerships	~1,116
BMW	123k	110+ full dealerships	~1,116
Mercedes	89k	100+ full dealerships	~893
Renault	65k	120+ full dealerships	~546
Peugeot	83k	160+ full dealerships	~519
MG	85k	150+ full dealerships	~568
Chery, Omoda, Jaecoo	54k	91+ combined dealerships	~589
BYD	51k	110+ full dealerships	~467
Leapmotor	4k	46+ full dealerships	~93

Productivity benchmark	Sales per outlet	BYD @ 1,000 European outlets	BYD @ 2,000 European outlets	Implied European market share range
BYD UK	467	467k	0.9m	3-7%
Peugeot UK	519	519k	1.0m	4-8%
Renault UK	550	550k	1.1m	4-8%
Mercedes UK	893	0.9m	1.8m	7-14%
Volkswagen UK	1,116	1.1m	2.2m	8-17%
BMW UK	1,116	1.1m	2.2m	8-17%

Source: Autosites.co.uk, SMV*, Morgan Stanley Research

Source: Altosites.co.uk, SVM*, Morgan Stanley Research

Six key players dominate Chinese OEM sales

Chinese players are approaching Europe with a wide range of strategies. The most prominent Chinese names (all except Chery covered by Tim Hsiao and Joey Xu) in the European car market are pursuing distinct but increasingly serious strategies. BYD stands out as the most complete strategic threat, combining broad

European ambition, rapid dealer expansion, leasing partnerships, BEV and PHEV breadth, and localisation efforts. MG, owned by SAIC, is arguably the most normalised Chinese-owned brand in Europe, supported by a familiar badge, dealer coverage, and EV and hybrid range. Chery, through Omoda and Jaecoo, is pushing rapidly with an SUV-led, multi-brand strategy that has rapidly gained popularity in the UK. Leapmotor is distinctive because Stellantis gives it immediate distribution and aftersales credibility, although it may also compete with Stellantis's own affordable brands. XPeng is more of a tech-led EV challenger, relevant in premium and high-spec corporate EV segments where software, charging and cockpit technology matter. Zeekr benefits from Geely's broader ecosystem and premium associations.

There are two distinct categories of Chinese challengers. The first is the mass-market threat, led by BYD, SAIC (MG), Leapmotor and Chery (Omoda, Jaecoo). These brands are building the infrastructure needed to compete directly with Volkswagen, Stellantis and Renault in volume segments: dealer networks, fleet teams, leasing partnerships, hybrid/PHEV products and value-led SUVs. The second is the technology and premium-channel threat, led by Geely (Zeekr) and XPeng, with relevance to BMW, Mercedes, and Audi.

Fleet and financing is the next major hurdle for most players. Access to fleet customers and financing is a key determinant in whether Chinese OEMs remain retail-led challengers or become mainstream European competitors. A brand can gain early share through private buyers attracted to price and equipment, but scalable European penetration typically requires competitive monthly payments, leasing-company support, credible residual values, service coverage and corporate procurement acceptance. BYD is furthest ahead on this measure, MG is already established, Chery (Omoda, Jaecoo) is growing fast, Leapmotor has potential support from Stellantis, whilst Geely and XPeng remain more selective.

Exhibit 95: Chinese challenger overview

Chinese OEM	Dealer scale	Fleet/leasing access	Localisation plan	Strategy	Geographic focus	Segment focus	European OEMs at Risk
BYD	●	●	●	China-native BEV leader Secure financing Leasing partnerships Local production	20% UK, 10% Germany	SUVs and PHEVs; compact to large SUVs, sedans, affordable EVs	Volkswagen, Renault, Stellantis, BMW, Mercedes
SAIC (MG)	●	●	●	Buschler's top brand; Chinese ownership Mature dealership network Strong warranty offering	27% UK, 10% France, 10% Spain	Affordable EVs, hybrids, family SUVs	Volkswagen, Renault, Stellantis
Chery, Omoda, Jaecoo	●	●	●	Multi-brand; SUV-led offering Value focus Powertrain flexibility Localised production	30% UK, 15% Spain	ICE, hybrid, PHEV, EV, BEV, SUVs	Volkswagen, Renault, Stellantis
Leapmotor	●	●	●	Unsubsidised via Stellantis Strong affordable EV focus Growing China popularity	27% Italy, 20% Germany	Smart affordable EV, SUV, SEV	Volkswagen, Renault, Stellantis
XPeng	●	●	●	Technology-led approach Premium EV offering	17% Germany, 16% France	Premium EV SUVs/sedans	Volkswagen (Audi), BMW, Mercedes, Porsche
Geely (Zeekr)	●	●	●	Accessible premium offering	20% UK, 17% Germany	Premium EVs	Volkswagen (Audi), BMW, Mercedes, Porsche

Source: Company data, Morgan Stanley Research

BYD is the most broadly positioned European challenger. We think BYD scores well across dealer expansion, fleet/leasing access, product breadth, PHEV/BEV capability and localisation. Its partnerships with leasing providers such as [Ayvens](#) and [Arval](#) give BYD access to fleet customers, SMEs and private leasing customers. This supports BYD to compete on product and financing. Its localisation plans also reduces the risk that EU tariffs cap growth. We see BYD as the highest-quality commercial execution threat to VW, Stellantis, and Renault, with further potential for pressure on BMW and Mercedes in entry-premium EVs.

SAIC (MG) is the most mature Chinese-owned challenger. MG already has [meaningful](#) European volume, a familiar [Western heritage](#) badge, established dealer coverage, a [long warranty](#) proposition, and a practical EV/hybrid range. Its fleet and finance proposition is also more developed than most newer Chinese entrants, especially in the UK, where it has [fleet finance offers](#) and a business sales operation. We think the MG case is interesting as it shows that Chinese-owned Western brands can quickly grow in popularity once trust, service and distribution is taken care of. MG's growth plans are most relevant to Stellantis, Renault and VW, targeting affordable family cars, compact EVs and SUVs.

Chery (Omoda and Jaecoo) is the fast-rising, SUV-led challenger. Chery is focused on rapid dealer recruitment, a multi-brand strategy and strong product-market fit in mainstream SUVs. Unlike some of its Chinese peers, it is not dependent on a pure BEV adoption story. Chery's petrol, hybrid and PHEV flexibility gives it a better fit with current European demand, where many buyers remain hesitant about full EVs. Chery has dedicated UK [fleet operations](#), targeting Motability, rental, contract hire and leasing channels. Like many of its peers, the company's European residual value history is still limited, however. As that improves over time, Chery, Omoda, and Jaecoo could become a material threat to Stellantis, Renault, VW, Ford and Nissan in B/C-SUV and family SUV segments.

Leapmotor represents the legacy OEM partnership play. Through Leapmotor International, the company gains access to [Stellantis' sales and aftersales](#) network. That gives it one of the fastest possible routes into European retail coverage and service credibility. Whilst it lacks a European residual value record and standalone leasing history, Stellantis' infrastructure could help close that gap. Strategically, Leapmotor is both a defence and a risk for Stellantis: it can help defend affordable EV price points, but it may also cannibalise Peugeot, Citroën, Opel/Vauxhall, Fiat and for Renault, potentially Dacia-adjacent demand.

Geely is a multi-layered, multi-brand challenger. Through Zeekr, it targets accessible premium EVs and company-car channels; through Geely Auto, it is pushing more directly into mainstream electrified crossovers; and through the broader group, it benefits from credibility via Volvo, Polestar, Lotus, Smart and LEVC. The fleet/financing column is especially relevant for Geely because Zeekr's partnership with [Arval](#) gives it a credible route into premium leasing, finance and insurance. That makes Geely more relevant to BMW, Mercedes and Audi, than to low-end mass-market brands, although Geely Auto's UK ambitions could broaden the threat over time.

XPeng is a technology-led challenger. The company is less well established than BYD or MG, but it has strategic relevance because its proposition is built around software, ADAS, fast charging and high-spec EVs. Its dealer and importer partnerships improve its route to market, and its products are likely to be most relevant to BMW, Mercedes, Audi and VW's higher-end EV portfolio. Xpeng has a credible corporate-use proposition, but does not yet have the same visible pan-European leasing partnerships or fleet scale as BYD, MG or Zeekr.

Product mapping highlights Chinese competitiveness

Chinese OEMs are coming to the European market with competitive offerings

at cohort-low price points. We conducted a product benchmarking analysis comparing the five bestselling Chinese models against comparable European incumbents. Benchmark vehicles were selected from the bestselling models in Europe and reflect on comparable powertrains, body styles, and price points, providing a representative view of the competitive landscape. Our analysis indicates that Chinese OEMs are bringing highly competitive products to market, offering a meaningful effective price advantage relative to comparable European models while generally delivering stronger value propositions in terms of technology, features, and design. The product mapping further confirms that Chinese OEMs are targeting the core B-, C-, and D- segment markets with particular intensity. Across these segments, Chinese entrants are typically positioned toward the lower end of the price range while offering, on average, a more attractive overall value proposition when considering features, design, powertrain technology, and vehicle performance. Across B-D segments, especially the more premium the segment, the average price gap between best-selling Chinese models and comparable popular/best-selling European models is sizeable - even when comparing PHEV/BEV to basic ICE models. Where there is no price difference, we see a meaningful gap in features, powertrain, performance and technology that makes the Chinese models' value proposition comparatively more compelling.

Chinese OEMs are more competitive on price, even when models have better features.

Our analysis of the five best-selling Chinese models in Europe reveals an increasingly more competitive landscape for European OEMs. The highest trim Chinese models are typically lower priced than comparable European models without compromising quality – especially in the B and C segments. Examining design, powertrain, body type, and performance, Chinese models are positioned well to compete against European models, even without taking into account the average effective price gap. Chinese OEMs are gaining share with affordable offerings that have a feature and technology advantage at the B/C segments and substantially more competitive prices at the D+ segments, with even more runway once production is localised.

Exhibit 96: Effective price gap vs. equivalent incumbents

Model	Segment	UK Starting Price	Powertrain	Comparable European OEM Models	Powertrain	Comparable Model Price	Effective Price Gap	Feature Gap
WEA 4yr-old+ SE	B Segment Hatchback	£18,595	BEV/Plug-in	Jeep Compass	ICE	£17,760	£1,700	High
				Volkswagen Polo	ICE	£22,000	£3,500	High
				Jeep Cherokee	ICE/Plug-in	£21,490	£2,900	Medium
				Nissan Kicks Tech 2.0i	PHEV	£21,090	£2,500	Low
				Cupra Formentor	ICE	£19,870	£1,300	High
MG 5 PHEV+	B Segment SUV	£22,240	PHEV	Skoda Kodiaq	ICE	£25,000	£2,800	High
				Peugeot 208 Allure	PHEV	£22,340	£100	High
				Nissan X-Trail	PHEV	£22,070	£2,000	Medium
				Volkswagen Tiguan	ICE	£23,600	£1,400	High
				Skoda Enyaq iE	BEV	£25,700	£3,500	High
MG 5 PHEV+ SE	C Segment SUV	£25,400	PHEV	Volkswagen Tiguan	PHEV	£25,400	£0	Low
				Volkswagen Tiguan	PHEV	£25,400	£0	Low
				Volkswagen Tiguan	PHEV	£25,400	£0	Low
				Volkswagen Tiguan	PHEV	£25,400	£0	Low
				Volkswagen Tiguan	PHEV	£25,400	£0	Low
Audi A5 Sportback	C Segment SUV	£22,800	PHEV	BMW X1	ICE	£25,000	£2,200	High
				BMW X1	ICE	£25,000	£2,200	High
				BMW X1	ICE	£25,000	£2,200	High
				BMW X1	ICE	£25,000	£2,200	High
				BMW X1	ICE	£25,000	£2,200	High
BYD Seal (China) SE	D Segment SUV	£36,595	PHEV	Skoda Kodiaq	ICE	£25,000	£11,595	High
				Skoda Kodiaq	ICE	£25,000	£11,595	High
				Skoda Kodiaq	ICE	£25,000	£11,595	High
				Skoda Kodiaq	ICE	£25,000	£11,595	High
				Skoda Kodiaq	ICE	£25,000	£11,595	High

Source: OLM official website data. Note: UK starting price represents on-the-road (OTR) price; Green color code represents manufacturer recommended retail price (MRP).

