BMW Group

Priced for a permanent trough

Premium brand, trough margins and a balance sheet the market is ignoring: why the 2026 sell-off looks like an overreaction.

RATING	SHARE PRICE	PRICE TARGET	UPSIDE TO TARGET	EXPECTED TOTAL RETURN
BUY	**€54.64**	**€73**	**+33%**	**+38%**
Expected total return > 20%	XETRA close, 6 October 2026	Probability-weighted, 12 months	Excludes dividend	Incl. €2.62 FY26E dividend

Fyodor Konovalchuk | Independent research project | 6 October 2026

Not investment advice · See disclosures on slide 15

Sources: BMW Group reports and press releases; stockanalysis.com; Yahoo Finance; analyst model (BMW_DCF_Model.xlsx). All reported figures are sourced on slide 15.

INVESTMENT THESIS

Trough earnings are priced forever, and the balance sheet comes free

01 · PRICED FOR A PERMANENT TROUGH

At €54.64 BMW trades on **7.7x** FY26E EPS of about €7.08 and **0.34x** book value. At a 9% cost of equity, that is what a return on equity stuck near 4% forever is worth.

02 · MANAGEMENT'S TARGETS BRIDGE THE GAP

2026 guidance is a 1–3% Automotive margin; the Capital Market Day targets **3–5% by 2028** and FCF above €5bn. Our base case takes only the mid-point, then a 7% mid-cycle margin: below the 8–10% target and the 8.1% five-year average.

03 · A BALANCE-SHEET FLOOR

Automotive net financial assets (€42.6bn) plus Financial Services equity (€16.4bn) exceed the €32.7bn market cap. Valuing the car business at zero and haircutting the cash by 30%, assets alone support about **€60**.

04 · WHAT YOU MUST BELIEVE TO BE BEARISH

Holding the base-case balance sheet, today's price requires a flat Automotive EBIT margin of about **-1.6%** for ten years: a car business that burns cash forever.

PRICE TARGET

€73

+33% vs €54.64

TOTAL RETURN

+38%

Incl. €2.62 dividend

BEAR CASE

€49

−10% · 35% prob.

BULL CASE

€110

+102% · 20% prob.

Not a dividend story. The 8.1% trailing yield (€4.40) is not underwritten: at a 37% payout on €7.08 EPS we model €2.62 (4.8%).

The risk is a value trap. The case fails if the cash is reinvested below the cost of capital or China erodes margins structurally. Slide 14 sets out what would change our mind.

Source: BMW Group Half-Year Report 2026 (net financial assets, segment equity); BMW Capital Market Day 2026; stockanalysis.com (6 Oct 2026); analyst model. Reverse DCF holds base-case balance sheet constant.

WHAT CHANGED

A guidance reset, a contracting China and tariffs took the stock down 37% in twelve months

FY2026 GUIDANCE: MARCH VS 16 JUNE

METRIC	MARCH 2026	16 JUN 2026
Group profit before tax	Moderate decrease	Significant decrease
Automotive EBIT margin	**4–6%**	**1–3%**
Automotive RoCE	6–10%	1–5%
Deliveries	At prior-year level	Slight decrease
Automotive free cash flow	Not in table	> €2.5bn

WHAT DROVE IT (BMW H1 2026 REPORT)

- → **China:** market contracting; BMW deliveries **−20.4%** in H1, in line with the market, and the decline accelerated in Q2
- → **Costs:** negative currency effects, higher depreciation and commodity prices; Middle East conflict lifting energy costs
- → **Tariffs:** about 1.25pp of Automotive margin in 2026 (about 1.5pp in 2025)
- → **H2:** workforce restructuring costs are inside the 1–3% range

H1 AUTOMOTIVE MARGIN

3.6%

vs 6.2% in H1 2025; Q2 only 2.3%

H1 GROUP EBT

€4.0bn

−29.4% YoY (€5.7bn)

H1 AUTOMOTIVE FCF

€1.3bn

vs €2.3bn in H1 2025

H1 DELIVERIES

1.157m

−4.2% YoY; Europe +5.4%, US +3.9%

Read-through: the 2026 cut is large, but guidance still implies a positive 1–3% margin and FCF above €2.5bn. The shares reflect something worse.

