Europe built the car industry. Can it survive the next version?

Saxo Bank · 2026-09-04 · English original

Key takeaways

European car stocks look cheap because investors are questioning future margins, not simply today's sales.

China's slowdown is pushing its carmakers overseas, increasing pressure on European prices, costs and product cycles.

The emerging auto moat combines brand with low costs, software, batteries, speed and scale.

European car stocks look cheap. Unfortunately, their competitors are getting cheaper cars onto the road too.

That is the backdrop to Volkswagen's Future Plan 2030, approved on 3 September 2026. Europe's largest carmaker plans another 50,000 job cuts, a smaller model range and major capacity reductions, while still investing EUR 135 billion between 2027 and 2031.

For investors, Volkswagen is not the whole story. It is the clearest symptom of an industry discovering that yesterday's advantages may not be enough tomorrow.

Shrinking yesterday while funding tomorrow

Volkswagen built its scale for a larger market. Its European factories have more than 500,000 vehicles of excess annual capacity, while four German plants face uncertain production beyond the early 2030s. The group wants to halve its model range, target nine million annual sales and lift its operating margin to 9% by 2030, from 3.8% in the first half of 2026.

In other words, Volkswagen is shrinking yesterday's company while funding tomorrow's. Neither is cheap.

Cost cutting alone will not win the race. Volkswagen still needs competitive batteries, software, electronics and cars suited to different regional tastes. Closing factories can improve utilisation. It cannot make an unwanted car desirable.

China is exporting its problem

China's domestic car sales fell 20% in the first half of 2026, while exports rose 71%. Chinese brands have gone from roughly 3% of Europe's passenger-car market four years ago to about 16% in early 2026.

BYD shows the mechanism. Strong overseas shipments have helped offset weaker conditions at home. When domestic demand slows but factories keep producing, foreign markets become more important.

Chinese brands do not need to dominate Europe to change its economics. They only need enough scale and attractive products to force rivals to cut prices, add features or spend more on development.

Tariffs can slow the process, but local European production and hybrid models offer ways around some barriers.

The old European moat was brand, factories and dealer networks. The emerging moat is broader: brand, low production costs, batteries, software, development speed and scale.

Cheap can mean two different things

European autos trade at roughly 10 times projected earnings, versus around 15 times for the STOXX Europe 600. The discount is tempting, but it does not answer the important question.

Maybe investors are too pessimistic about global brands with huge scale and decades of engineering expertise. Or maybe historical profits are a poor guide to future profits in a more competitive industry.

The differences matter. BMW and Mercedes-Benz have premium brands that provide some protection from price competition, but both remain heavily exposed to China. Stellantis has historically relied on cost discipline but faces product and regional challenges. Toyota offers hybrid strength and manufacturing efficiency. BYD brings scale, vertical integration and speed, but also operates inside a brutal home-market price war.

The key question is not who sells the most electric cars. It is who can protect returns while changing the machine underneath the badge.

Risks to watch

The first risk is that restructuring savings arrive more slowly than price pressure. Watch factory utilisation, incentives and margins.

The second is that Chinese exporters gain share faster than European groups can refresh their products.

The third is capital allocation. Heavy spending only creates value if new technology and factories eventually earn acceptable returns.

Investor playbook

• Compare margins with market share. Sales growth bought through discounts can hide weakening economics.

• Watch product-development speed and factory utilisation, not just EV volumes.

• Separate premium brands from mass-market manufacturers. Pricing pressure will not hit every segment equally.

• Treat low valuations as a question to investigate, not an answer.

The badge still matters, but the factory behind it matters more

Europe built the modern car industry around brands, engineering and industrial scale. Those strengths remain valuable, but China is forcing investors to ask what they are worth in a faster, cheaper competitive system.

Volkswagen’s EUR 135 billion reset captures the challenge: remove excess capacity while spending heavily enough to stay relevant. BMW, Mercedes-Benz and Stellantis face different versions of the same test, while Toyota and BYD show there is more than one route through the transition.

European car stocks may be cheap. The opportunity will not come from the low multiple itself. It will come from companies proving that their moat can change as quickly as the car does.

Source: https://www.home.saxo/content/articles/equities/europe-car-industry-04092026