High PHEV/BEV penetration is allowing Chinese OEMs to come to market at low price points with better value propositions. European OEMs' PHEV/BEV versions of models that have historically had an ICE powertrain (e.g. Peugeot 208) are typically more expensive than the most basic ICE model (e.g. Peugeot E-208 Allure is c. 12% more expensive than the most basic ICE 208 Allure). This observed premium among European models adds to the value proposition presented by Chinese models, as consumers can get

the BEV/PHEV powertrain linked benefits for the same price as comparable basic ICE versions of European incumbents.

Exhibit 97: MG ZS Hybrid: The #1 best-selling Chinese model in Europe with 124k units forecasted in 2026; starting at £22k in the UK

Model	Powertrain	UK Price	Max Power	0-62 mph	WLTP	Range	Key Features / Positioning
MG ZS Hybrid	PHEV	£22,245	196 hp	8.7 sec	55 mpg WLTP	~500-550 miles	High power output for segment; large infotainment screen; strong value proposition; SUV practicality
Citroën C3 Collection	ICE	£19,919	700 hp	10.9 sec	5.2 mpg WLTP	N/A	Budget-oriented urban crossover; suitable for second car; spacious interior; good city performance
Skoda Fabia SE	ICE	£21,819	~106-120 hp	9.7 sec	~51-54.5 mpg WLTP	N/A	Refined city leader in B-segment; hatchback; comprehensive positioning along value chain
Peugeot 208 Allure Hybrid	PHEV	£22,345	~136 hp	9.8 sec	63 mpg WLTP	~520-560 miles	Premium urban design + Eco-hp; strong pricing proposition among European models
Renault Captur E-Tech Hybrid	PHEV	£25,255	~145 hp	10.2 sec	60 mpg WLTP	~550-620 miles	Practical hybrid option; strong design; good driving; efficient turbo; SUV with established brand equity

Source: S&P Light Vehicle sales data; MG, Citroën, Skoda, Peugeot, Renault. Note: Comparable models selected from top 10 best-selling B-segment SUV models in Europe; selection across powertrains to provide representative view of current competitive landscape

Exhibit 98: BYD Seal U Comfort: The #2 best-selling Chinese model in Europe with 68k units in 2026; starting at £37k in the UK

Model	Trim	Powertrain	UK Price	Max Power	0-62 mph	WLTP	Range	Key Features / Positioning
BYD Seal U DM-i Comfort		PHEV	£36,995	218 hp	8.9 sec	53 mpg WLTP	~470-700 miles total	Long-range PHEV value leader; premium interior and infotainment; aggressive pricing
Skoda Kodiaq SE L		PHEV	£42,140	234 hp	8.4 sec	N/A	N/A	Practically benchmark; very large body; family SUV; strong offering among European brand rivals
Volkswagen ID.7 Pro Match		BEV	£51,445	~286 hp	6.7 sec	~190 mpg WLTP	~400 miles	Long-range electric vehicle; SE Sedan; high performance; great refinement; entry luxury positioning
BMW iX3 40		BEV	£53,250	310 hp	5.9 sec	~143 mpg WLTP	~380 miles	Major premium EV SUV; BMW customers positioned above BYD on brand and refinement
BMW iX3 50e		ICE	£53,630	258 hp	7.8 sec	~40 mpg WLTP	N/A	Premium premium ICE SUV; strong performance; great refinement; entry luxury positioning
Mercedes-Benz GLE 350 4MATIC		ICE	£54,930	320 hp	8.0 sec	53 mpg WLTP	N/A	Luxury for speed and size; strong ride comfort; premium interior and technology

Source: S&P Light Vehicle sales data; BYD, Skoda, Volkswagen, BMW, Mercedes-Benz. Note: Comparable models selected from top 20 best-selling D-segment SUV models in Europe; selection across powertrains to provide representative view of current competitive landscape

Exhibit 99: MG HS Hybrid+: The #3 best-selling Chinese model in Europe with 67k units in 2026; starting at £29.5k in the UK

Model	Powertrain	UK Price	Max Power	0-62 mph	WLTP	Range	Key Features / Positioning
MG HS Hybrid	PHEV	£26,465	224 hp	7.9 sec	53 mpg WLTP	~420-700 miles total	Aggressive value proposition; high system output; strong driving range; family SUV practicality
Volkswagen T-Roc Life	ICE	£21,610	154 hp	10.9 sec	5.3 mpg WLTP	N/A	Compact SUV benchmark; strong value proposition; urban mobility; refined performance
Skoda Elaq SE L 60	BEV	£33,970	~182 hp	~8.0 sec	135 mpg WLTP	282 miles	Value-oriented EV SUV; VW Group MEB platform; practicality; decent positioning
Volkswagen Tiguan Hybrid Life	PHEV	£42,815	~148 hp	~7.2 sec	~110 mpg WLTP	N/A	Mass premium European benchmark; PHEV SUV; strong driving range; strong "hybrid system"
Volkswagen Tiguan Hybrid Life Match	PHEV	£44,920	~148 hp	8.5 sec	~110 mpg WLTP	N/A	Large family PHEV SUV; high practicality; value-focused; strong brand

Source: S&P Light Vehicle sales data; MG, Volkswagen, Skoda. Note: Comparable models selected from top 20 best-selling C-segment SUV models in Europe; selection across powertrains to provide representative view of current competitive landscape

Exhibit 100: MG3 Hybrid+: The #4 best-selling Chinese model in Europe with 63k units forecasted in 2026; starting at £19.9k in the UK

Model	Powertrain	UK Price	Max Power	0-62 mph	WLTP	Range	Key Features / Positioning
MG3 Hybrid SE	PHEV	£18,965	194 hp	8.8 sec	64 mpg WLTP	~500 miles	Aggressive value proposition; aggressive pricing; hybrid system; strong standard equipment
Dacia Sandero Essential	ICE	£14,705	102 hp	9.7 sec	53 mpg WLTP	N/A	Low-cost, high-value hatchback in Europe; value-focused positioning; a model ICE platform
Volkswagen Polo Life	ICE	£22,365	101 hp	10.8 sec	54 mpg WLTP	N/A	Best-in-class European segment; strong refinement; fuel-efficient; value-conscious positioning
Dacia Duster Expression	ICE/PHEV	£22,405	130 hp	9.9 sec	51 mpg WLTP	N/A	SUV with ready-to-go as compact; value-focused positioning; strong value-for-money proposition
Renault Clio E-Tech 145 Alpine	PHEV	£24,395	145 hp	9.3 sec	64 mpg WLTP	~500 miles	Hybrid system; premium refinement; strong efficiency and brand appeal

Source: S&P Light Vehicle sales data; MG, Volkswagen, Dacia, Renault. Note: Comparable models selected from top 20 best-selling B-segment hatchback models in Europe; selection across powertrains to provide representative view of current competitive landscape

Exhibit 101: Jaecoo 7 Deluxe: The #5 best-selling Chinese model in Europe with 60k units forecasted in 2026, starting at £32.8k in the UK

Model	Powertrain	UK Price	Max Power	0-62 mph	WLTP	Range	Key Features / Positioning
Jaecoo 7 5th Deluxe	PHEV	£32,810	204 hp	8.5 sec	53 mpg WLTP	N/A	Premium-value SUV positioning; Range Boost in sport driving; wide screens and high-end equipment levels
Volkswagen ID.4 Pure	BEV	£36,955	~188 hp	8.5 sec	~110 mpg WLTP	~270-310 miles	Mass premium EV SUV; benchmark; strong refinement and practicality
BMW X1 sDrive20i	ICE	£37,540	170 hp	8.3 sec	~48 mpg WLTP	N/A	Premium compact SUV benchmark; strong refinement and brand strength
BMW iX3 Sport	BEV	£43,555	264 hp	8.5 sec	~110 mpg WLTP	~297-318 miles	Premium compact premium EV SUV; premium EV SUV; premium refinement and software ecosystem
Range Rover Evoque 3	PHEV	£49,135	260 hp	8.4 sec	~55 mpg WLTP	~500-620 miles total	Mass premium SUV; benchmark; strong refinement and brand strength

Source: S&P Light Vehicle sales data; Jaecoo, Volkswagen, BMW, Land Rover. Note: Comparable models selected from top 20 best-selling D-segment SUV models in Europe; selection across powertrains to provide representative view of current competitive landscape

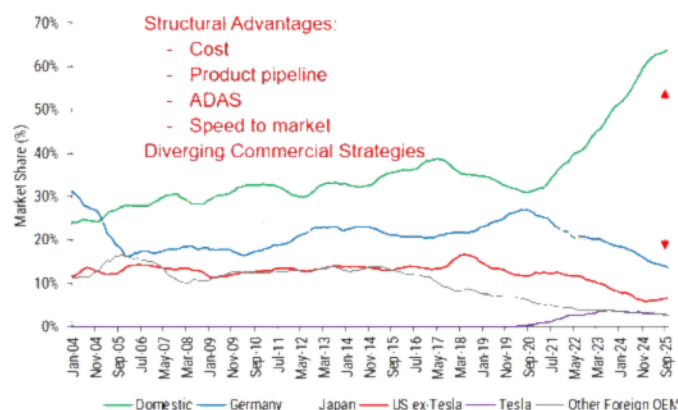
Global profit pools attract Chinese OEMs

Building a position in the European market

Chinese OEMs have transformed from domestically focused manufacturers into globally competitive automotive players. Supported by Chinese industrial policy, NEV incentives, supplier relationships, integrated supply chains, and intense domestic competition, Chinese OEMs have captured c.70% of China's passenger vehicle market. The focus now shifts towards Europe and other export markets where they are reaching critical mass, creating an additional challenge for legacy OEMs that are already managing electrification, weaker Chinese profitability, geopolitical uncertainty, and slowing end-market demand.

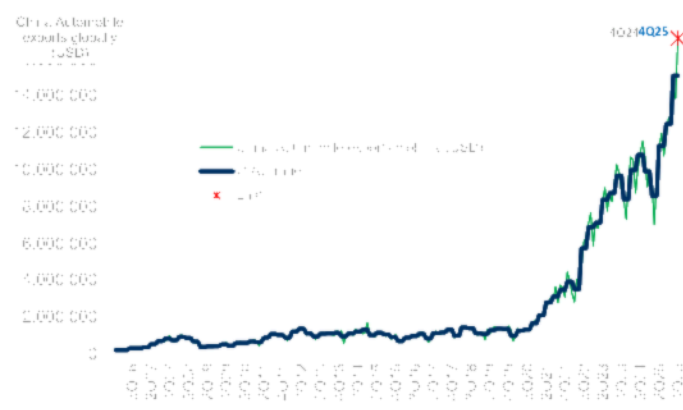
We see further downside for European OEMs. We believe consensus underestimates the scale of potential share losses facing European manufacturers, as Chinese brands are unlikely to achieve sustained growth without displacing incumbent volumes, particularly in a subdued demand environment. The pressure is intensified by a weakening Chinese domestic market, where falling sales, reduced subsidies, and continued pricing competition are making overseas expansion increasingly necessary. Exports are increasingly becoming the primary growth engine for Chinese OEMs, with Europe a key target market. At the same time, Chinese manufacturers are evolving beyond an export model by localising production in Europe and other regions through investments such as BYD's plants in Hungary and Turkey, Chery's Spanish manufacturing partnership, and Leapmotor's cooperation with Stellantis. This localisation strategy reduces tariff exposure, improves economics, and positions Chinese OEMs to compete more directly and sustainably with incumbent European manufacturers over the coming decade.

