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Headline: Car supplier M&A still robust

AUTOMOBILES

Car supplier M&A still robust

Merger and acquisition (M&A) activity among global automotive suppliers is expected to remain high for at least five years, with European suppliers the most attractive targets as they struggle with the region's debt crisis, says a PricewaterhouseCoopers (PwC) study.

Sira Intarakumthornchai, the chief executive of PwC Thailand, said M&As in automotive have remained near record levels this year, with 270 deals to seize on undervalued supply assets and growing production in all markets except Western Europe.

"The study showed that European suppliers are the key targets of M&A activity for a second straight year," he said.

The fifth annual study of the global automotive supplier market counts 700 automotive suppliers in Brazil, China, Europe, India, North America, Japan and South Korea. Their aggregate revenue last year totalled US$2.8 trillion.

Dietmar Ostermann, PwC's global automotive advisory leader, said auto suppliers from North America and China have been targeting European rivals, especially in power-train subsystems.

"Auto executives should take a harder look at how the industry will continue to change, as leading suppliers will be expected to support global original-equipment manufacturing (OEM) platforms and participate in China's healthily growing auto market," he said.

The PwC study provides a list of the top 25 potential consolidators within the top global 100 suppliers. Ten of the 25 are power-train suppliers.

Another key finding of the study is that suppliers in Europe, North America, Japan and South Korea have not returned to pre-crisis capital investment levels.

Capex as a percentage of sales was 5.1% for the top global 100 suppliers in 2008, falling to an all-time low of 3.6% in 2010 before recovering to just 4.1% last year. Chinese suppliers though raised capex spending to 10.5% from 7.1% in the period.

"When working with our OEM clients on supply chain issues, we hear that supplier capacity in many markets outside of Europe is tight, particularly in North America," said Mr Ostermann.

North American suppliers are not investing in capacity expansion at home but rather in emerging markets such as China, revealing a potential opportunity for non-US suppliers to invest in the US market selectively.

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