Exhibit 102: Chinese OEMs keep gaining share in China (12M rolling monthly market share)



Source: CPCA, Morgan Stanley Research

Exhibit 103: Chinese OEMs are also gaining share globally: China automobile export (USD)



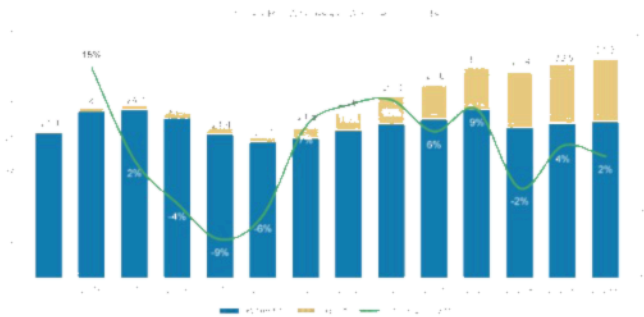
Source: CPCA, Morgan Stanley Research

China weakness further weighs on the outlook for European OEMs

A weaker Chinese auto market only increases pressure on legacy OEMs. The [outlook](#) from our China auto team reinforces the view that overseas expansion is becoming less optional and increasingly necessary for Chinese OEMs. The team forecasts that China passenger vehicle wholesales will decline 2% YoY in 2026 to 29.4mn units, with domestic sales expected to fall 11% YoY to 21.4mn units, ending the market’s three-year growth streak. The weakness is expected to be driven by a combination of cyclical and policy-related headwinds, including the removal of key stimulus measures, a 5% NEV purchase tax increase (from 0%), reduced trade-in subsidies, softer consumer confidence, and continued macroeconomic pressure. Around 40% of passenger vehicle sales in 2025 were supported by national or local subsidy schemes, underscoring how dependent recent demand has been on policy support. At the same time, domestic competition remains extremely intense, with continued pricing pressure, shorter product cycles, and slowing NEV growth versus prior years.

Overseas sales are now the growth engine. Against this backdrop, Chinese OEMs are increasingly relying on export markets as a critical growth engine. Our China Auto team expects Chinese vehicle exports to grow 33% YoY in 2026, with particularly strong growth expected in Europe, Latin America, and ASEAN. The China team expects Chinese EV brands to account for ~30% of NEV sales outside China by 2030, implying that the competitive dynamics already seen within China are increasingly likely to extend globally. In our view, this reinforces the risk that weaker domestic conditions in China increase pressure on Chinese OEMs to aggressively pursue international market share, including in Europe and LatAm.

Exhibit 104: China Auto Market Forecast

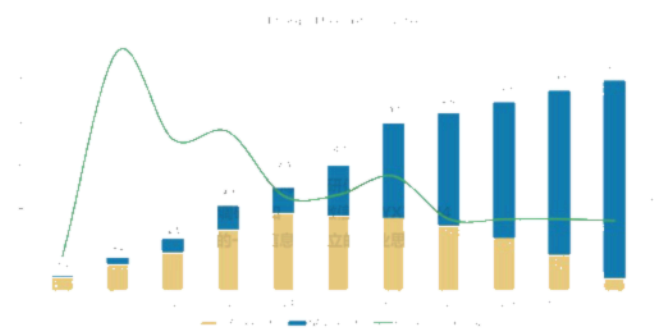


Source: CAAI, Morgan Stanley Research estimates (L)

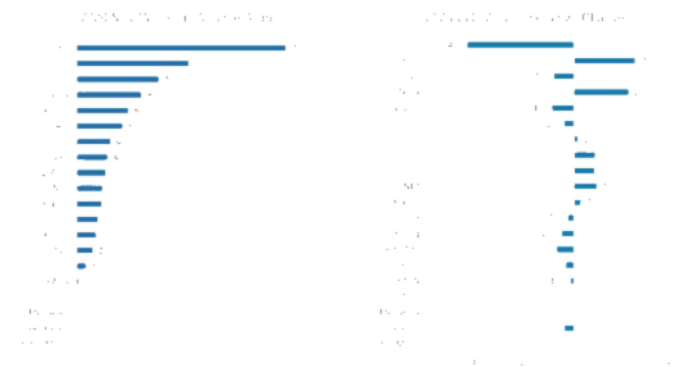
Exhibit 105: Stimulus Policies: Nationwide NEV Purchase Tax Exemption

Period	Vehicle Purchase Tax	Purchase Tax Exemption Cap
Before Sep 2014	10%	No exemption
Sep 2014 - Dec 2023	10% -> 0%	Full exemption
Jan 2024 - Dec 2025	0%	Rmb30k exemption cap
Jan 2026 - Dec 2027	0% -> 5%	Rmb15k exemption cap
Jan 2028 +	5% -> 10%	No exemption

Source: Ministry of Commerce, Morgan Stanley Research

Exhibit 106: Our China Auto team sees 8m units exported in 2026

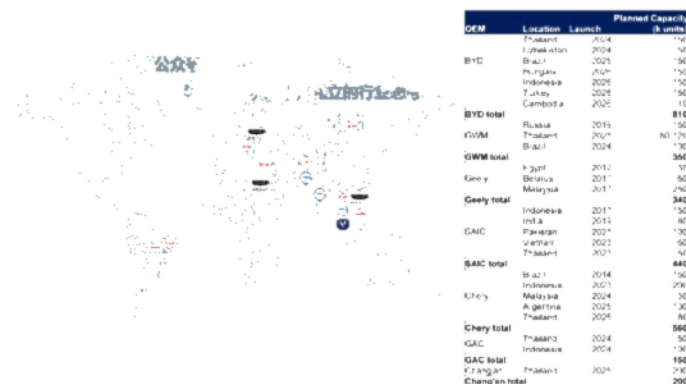
Source: CAAM, Morgan Stanley Research estimates

Exhibit 107: Competition in China remains fierce amongst local players, particularly in EVs

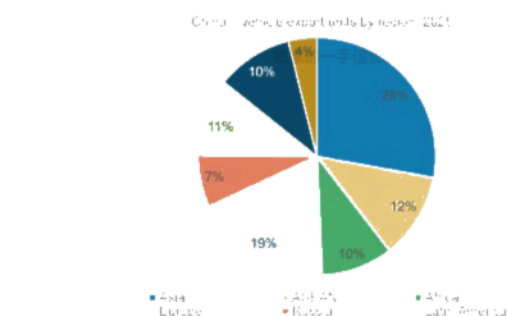
Source: CPCA, Morgan Stanley Research

Globalisation continues despite tariffs

Switching from exports to localised production. Chinese OEMs are increasingly shifting from an export-led strategy to a localized manufacturing model, accelerating their ability to compete directly with incumbent European manufacturers. **BYD** is building European production hubs in Hungary and Turkey, with planned capacity of c.450,000 vehicles annually over time, producing compact hatchbacks and C-segment BEV SUVs such as the Dolphin and Atto 3. **Chery** has partnered with Ebro-EV Motors to restart production at the former Nissan plant in Barcelona, where the companies ultimately aim to produce up to 150,000 vehicles annually, focused primarily on SUV-oriented products under both the Ebro and Chery & Omoda brands. Meanwhile, Stellantis and **Leapmotor** are expanding their European partnership, with localized production of Leapmotor small EVs and future C-SUV BEV models in Spain and previously Poland, leveraging Chinese EV platforms and supply chains to reduce development costs and improve affordability. Localisation efforts are not just focused on Europe, with LatAm and Asia Pac also considered key markets. Critically, production is centred in regions with competitive costs (salaries, taxes, energy, subsidies) and access to large markets (Europe, Mercosur, South East Asia). Despite the higher cost base, these regions still present higher profitability for Chinese OEMs than their home markets, creating continued incentive to drive share gains.

Exhibit 108: Global expansion plans are underway

Source: Company data, Morgan Stanley Research

Exhibit 109: Asia and Europe accounted for >65% of China's vehicle exports in 2025

Source: CAAM, China Customs, Morgan Stanley Research estimates

Protective market dynamics

European OEMs benefit from inherent defensive features. Whilst we think price is ultimately king for many consumers, the very nature of the European automotive market creates some degree of protection for incumbents: 1) European BEV demand has been driven largely by regulation, subsidies, and emissions targets rather than fully organic consumer adoption. European OEMs have broad ICE and hybrid portfolios that could provide resilience if policy support weakens; 2) the European consumer is less tech-inclined than their Chinese counterparts, arguably diminishing one of Chinese OEMs' structural competitive advantages; 3) the EU appears to be open to further protectionist measures, including potential JV requirements for foreign entrants; 4) European consumers exhibit a degree of brand loyalty towards European brands; 5) financing arms, fleet relationships, and residual values are critical elements of the infrastructure of the market that legacy European OEMs know best.

European BEV demand is policy driven

European BEV demand has grown inorganically. European battery electric vehicle (BEV) demand has grown significantly in recent years, driven largely by increasingly stringent emissions regulations, fleet CO2 targets, and government support measures across key markets. Countries such as Germany have played an important role through subsidy schemes, tax incentives, and corporate EV benefits that lowered the effective purchase price for consumers and accelerated adoption. However, underlying consumer demand remains relatively challenged, as a result of range anxiety, weak residual values and poor charging infrastructure. We think much of the recent growth has been policy-driven rather than organic, with EV penetration often weakening when incentives are reduced or removed, as seen following Germany's abrupt cancellation of purchase subsidies in late 2023.

Powertrain flexibility supports legacy OEMs in case of policy changes. European OEMs have broader multi-energy portfolios and established ICE customer bases. Should European governments adjust subsidies, or make changes to the regulatory environment, then demand for ICE vehicles could remain at high levels, benefitting legacy European OEMs. Against this, Chinese OEMs are increasingly coming to market with hybrid models, a market that has grown substantially in recent years, with much less reliance on subsidies.

Policy support is emerging

Supportive measures are being introduced. In March 2025 the European Commission published its [EU Auto Action Plan](#), a set of policy changes addressing five key priorities: 1) incentivising the transition to connected and autonomous vehicles; 2) support in the shift to electrification; 3) ensuring competitiveness and supply chain resilience; 4) support for employees; 5) levelling the playing field and creating a competitive business environment on the continent.

Local content rules could provide further support. Local content requirements could become an increasingly important tool in the EU's efforts to support domestic automotive competitiveness. Policymakers have already signalled a shift in this direction, with European Commission Executive Vice President Stéphane Séjourné recently [stating](#) that "Made in Europe" is making its way into European legislation". [Reporting](#) by the FT suggests that the EU is considering local-content thresholds for strategic industries, with requirements potentially calibrated according to Europe's dependence on external suppliers, particularly China. While any such measures would formally apply to all manufacturers, they would likely have a disproportionate impact on Chinese OEMs, whose supply chains remain more heavily concentrated outside Europe. The impact on European OEMs may not be all positive, with some OEMs labelling these as [dangerous](#), according to the FT.

Could European consumers care less for Tech?

Chinese OEM strength may not completely translate into Europe. On price, we think European OEMs have no choice but to compete, with cost reduction efforts underway at all players. On technology, we think Chinese OEMs' strengths in China may not completely translate to strengths in the European market. Chinese consumers have become highly receptive to smart EV features, digital cockpit innovation, autonomous driving functions and rapid product iteration. [McKinsey's](#) 2025 China auto consumer survey argues that the Chinese market is increasingly shifting from pure price competition toward innovation, with consumers embracing new models and cutting-edge technologies. This has allowed Chinese OEMs to convert technology leadership into brand recognition and pricing power, particularly in EVs and PHEVs.

Some European consumers are less focused on in-car technology. S&P Global's [connected-car study](#) says consumer reactions to connected services remain complex, with concerns around value, data privacy, subscription fatigue and willingness to pay. [Strategy&s](#) Digital Auto report includes a survey of Germany, the US and China, which found that consumers prioritise basic connected services such as safety and navigation, while experts overestimate the importance of infotainment and lifestyle functions. More importantly, the same report indicated that willingness to pay for a full set of connected services was around €20/month in Germany and the US, versus roughly €40/month in China. It also found that German and US consumers were much more uneasy about Level 4 autonomous driving than Chinese consumers.

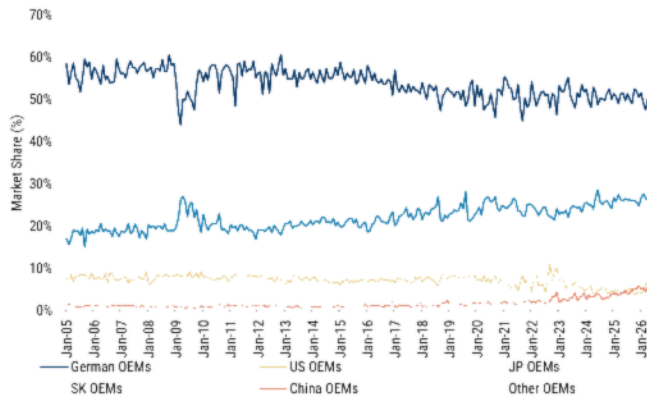
Brand loyalty still matters

Brand loyalty should support legacy players, but price is ultimately king. Legacy European OEMs enter this competitive transition with one important structural advantage: they remain the incumbent domestic players in many of their core markets. Brands such as Volkswagen, Porsche, Audi, BMW and Mercedes-Benz in Germany, Renault in Spain, Renault, Citroen and Peugeot in France, and Fiat in Italy benefit from established customer relationships, broad dealer and service networks, long-term financing relationships, and deep-rooted national brand recognition. This historical positioning has historically translated into higher brand loyalty, stronger margins and greater consumer trust relative to new entrants, particularly in the premium segment. These advantages should provide some degree of resilience as Chinese OEMs enter the European market.



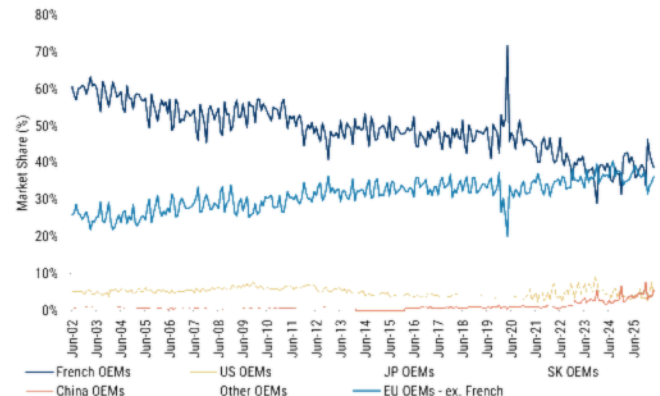
Europe, especially in markets where domestic brands remain closely associated with quality, engineering, and long-term ownership confidence. However, while local incumbency may slow the pace of disruption, we do not believe it fully insulates European OEMs from sustained pressure as Chinese manufacturers continue to compete aggressively on price, technology content, and product refresh speed.

Exhibit 110: German OEMs in Germany



Source: German Auto Association, Morgan Stanley Research. German OEMs include: VW brand, Audi, Porsche, BMW brand, Mercedes-Benz, Smart, and Opel.

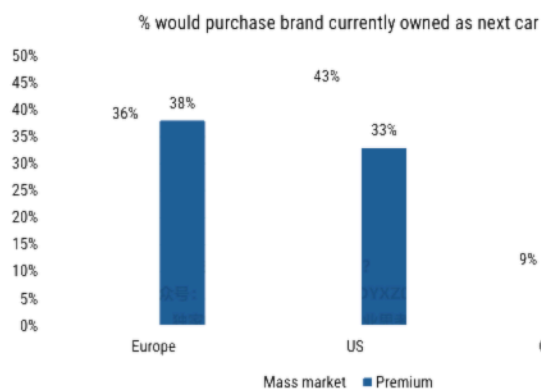
Exhibit 111: French OEMs in France



Source: French Auto Association, Morgan Stanley Research. French OEMs include: Renault, Alpine, Peugeot and Citroën.

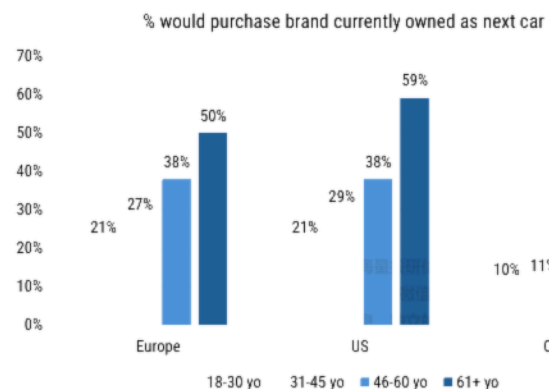
Chinese EVs are testing European brand loyalty. Examining market share trends in Germany and France highlights that brand loyalty towards incumbent OEMs appears to be meaningful. However, studies from BCG show that brand loyalty is weakening, especially among younger buyers and EV customers. Nearly two-thirds of European consumers are now open to switching brands, while 10–20% of European respondents said they would consider purchasing a Chinese vehicle, above Chinese OEMs' current market share.

Exhibit 112: Premium OEMs see slightly higher loyalty rates in Europe, whereas brand loyalty is rare in China



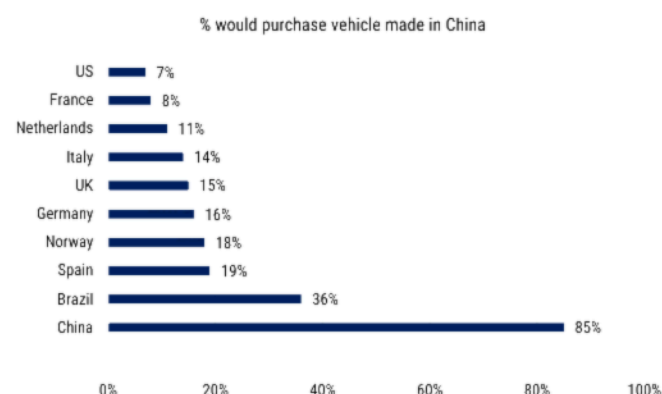
Source: NielsenIQ-GfK and Boston Consulting Group, Worldwide Automotive and Mobility Barometer 2025, S&P Global

Exhibit 113: Globally, brand loyalty is much higher amongst older customers than younger customers



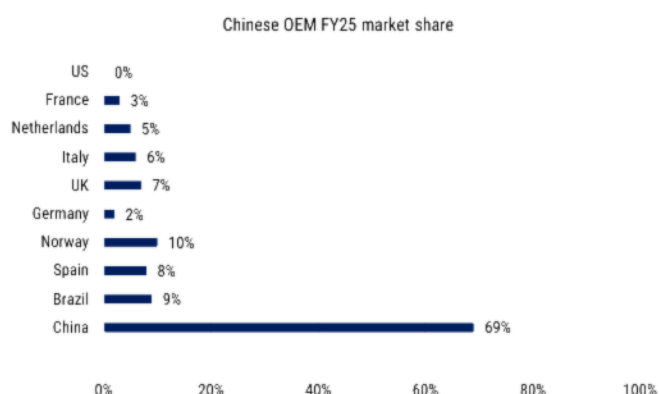
Source: NielsenIQ-GfK and Boston Consulting Group, Worldwide Automotive and Mobility Barometer 2025, S&P Global

Exhibit 114: Outside China, Brazil and Europe appear to be the next major markets for Chinese OEMs



Source: NielsenIQ-GfK and Boston Consulting Group, Worldwide Automotive and Mobility Barometer 2025, S&P Global

Exhibit 115: Chinese OEMs now dominate the Chinese market, whilst market share is low and growing in other markets



Source: NielsenIQ-GfK and Boston Consulting Group, Worldwide Automotive and Mobility Barometer 2025, S&P Global

Residual values, fincos, and fleets provide structural support

Residual values matter in Europe. Chinese OEMs are moving from a domestic market where residual-value discipline has not been in focus, to Western markets where it is fundamental to the purchase equation. In China, the prolonged price war has normalised aggressive price cuts as a tool to defend volume, even though this damages used car values and creates uncertainty for existing owners. In Europe that playbook is much harder to replicate. A sharp new car price cut reduces transaction prices but also immediately weakens residual value assumptions, raises lease costs, and impacts customers who expect to sell or trade in their vehicle at the end of ownership. In Europe, a high proportion (>80%) of new cars are financed, making residual values important.

Finco's reinforce the incumbent advantage. EU OEMs can defend volumes through subsidised financing, deposit contributions, guaranteed future values, maintenance bundles, insurance packages and fleet finance. This allows incumbents to defend the customer's monthly payment without necessarily cutting headline list prices. Of course, Chinese OEMs offer third party financing agreements, but without directly controlling these entities, they are not able to impact demand to the same degree.

Fleet sales are the third pillar of the defence. Europe is structurally fleet-heavy, and this strongly favours incumbents with proven service networks, parts availability, maintenance contracts, leasing relationships, pan-European account management and predictable used-car outcomes. **ICCT** reported that in October and November 2025, company fleets accounted for 37% of European new registrations, dealer/manufacturer registrations for 15%, and short-term rentals for 6%, together, corporate fleets represented 58% of the market, versus 42% for private cars. That fleet structure makes Chinese adoption more difficult than a simple retail price comparison implies. Fleet managers focus on predictable downtime, pan-European service support, driver acceptance, insurance availability, parts supply, residual values, tax efficiency and whole-life cost. Legacy European OEMs have long standing fleet relationships and established procurement credibility. Whilst this provides support for European OEMs today, we think it would be naive to expect Chinese OEMs not to make [progress](#) with fleets over time.

Improving competitiveness

European OEMs are doing everything in their power to improve competitiveness. Legacy players are engaging in a broad overhaul of fixed and variable cost structures, software capability, and overall product competitiveness. Across the industry, new architectures and platforms such as BMW's Neue Klasse, Mercedes' MMA and MB.OS, Volkswagen's SSP, Stellantis' STLA One family, and Renault's AmpR platforms are designed to simplify engineering, increase commonality, reduce battery and manufacturing costs, and improve ADAS functionality. A major focus is battery cost reduction through LFP adoption, localised sourcing, cell standardisation, and partnerships with CATL and LGES, while software-defined vehicle capabilities, 800V charging systems, advanced ADAS, AI-enabled cockpits, and OTA functionality are increasingly being integrated to close the technology gap with Chinese OEMs.

European OEMs are not standing still. Across the sector, the next product cycle is being repositioned around the areas where Chinese OEMs have been most disruptive: lower-cost BEV architectures, faster charging, longer range, higher standard technology content, improved digital user experience, and faster product refresh cycles. BMW's Neue Klasse, Mercedes' electric GLC and MMA architecture, Volkswagen's ID.2/ID.EVERY1 family, Renault's affordable EV roadmap, Stellantis' STLA One platforms, and Porsche's PPE-based Macan all represent different versions of the same strategic response: simplify platforms, reduce cost, improve technology-per-euro, and defend brand relevance in an increasingly price-competitive EV market. The question is whether these product responses arrive quickly enough, scale broadly enough, and deliver sufficient cost reduction to offset the momentum of Chinese OEMs already entering Europe with high-spec, aggressively priced vehicles.

Cost reduction efforts should become evident over the next two years. European OEMs share a common objective: lowering EV unit costs fast enough to sustain pricing and remain competitive on monthly affordability versus Chinese competitors. The most important variable cost levers are battery cost, platform commonality, simplified architectures, localised sourcing, supplier savings and design-to-cost discipline.

Battery cost reduction

Battery cost is the largest single lever in EV variable cost. VW's PowerCo unified cell is moving toward series production and is intended to reduce cell complexity across the group, [targeting](#) 50% battery cost reduction. These cells will be used first in VW Group's Electric Urban Car Family across Volkswagen, Škoda and Cupra, directly competing against Chinese OEMs in the small mass market segment. BMW's equivalent lever is [Neue Klasse](#) and sixth-generation eDrive, which aim reduce the cost of the whole high-voltage battery by up to 50% versus the current generation, while improving energy density, charging speed and range. [Renault](#) is on track with a 40% cost-reduction roadmap between first- and second-generation C-segment EVs by 2028, with LFP and cell-to-pack technology reducing battery costs by around 20% from the beginning of 2026. [Stellantis](#) similarly

targets 20% cost efficiency measures, again using cell-to-body battery packs with LFP chemistry.

Partnership and LFP focus supports cost reduction efforts. European OEMs are increasingly adopting LFP battery chemistry as a direct variable cost lever. LFP has been one of the core cost tools used by Chinese EV players: it is generally cheaper, avoids nickel and cobalt, and is well suited to entry and mid-range EVs where range requirements are lower and price sensitivity is higher. The trade-off is lower energy density versus NMC, which means LFP is most relevant for affordable EVs, entry level models and high-volume compact models rather than top-end premium variants. Stellantis has a CATL JV in [Zaragoza](#), designed to give the group local access to LFP battery production in Europe. [Renault](#) is also moving into LFP and cell-to-pack with partners CATL and LGES. VW's PowerCo supports multiple chemistries within its standardised cell architecture. [Mercedes-Benz](#) is using CATL's Hungary supply to support European production, with entry level models such as the new CLA now [featuring](#) LFP batteries, whilst higher mix models use more expensive chemistries. BMW's Neue Klasse features improvement in competitiveness via energy density, range and cost. The Gen6 cell architecture allows for use of [LFP](#), alongside other battery chemistries.

Platforms and commonality

European OEMs are addressing product complexity. Beyond batteries, another major variable cost lever is reducing product complexity. European OEMs have historically carried too many platforms, regional variants, powertrain combinations, software stacks and brand-specific components. That creates high engineering cost, slower development cycles and less purchasing leverage. Chinese OEMs often have an advantage because they are building newer EV-native architectures with shorter product cycles and fewer legacy constraints. European OEMs are now trying to close that gap through fewer platforms, greater parts commonality, more scalable software-defined vehicle architectures and more repeatable manufacturing processes.

Progress underway at mass market players. VW Group is using MEB and MEB+ as the near-term volume architecture, PPE for premium EVs, and SSP as the longer-term convergence platform. The key near-term step is the 2026 Electric Urban Car Family across VW, Cupra and Škoda, which should help VW address affordable EV segments with more shared components and lower development cost. Stellantis is moving towards STLA One, using common architectures to spread engineering and sourcing costs across all its brands. Renault is more focused: AmpR Small and AmpR Medium support passenger EVs such as Renault 5, Renault 4, Megane and Scenic, while a separate SDV LCV architecture supports Trafic, Estafette and Goelette.

Radical overhaul at Mercedes-Benz and BMW. Mercedes-Benz is separating its future architectures by segment: MMA for entry luxury, MBEA for core premium EVs, AMG.EA for performance EVs and VAN.EA for vans. It is also using MB.OS to unify software and protect premium margins as EV and software content rises. BMW is using Neue Klasse as a full architecture reset, combining cost reduction, design, powertrain, manufacturing and software architecture improvements. Critically, the Neue Klasse architecture is used across several platforms.

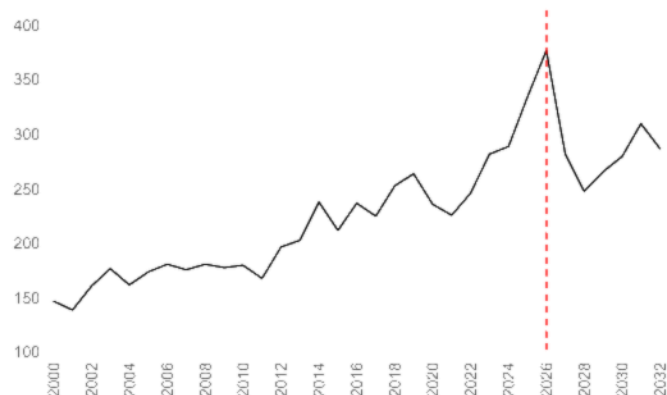
Exhibit 116: European OEMs' platform / architecture development

OEM	Platform / Architecture	Key models	Impact
Volkswagen	MEB MEB+ PPE SSP	MEB: VW ID.3, ID.4, ID.5, ID.7, ID. Buzz, Škoda Enyaq, Cupra Born/Tavascan, Audi Q4 e-tron. MEB+ Urban Car Family: VW, Cupra, Škoda. PPE: Porsche Macan Electric, Audi Q6 e-tron.	2026-2030
Stellantis	STLA One	STLA Small/Smart Car: Fiat, Citroën, Peugeot, Opel/Vauxhall EVs. STLA Medium: Peugeot E-3008, E-5008, Opel/Vauxhall Grandland. STLA Large: Dodge, Jeep, Alfa Romeo, Chrysler, Maserati. STLA Frame: RAM, Jeep Smart Car: Fiat, Opel, Citroën C3/C3A	2025-2028
Renault	AmpR Small AmpR Medium SDV LCV	AmpR Small: Renault 5, Renault 4, Twingo E-Tech. AmpR Medium: Megane E-Tech, Scenic E-Tech. SDV LCV: Trafic E-Tech, Estafette E-Tech, Goëlette E-Tech	2025-2029
Mercedes-Benz	MMA MB.EA AMG.EA VAN.EA	MMA: CLA, entry models. MB.EA: GLC, midsize/luxury EVs. AMG.EA: AMG GT, high-performance EVs. VAN.EA: VLE, electric vans	2026-2029
BMW	Neue Klasse	ix3, 40+ new models by 2027	2027-2028
Porsche	PPE	PPE: Porsche Macan Electric, Audi Q6 e-tron, Audi A6 e-tron.	2025-2028

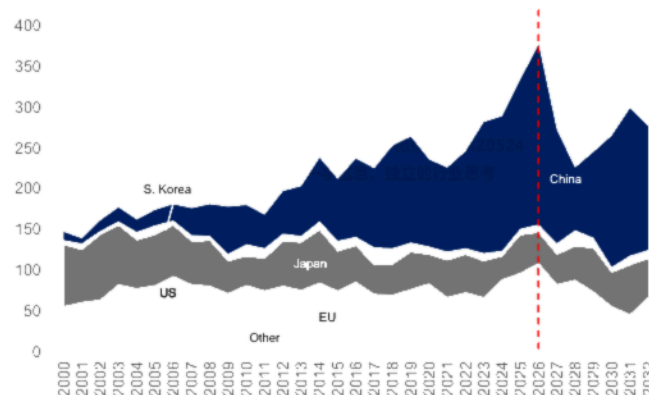
Source: Company data; Morgan Stanley Research

Product pipeline

Nearly every OEM is entering a major launch cycle between 2026 and 2028. New products are considered to be one of the primary drivers of volume recovery, market share stabilization, and earnings growth. Mercedes-Benz, BMW, Volkswagen, Renault, and Stellantis are all planning dozens of new or refreshed models over the coming years, while Porsche and Ferrari are pursuing more concentrated but still strategically significant launch programs. Across the industry, management teams increasingly view product renewal as the key lever for improving financial performance after a period marked by slowing EV demand, macroeconomic pressure, and intensifying competition.

Exhibit 117: FY26 will be the year with the highest new model releases (since 2000)...

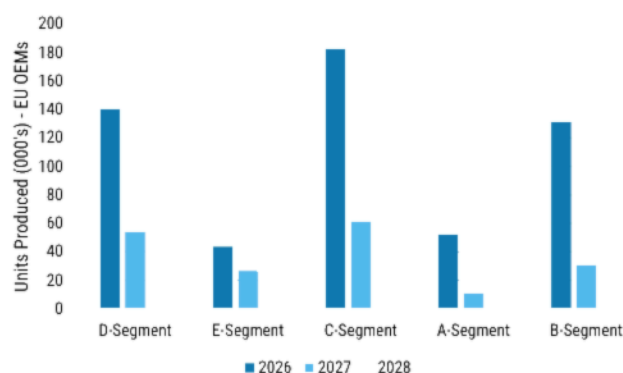
Source: S&P Global estimates; Morgan Stanley Research. Note: Annual estimated number of models that are either absolutely new, or have undergone substantial changes.

Exhibit 118: ...Chinese OEMs still lead the charge globally (number of new launches)

Source: S&P Global estimates; Morgan Stanley Research. Note: Annual estimated number of models that are either absolutely new, or have undergone substantial changes. Chart displays selected OEMs by region. Europe includes BMW, VAG, VW, Renault, Stellantis, Ferrari. US CLVs include Ford, GM, Tesla. China includes BYD, Changan, GAC, AAW, Geely, GWM, Li Auto, NIO, SAIC, Xpeng as well as non-covered players. Japan includes Toyota, Mitsubishi, Nissan, Honda, Mazda, Subaru, Suzuki. South Korea includes Hyundai, Kia.

China continues to focus on the C-SUV segment. Nearly every company references China as a major driver of change, whether through direct market share losses, pricing pressure, or the need to accelerate innovation. Volkswagen is localizing development specifically for the Chinese market, Renault is redesigning its operating model to compete with faster-moving Chinese manufacturers, and both Porsche and Stellantis cite Chinese competition as a significant challenge. BMW and Mercedes' new models represent legacy OEMs stepping into the next generation of models, i.e. the software-defined vehicle. Examining market segments, we note that locally produced Chinese vehicles continue to target the C-segment, in particular with SUVs, whereas European OEMs are releasing models across B, C and D segments. Our segment analysis shows that Volkswagen and BMW are most exposed to the C-SUV segment, though considering pricing categories, Volkswagen is much more exposed than BMW.

Exhibit 119: European OEMs' new model production is spread across B, C, and D segments



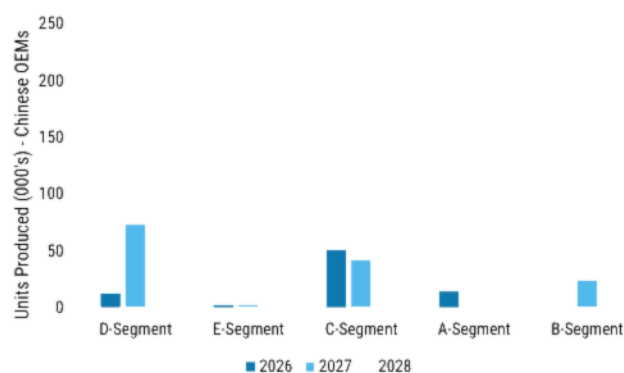
Source: S&P Global estimates, Morgan Stanley Research. Note: Chart displays European production only, exports excluded.

Exhibit 121: Chinese OEMs are significantly focused on the C-SUV, D-SUV and B-SUV sub-segments

Segment/Type	2025	% of total sales
C-SUV	372,096	32%
D-SUV	276,874	24%
B-SUV	200,479	17%
B-Hatchback	100,443	9%
E-SUV	53,005	5%
C-Hatchback	26,915	2%
Other	122,892	11%

Source: S&P Global, Morgan Stanley Research. Note: West and Central Europe only.

Exhibit 120: Whereas Chinese OEMs' new model production is much more focused on the C-segment



Source: S&P Global estimates, Morgan Stanley Research. Note: Chart displays European production only, exports excluded.

Exhibit 122: Volkswagen is much more exposed to C-SUV than the other mass market legacy European OEMs

	C-SUV	D-SUV	B-SUV	B-Hatchback	C-Hatchback	E-SUV	Other
European market	23%	9%	16%	14%	7%	2%	29%
Chinese OEMs	30%	24%	17%	8%	4%	4%	14%
BMW	29%	12%	3%	10%	8%	7%	31%
Mercedes-Benz	17%	14%	1%	0%	7%	7%	54%
Renault	13%	2%	25%	33%	2%	0%	25%
Stellantis	14%	1%	22%	23%	6%	0%	34%
Volkswagen	29%	8%	10%	10%	14%	2%	27%

Source: S&P Global, Morgan Stanley Research. Note: West and Central Europe only.

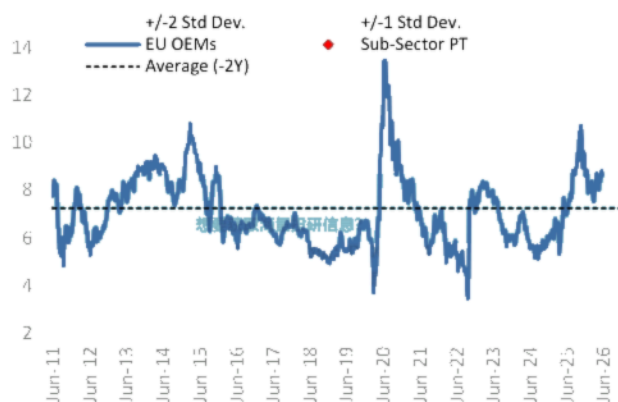
Valuation

Valuation multiples reflecting an improving outlook despite potential earnings risk. Cyclical sectors tend to trade at low multiples at cycle peaks (exit points), on concerns that OEMs will eventually see a margin reset, and at high multiples at the bottom (entry points). Examining current valuation multiples implies that the market already expects a good part of earnings cuts to be priced in, with OEM P/E multiples above recent averages. As indicated below, in Autos, share price performance is driven by earnings expectations, rather than valuations. However, we see valuation multiples as indicative of investor confidence in earnings growth from here, and we think the current multiples suggest a degree of earnings growth is ahead, despite the risk of Chinese OEMs continuing to gain share.

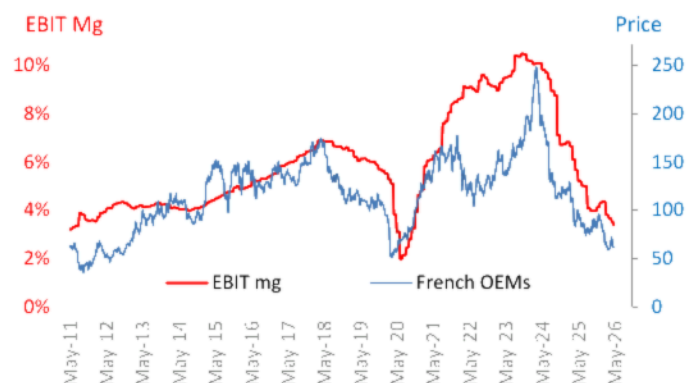
Exhibit 123: Benchmarking European OEMs

		BMW	Mercedes	Porsche	Volkswagen	Renault	Stellantis	OEMs
Mkt Cap	EUR Bn	42	45	46	46	8	18	205
Units (Wholesale)	26-28e	1.5%	2.7%	-1.6%	-1.3%	0.3%	1.0%	0.3%
Avg Rev / Unit	26-28e	-0.3%	-1.0%	2.0%	-0.8%	-1.5%	-0.6%	-0.7%
Revenue Growth	2026e	-0.3%	0.8%	-3.2%	1.5%	-0.7%	2.2%	0.9%
	26-28e	1.6%	3.1%	0.7%	-0.1%	-0.8%	0.4%	0.7%
EBIT margin (Co)	2026e	6.1%	5.6%	6.6%	4.4%	4.1%	1.1%	4.3%
Industrial EBITDA mg (Co)	2026e	14.3%	11.8%	16.5%	12.5%	7.9%	6.0%	11.3%
Industrial EBIT mg (Co)	2026e	6.2%	5.8%	6.5%	4.2%	2.2%	1.1%	4.1%
	26-28e	+39 bps	+66 bps	+63 bps	+30 bps	+1 bps	+63 bps	+42 bps
EBIT Growth	26-28e	11%	19%	16%	11%	-2%	83%	25%
Diluted EPS growth	26-28e	11%	0%	21%	12%	-1%	NA	7%
Ind. N. Debt (Cash) / EBIT	2026e	-7.4x	-4.8x	-3.9x	-3.2x	-6.2x	-4.1x	-4.5x
Ind. N. Debt (Cash) / EBITDA	2026e	-3.2x	-2.4x	-1.6x	-1.1x	-1.8x	-0.7x	-1.6x
Ind. WC / Revenue	2026e	12%	17%	13%	19%	-7%	-3%	11%
Ind Capex + R&D / Rev.	2026e	15%	13%	17%	12%	9%	8%	12%
Ind. Capex + Cap. R&D / Rev.	2026e	10.5%	7.9%	11.1%	8.2%	6.1%	6.3%	8.1%
Ind. Cash Conversion	2026e	96%	86%	90%	87%	86%	90%	89%
Group ROA	2026e	2%	2%	7%	1%	1%	-1%	1%
Group ROE	2026e	6%	6%	90%	5%	8%	-3%	8%
Ind. ROA	2026e	3%	5%	7%	3%	1%	-1%	2%
Ind. ROIC	2026e	6%	7%	7%	4%	7%	3%	5%
Current Price		74.0	49.7	50.3	91.5	29.6	6.2	
Ind. EV / EBIT (MS)	2026e	-1.4x	3.3x	22.0x	4.6x	-5.0x	25.8x	8.5x
Ind EV / EBITDA (MS)	2026e	-0.6x	1.5x	8.0x	1.5x	-1.4x	4.1x	2.6x
PE	2026e	7.4x	8.6x	29.9x	4.8x	4.9x	-13.4x	10.2x
	2027e	6.9x	6.7x	24.2x	4.1x	4.9x	77.2x	16.2x
Div Yield	2026e	5%	7%	2%	7%	5%	0%	5%
Div Yield + Share Buybacks	2026e	7%	10%	2%	7%	5%	0%	6%
Price Target		91.0	65.0	42.0	100.0	29.0	7.1	
Ind. EV / EBIT (MS)	2026e	-0.1x	5.9x	18.8x	5.4x	-5.1x	27.3x	8.9x
Ind EV / EBITDA (MS)	2026e	0.0x	2.6x	6.8x	1.8x	-1.5x	4.3x	2.8x
PE	2026e	9.2x	11.2x	24.9x	5.2x	4.8x	-15.3x	9.9x
	2027e	8.5x	8.7x	20.2x	4.5x	4.8x	87.8x	17.1x
Div Yield	2026e	4%	5%	2%	6%	6%	0%	4%
Div Yield + Share Buybacks	2026e	6%	8%	2%	6%	6%	0%	5%
Upside		23%	31%	-17%	9%	-2%	14%	11%
Rating		OW	OW	UW	EW	UW	EW	In-Line

Source: Companies; Morgan Stanley Research estimates

Exhibit 124: European Autos P/E

Source: Datastream, Morgan Stanley Research estimates. Note: P/E and sub-sector PT refer to European OEMs (sector PT is implied by our underlying price targets).

Exhibit 125: OEM share price performance is closely tied to earnings expectations

Source: Datastream, Morgan Stanley Research. French OEMs includes Stellantis and Renault.

Exhibit 126: NTM P/E: BMW

Source: Datastream, Morgan Stanley Research estimates.

Exhibit 127: NTM P/E: Mercedes

Source: Datastream, Morgan Stanley Research estimates.

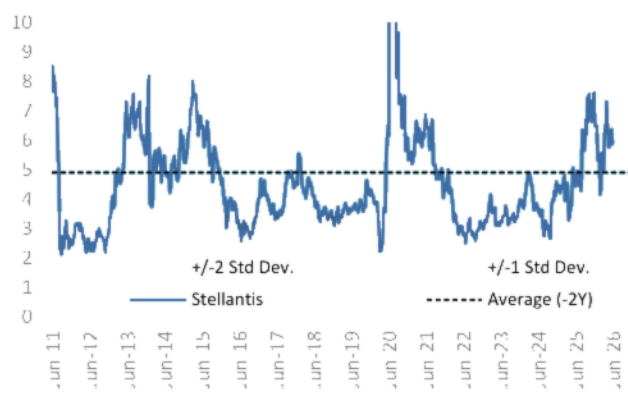
Exhibit 128: NTM P/E: Porsche

Source: Datastream, Morgan Stanley Research estimates.

Exhibit 129: NTM P/E: Volkswagen

Source: Datastream, Morgan Stanley Research estimates.

Exhibit 130:NTM P/E: Stellantis



Source: Datastream, Morgan Stanley Research estimates

Exhibit 131:NTM P/E: Renault



Source: Datastream, Morgan Stanley Research estimates

Exhibit 132:

Global OEMs comps

Prices date: June 15, 2026	Mkt Cap		Price		MS	EPS			Revenue		EBIT margin		EV/EBIT		EV/EBITDA		P/E		Dividend Yield		EV/Revenue		
	Crrc.	US\$ mn	Last	Target	Rating	2025	2026E	2027E	CAGR 25-27E	2026E	2027E	2026E	2027E	2026E	2027E	2026E	2027E	2026E	2027E	2026E	2027E		
OEMs		2,878,050								8%		5%	6%	305.7x	175.1x	57.6x	48.1x	340.4x	197.1x	3.1%	3.5%	8.9x	7.5x
Europe		233,853								0%		5%	6%	7.4x	5.5x	2.5x	2.4x	11.8x	14.8x	4.6%	5.2%	0.4x	0.4x
BMW	EUR	46,278	66.5	91.0	OW	12.4	9.9	11.2	1%	6%	7%	1.8x	1.7x	0.9x	0.9x	6.7x	6.1x	5.4%	6.1%	0.1x	0.1x		
Mercedes	EUR	52,304	47.4	65.0	OW	5.3	5.8	7.9	2%	6%	7%	2.8x	2.1x	1.4x	1.2x	8.2x	6.2x	6.3%	7.4%	0.2x	0.2x		
Stellantis	EUR	19,285	5.8	7.1	EW	(7.7)	(0.5)	0.1	2%	1%	2%	19.4x	8.4x	3.5x	2.7x	n.m.	71.4x	0.0%	0.5%	0.2x	0.2x		
Renault	EUR	8,957	26.8	29.0	UW	(40.0)	6.0	6.0	0%	4%	4%	1.1x	1.2x	0.4x	0.5x	4.7x	4.7x	5.8%	6.9%	0.0x	0.0x		
Volkswagen	EUR	49,321	85.4	100.0	EW	13.3	19.2	22.1	1%	4%	5%	0.3x	0.2x	0.1x	0.0x	4.5x	3.9x	6.9%	7.9%	0.0x	0.0x		
Porsche	EUR	50,649	48.5	42.0	UW	0.5	1.7	2.1	-2%	7%	8%	21.2x	17.4x	7.7x	7.7x	29.0x	23.5x	2.0%	1.7%	1.4x	1.4x		
Aston Martin	GBP	561	0.4	NA	N.C.	(0.4)	(0.2)	(0.1)	11%	n.m.	n.m.	n.m.	n.m.	6.1x	5.0x	n.m.	n.m.	0.0%	0.0%	1.2x	1.1x		
Volvo Car	SEK	6,498	20.9	NA	N.C.	0.1	2.9	4.4	-2%	3%	5%	4.5x	3.1x	1.5x	1.3x	7.5x	5.2x	0.0%	0.5%	0.2x	0.1x		
North America		1,697,857								9%		4%	5%	496.4x	282.6x	90.6x	75.7x	556.7x	322.1x	2.6%	2.7%	14.1x	11.8x
Ford Motor	USD	58,615	14.7	14.0	EW	(3.2)	1.6	1.8	3%	5%	5%	16.8x	15.1x	10.6x	9.6x	9.0x	8.1x	4.1%	4.1%	0.8x	0.8x		
General Motors	USD	72,900	80.9	100.0	OW	2.1	13.0	14.8	1%	7%	8%	5.4x	4.4x	3.2x	2.9x	6.2x	5.5x	n.a.	n.a.	0.4x	0.4x		
Tesla Motors	USD	1,499,096	399.2	415.0	EW	1.1	0.7	1.2	10%	3%	4%	559.3x	318.2x	101.2x	84.4x	628.2x	362.9x	n.a.	n.a.	15.6x	13.0x		
Harley-Davidson	USD	2,710	25.7	15.0	UW	2.7	0.2	1.0	-3%	n.m.	3%	n.m.	38.1x	23.3x	15.5x	126.8x	25.7x	2.9%	2.6%	0.9x	1.1x		
Ferrari	USD	64,537	365.6	388.0	EW	9.0	9.5	10.7	7%	29%	30%	25.9x	23.4x	19.6x	17.7x	33.4x	30.2x	1.2%	1.3%	7.6x	7.0x		
Japan		292,933								4%		7%	8%	18.5x	12.5x	8.9x	7.8x	9.0x	7.7x	3.8%	4.2%	1.0x	0.9x
Subaru	JPY	11,054	2,480	2,500	EW	125	234	272	6%	3%	4%	3.7x	2.3x	1.4x	1.0x	10.9x	9.9x	4.8%	5.0%	0.1x	0.1x		
Honda Motor	JPY	34,619	1,428	1,600	EW	(106)	163	280	5%	3%	5%	22.8x	12.2x	7.8x	5.8x	8.8x	5.2x	5.0%	5.2%	0.6x	0.6x		
Isuzu Motors	JPY	8,919	2,083	1,900	UW	193	220	250	4%	6%	6%	8.0x	7.3x	5.1x	4.7x	9.6x	8.9x	4.4%	4.7%	0.5x	0.5x		
Mazda Motor	JPY	4,309	1,097	1,200	EW	170	172	222	7%	2%	3%	n.m.	n.m.	n.m.	n.m.	6.4x	4.9x	4.9%	4.9%	n.m.	n.m.		
Mitsubishi Motors	JPY	2,710	325	400	EW	24	36	35	5%	3%	2%	3.6x	3.7x	1.7x	1.7x	9.1x	9.5x	3.1%	3.1%	0.1x	0.1x		
Nissan Motor	JPY	7,162	329	400	EW	(26)	23	38	3%	0%	1%	157.5x	34.8x	11.7x	9.1x	14.1x	7.6x	0.0%	0.0%	0.5x	0.5x		
Suzuki Motor	JPY	21,473	1,787	2,600	OW	228	190	200	9%	8%	8%	2.4x	1.7x	1.7x	1.2x	9.4x	8.9x	2.7%	2.8%	0.2x	0.1x		
China		330,005								13%		6%	7%	13.8x	9.5x	7.4x	4.9x	18.2x	17.2x	2.6%	3.4%	0.7x	0.6x
Anhui Jianghuai	CNY	10,404	31.3	NA	N.C.	(0.8)	0.8	2.4	53%	2%	6%	43.8x	11.9x	23.3x	10.3x	40.0x	12.8x	0.1%	0.3%	1.0x	0.7x		
BAIC Motor	HKD	1,023	1.0	2.2	EW	0.1	0.2	0.3	5%	9%	9%	n.m.	n.m.	n.m.	n.m.	3.8x	2.5x	0.0%	0.0%	n.m.	n.m.		
BAIC BluePark	CNY	5,355	5.7	5.5	UW	(0.8)	(0.1)	(0.1)	8%	n.m.	n.m.	n.m.	n.m.	16.2x	12.4x	n.m.	n.m.	0.0%	0.0%	1.1x	1.0x		
Brilliance	HKD	1,693	2.6	2.9	EW	0.4	0.3	0.3	12%	116%	102%	4.1x	3.7x	3.6x	3.4x	6.8x	6.8x	8%	7.2%	4.8x	3.8x		
Chongqing Changan	CNY	10,881	7.4	NA	N.C.	NA	NA	NA	n.m.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
FAW Car Company	CNY	4,371	6.0	NA	N.C.	0.2	0.3	0.5	15%	2%	3%	27.2x	14.4x	12.1x	10.6x	22.5x	12.6x	1.3%	2.4%	0.4x	0.4x		
Geely Automobile	HKD	26,839	19.4	28.0	OW	1.7	2.3	2.6	16%	6%	6%	3.8x	2.2x	2.7x	1.7x	8.0x	7.0x	2.5%	2.9%	0.2x	0.1x		
Great Wall	HKD	11,187	10.3	12.0	EW	1.1	1.1	1.2	2%	3%	4%	2.6x	0.8x	1.0x	0.3x	7.4x	6.6x	3.6%	4.0%	0.1x	0.0x		
Great Wall	CNY	22,111	17.5	14.0	UW	1.1	1.1	1.2	2%	3%	4%	12.6x	9.3x	4.7x	3.6x	14.6x	13.1x	1.9%	2.1%	0.4x	0.3x		
Guangzhou Automobile	HKD	3,092	2.4	3.9	OW	(0.2)	0.1	0.4	16%	n.m.	n.m.	n.m.	n.m.	1.8x	0.2x	17.7x	5.2x	0.0%	1.9%	0.1x	0.0x		
Guangzhou Automobile	CNY	8,639	5.8	4.0	UW	(0.2)	0.1	0.4	16%	n.m.	n.m.	n.m.	n.m.	10.0x	5.8x	49.4x	14.6x	0.0%	0.7%	0.4x	0.3x		
Jiangling Motors Company	HKD	1,054	9.7	NA	N.C.	1.6	NA	NA	10%	4%	4%	n.m.	n.m.	n.m.	n.m.	4.7x	4.1x	7.2%	7.9%	n.m.	n.m.		
SAIC Motor Corp	CNY	18,324	10.9	22.9	OW	0.9	1.5	1.9	5%	1%	2%	n.m.	n.m.	n.m.	n.m.	7.4x	5.6x	4.0%	7.1%	n.m.	n.m.		
BYD Company	CNY	120,666	89.8	120.0	OW	3.6	4.2	5.4	12%	5%	6%	17.3x	13.4x	6.2x	5.0x	21.5x	16.7x	2.0%	2.6%	0.9x	0.8x		
Nio Inc.	HKD	13,191	41.8	7.4	OW	(6.9)	(1.5)	0.4	34%	n.m.	n.m.	n.m.	n.m.	27.2x	9.6x	n.m.	112.2x	0.0%	0.0%	0.6x	0.4x		
Sinotruk	HKD	14,278	40.9	36.0	EW	2.5	2.9	3.4	11%	8%	8%	6.6x	4.9x	5.4x	4.0x	12.0x	10.3x	4.6%	5.4%	0.5x	0.4x		
Yutong Bus	CNY	9,636	29.5	40.2	EW	2.5	2.8	3.2	11%	15%	15%	7.6x	6.6x	6.9x	6.1x	10.4x	9.2x	8.7%	10.4%	1.1x	1.0x		
Weichai Power	HKD	37,626	34.2	47.0	OW	1.3	1.5	2.0	11%	8%	9%	10.3x	7.0x	5.9x	4.3x	19.1x	14.8x	2.9%	3.9%	0.8x	0.6x		
Zhengzhou Yutong Bus Co	CNY	9,636	29.5	40.2	EW	2.5	2.8	3.2	11%	15%	15%	7.6x	6.6x	6.9x	6.1x	10.4x	9.2x	8.7%	10.4%	1.1x	1.0x		
Korea		141,957								5%		7%	7%	11.1x	10.4x	7.8x	7.3x	12.0x	11.4x	2.6%	2.5%	0.7x	0.7x
Hyundai Motor	KRW	102,324	597,000	700,000	OW	35,593	43,724	47,761	5%	6%	7%	14.9x	13.9x	10.4x	9.9x	13.8x	13.0x	2.0%	1.7%	1.0x	0.9x		
Kia Motors	KRW	39,633	156,000	210,000	OW	19,457	21,543	21,984	8%	7%	7%	1.3x	1.2x	1.0x	0.9x	7.4x	7.2x	4.1%	4.5%	0.1x	0.1x		
India		181,445								17%		12%	12%	26.1x	20.5x	18.4x	16.3x	29.7x	23.7x	1.4%	1.5%	3.0x	2.6x
Ashok Leyland	INR	8,508	139	180	EW	5.4	6.7	7.6	12%	11%	12%	15.6x	13.5x	13.6x	11.8x	20.8x	18.3x	1.8%	2.0%	1.8x	1.6x		
Bajaj Auto	INR	29,533	10,118	9,259	UW	269.9	379	426	16%	20%	20%	22.4x	18.9x	21.6x	18.3x	26.7x	23.7x	2.8%	3.2%	4.4x	3.8x		
Hero MotoCorp	INR	10,105	4,836	6,537	OW	230.5	270	292	12%	13%	13%	13.1x	11.9x	11.6x	10.5x	17.9x	16.6x	3.2%	3.6%	1.7x	1.5x		
Mahindra & Mahindra	INR	38,974	3,001	4,222	OW	104.0	140	139	18%	11%	10%	20.5x	20.8x	16.3x	16.2x	21.5x	21.6x	1.1%	1.2%	2.3x	2.1x		
Maruti Suzuki	INR	42,990	13,093	17,895	OW	487.8	507	560	18%	8%	7%	23.2x	20.7x	15.9x	13.9x	25.8x	23.4x	1.1%	1.2%	1.9x	1.5x		
Tata Motors	INR	14,452	376	367	EW	52.3	7	33	6%	1%	4%	54.1x	10.1x	7.4x	4.4x	55.1x	11.5x	0.0%	0.0%	0.5x	0.4x		
TVS Motor	INR	16,308	3,287	4,327	OW	48.7	69	90	24%	11%	11%	30.6x	25.6x	26.2x	22.0x	47.9x	36.7x	0.4%	0.5%	3.4x	2.8x		
Eicher Motors	INR	20,575	7,178	7,763	EW	172.4	203	220	18%	21%	21%	35.2x	32.1x	30.3x	27.3x	35.3x	32.6x	0.1%	1.2%	7.5x	6.6x		

Risk Reward – Mercedes-Benz Group AG (MBGn.DE) Top Pick

Premium OEM with improving product pipeline

PRICE TARGET €65.00

We apply 11.2x FY26e P/E multiple, just below the long-term average, but above recent historical averages, reflecting Mercedes' strategic approach to shareholder returns through paying out 100% of FCF. We remain concerned about price/mix normalisation and China margins, but think the company's cash return strategy continues to drive outperformance. Our PT is based off FY26e EPS of ~€5.8, a decline from recent years but closer to pre-Covid levels.

Consensus Price Target Distribution

Sources: Refinitiv, Morgan Stanley Research

€37.00

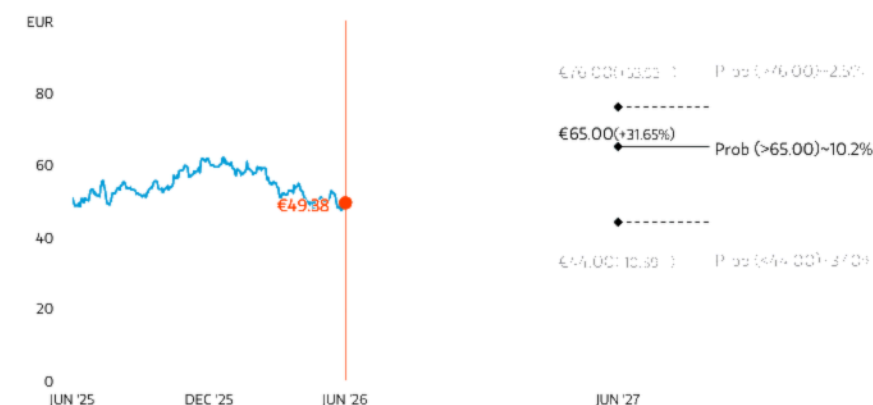
€59.00

MS PT

€74.90

◆ Year ◆ Morgan Stanley Estimates

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Sources: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 15 Jun 2026. All figures are approximate. For more information on the methodology of the stock reaching beyond the scenario price in the three months or one year time. View explanation of Options Probabilities methodology [here](#)

BULL CASE

€76.00

11.2x bull case FY26e EPS of ~€6.8

Assumes that better sustained global growth supports strong net pricing, taking the group adj. EBIT margin to 6.4%. Mercedes is able to sustain strong ASP growth, and with a supportive cost backdrop, margins return to normalised levels. Management continues to execute well and rewards the market with greater shareholder returns. In this scenario, we see the shares trading on ~11.2x P/E (higher than the 10-year average), on our bull case EPS of ~€6.8.

BASE CASE

€65.00

11.2x base case FY26e EPS of ~€5.8

We value Mercedes on 11.2x estimated FY26 EPS, above the long-term average of ~9x. Whilst price/mix normalisation will impact the company to an extent, we think Mercedes' shareholder return strategy creates opportunity for greater dividends and share buybacks, thus continuing to drive outperformance.

BEAR CASE

€44.00

10.9x bear case FY26e EPS of ~€4.1

Assumes that weak global markets and high rates cause group unit sales to fall, whilst pricing pressure persists, leading to a drop in group revenues. Mercedes' group adj. EBIT margin falls back to ~4.2%. Through subsidies, BEV demand returns, leaving the product offering out of position. This pushes EPS back towards €4.1. In this scenario, we assume the market values the shares on 10.9x P/E, given concerns about demand, pricing and product line-up.

OVERWEIGHT THESIS

- We think Mercedes' positioning and luxury strategy stand out among European peers, allowing for higher margins and FCF.
- The poor product pipeline in 2023-24 should continue to reduce share during 1H26, but we expect the qualitative data on 2Q26 GLC launch to bring comfort on an inflection point in global market share and mix, even slowing down the fall in China once it is produced and launched locally.
- FCF should remain under pressure in 2026, but with still relatively healthy operating cash generation, cost-cutting delivery and consistent commitment to shareholder return (dividend + share buyback programmes), that could benefit from a potential recovery in the truck cycle.

Consensus Rating Distribution



Sources: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Disruption:	Positive
Electric Vehicles:	Negative
Self-help:	Positive

View descriptions of Risk Rewards Themes [here](#)

Risk Reward – Mercedes-Benz Group AG (MBGn.DE)

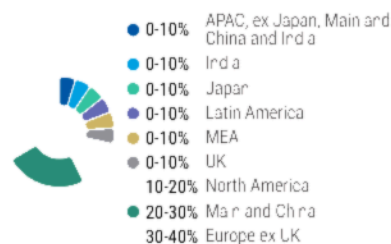
KEY EARNINGS INPUTS

Drivers	2025	2026e	2027e	2028e
YoY Growth in Passenger Cars Unit Deliveries (%)	(6.5)	3.5	4.5	3.2
Industrial clean EBIT margin (%)	6.5	5.8	7.3	8.4
Group clean EBIT margin (%)	6.2	5.6	6.8	7.7
Capex as a % of industrial sales (%)	5.5	4.7	4.3	4.2
Industrial FCF	5,414	2,517	3,022	4,802

INVESTMENT DRIVERS

- Mercedes country sales figures, especially for China
- Quarterly earnings and FCF stabilisation and/or improvement
- European car sales recovery
- Changed cash allocation strategy
- Success of other luxury brands reads well for Mercedes

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional breakdowns [here](#)

MS ALPHA MODELS

2/5
MOST

3 Month
Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research. 1 is the highest favorable Quintile and 5 is the least favorable Quintile.

RISKS TO PT/RATING

RISKS TO UPSIDE

- Higher valuation multiples for Mercedes Cars, with much higher EBIT margins / FCF
- Mercedes' BEV story changing the investment narrative
- Execution enabling EPS to stay higher and less cyclical than historically

RISKS TO DOWNSIDE

- Global credit (and/or China) economic conditions and sentiment remaining weak
- Weaker pricing of Mercedes cars on tougher comps
- Consistently higher investment needs due to global competition

OWNERSHIP POSITIONING

Inst. Owners, % Active	58.5%
HF Sector Long/Short Ratio	1.6x
HF Sector Net Exposure	7.6%

Refinitiv, MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be incorrect and may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short Exposure; Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure - Short Exposure)

MS ESTIMATES VS. CONSENSUS

FY Dec 2027e

Sales / Revenue (€, mn)	128,795	137,038 7.36,477	141,194
EBIT (€, mn)	6,037	9,346 8,554	10,633
Net income (€, mn)	5,949	6,903 5,970	8,115
EPS (€)	6.18	7.43 7.62	8.60

◆ Mean ◆ Morgan Stanley Estimates
Source: Refinitiv, Morgan Stanley Research

Risk Reward – BMW (BMWG.DE)

Should keep gaining share

PRICE TARGET €91.00

We value BMW on ~9.2x estimated FY26 EPS of ~€9.9. This multiple reflects continued industry concern about price/mix normalisation and profitability of premium OEMs in China. It is above the stock's long-term average of ~9x, reflecting an improving risk/reward skew following a better geopolitical environment, as well as BMW's track record for margin stability, whilst taking into consideration market risks.



RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 15 Jun 2026. All figures are approximate statistical probabilities of the stock reaching beyond the scenario price in the three months or one years time. View explanation of Options Probabilities methodology [here](#)

BULL CASE €107.00

~8.7x bull case FY26e EPS of ~€12.4

Assumes that better sustained global growth pushes up unit sales and sustains strong pricing, boosting revenues and taking the group adj. EBIT margin to ~7.7%. With consolidation in Chinese BEVs, BMW maintains share without significant ASP reductions. In such a scenario, we think investors may extrapolate peak BMW EPS, and could pay a ~8.7x P/E multiple for this more resilient EPS profile vs peers.

BASE CASE €91.00

~9.2x base case FY26e EPS of ~€9.9

We value BMW on ~9.2x estimated FY26 EPS, above its long-term average of ~9x. We believe FY26 EPS of ~€9.9, a significant reduction vs ~€18 in FY23, is much closer to a sustainable level for the company. Whilst price/mix normalisation will impact BMW too, we think its margin stabilisation mechanisms should reduce the downside risk. The company has taken a leadership position with its BEV penetration rate, and may compete well within the Chinese BEV segment.

BEAR CASE €64.00

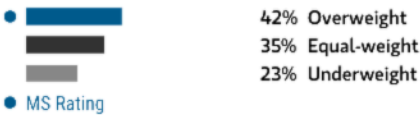
~7.4x bear case FY25e EPS of ~€8.6

Assumes that weak global markets and high rates cause group unit sales to fall LSD%, whilst pricing pressure persists, especially in the Chinese BEV segment, leading to a reduction in group revenues and BMW group adj. EBIT margin falling back to just 5.7%. This pushes EPS back towards ~€8.7, levels not seen in recent years. We assume the market values the shares at a multiple of ~7.4x, in line with recent averages, on short-term concerns about demand, pricing and exposure to Chinese BEVs.

OVERWEIGHT THESIS

- BMW should continue to gain share in most markets, benefiting from 2023-24 launches, until the Neue Klasse gets traction.
- In China, BMW seems to be investing on prices to slow down market share losses until Neue Klasse is launched locally, positive for volume but dilutive for margins, which we expect will lag behind Mercedes-Benz in the recovery.
- BMW's investments will continue reducing and the large net cash balance could be considered as a potential source for further shareholder returns.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

- Disruption: Negative
- Electric Vehicles: Negative

View descriptions of Risk Rewards Themes [here](#)

Risk Reward – BMW (BMWG.DE)

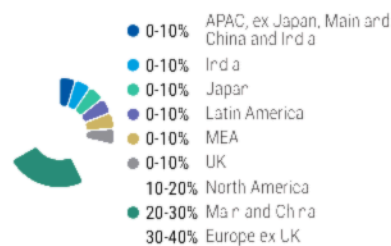
KEY EARNINGS INPUTS

Drivers	2025	2026e	2027e	2028e
YoY Growth in Passenger Cars Unit Deliveries (%)	5.0	(0.5)	4.2	1.0
Industrial clean EBIT margin (%)	8.3	6.2	7.0	7.8
Group clean EBIT margin (%)	7.6	6.1	6.7	7.4
Capex as a % of industrial sales (%)	7.9	7.4	6.9	6.6
Industrial FCF	3,240	3,021	2,791	3,329

INVESTMENT DRIVERS

- Monthly sales and market share results, especially in China
- Success (or not) of BEV launch
- Supply-chain disruption news

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional breakdowns [here](#)

MS ALPHA MODELS

**4/5
MOST** **3 Month
Horizon**

Source: Refinitiv, FactSet, Morgan Stanley Research. 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- EBIT margins remaining elevated for longer than expected
- Shares' multiples rising as economic expectations improve
- BMW proving less vulnerable to BEV competition/price cuts than many expect

RISKS TO DOWNSIDE

- Auto demand growth slowing again as economic growth fails to pick up
- BEV competition impacting China / global market share / margins
- BMW accelerating investment to meet future BEV plans

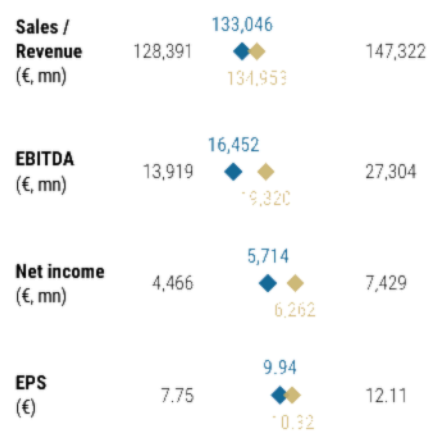
OWNERSHIP POSITIONING

Inst. Owners, % Active	69.7%
HF Sector Long/Short Ratio	1.6x
HF Sector Net Exposure	7.6%

Refinitiv, MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be incorrect or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short Exposure; Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure - Short Exposure)

MS ESTIMATES VS. CONSENSUS

FY Dec 2026e



Source: Refinitiv, Morgan Stanley Research

Risk Reward Reference links

1. View explanation of Options Probabilities methodology - [Options_Probabilities_Exhibit_Link.pdf](#)
2. View descriptions of Risk Rewards Themes - [RR_Themes_Exhibit_Link.pdf](#)
3. View explanation of regional hierarchies - [GEG_Exhibit_Link.pdf](#)
4. View explanation of Theme/Exposure methodology - [ESG_Sustainable_Solutions_External_Link.pdf](#)
5. View explanation of HERS methodology - [ESG_HERS_External_Link.pdf](#)