52-WEEK RANGE

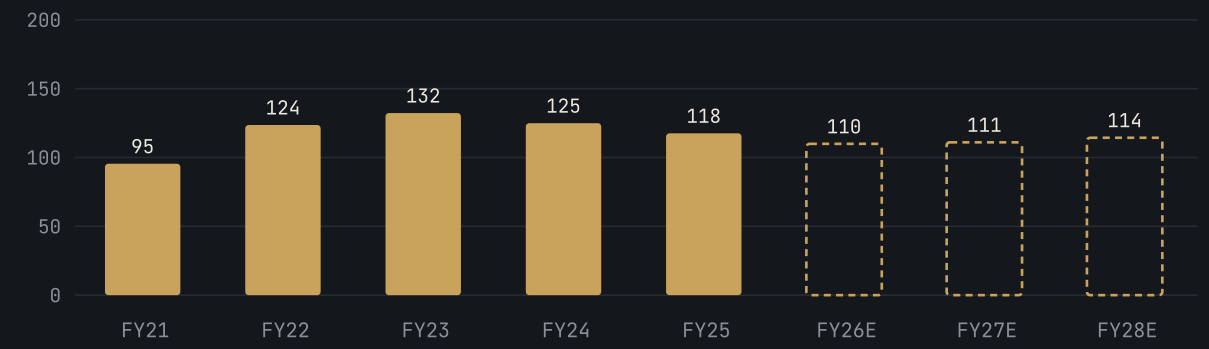
€52.36 – €97.92

Price is 4.4% above the 52-week low of €52.36 (29 Sep 2026)

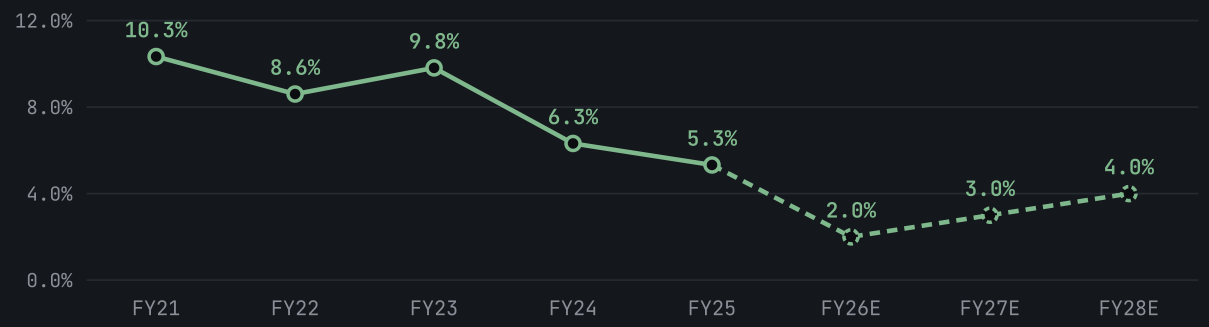
Source: BMW Group press release 16 Jun 2026 (guidance adjustment); BMW Group Half-Year Report 2026; BMW FY2025 outlook (March 2026); Yahoo Finance and stockanalysis.com for share price (6 Oct 2026).

Automotive margin has roughly halved since FY23, from 9.8% to 5.3%, and 2026 guidance points to about 2%

AUTOMOTIVE REVENUE (€BN), FY21–FY28E (FORECAST OUTLINED: BASE CASE)



AUTOMOTIVE EBIT MARGIN



FY2025 SNAPSHOT

Automotive revenue	**€117.6bn**
Automotive EBIT (margin)	€6.26bn (5.3%)
Automotive free cash flow	€3.24bn
Deliveries (BMW, MINI, Rolls-Royce)	2.46m (+0.5%)
R&D expenditure	€8.3bn (7.1% of Auto rev.)
Motorcycles revenue / EBIT	€3.1bn / €178m
Financial Services EBT (RoE)	€2.40bn (14.3%)
Group EBT / net profit	**€10.2bn / €7.5bn**
EPS / DPS (ordinary)	€11.89 / €4.40

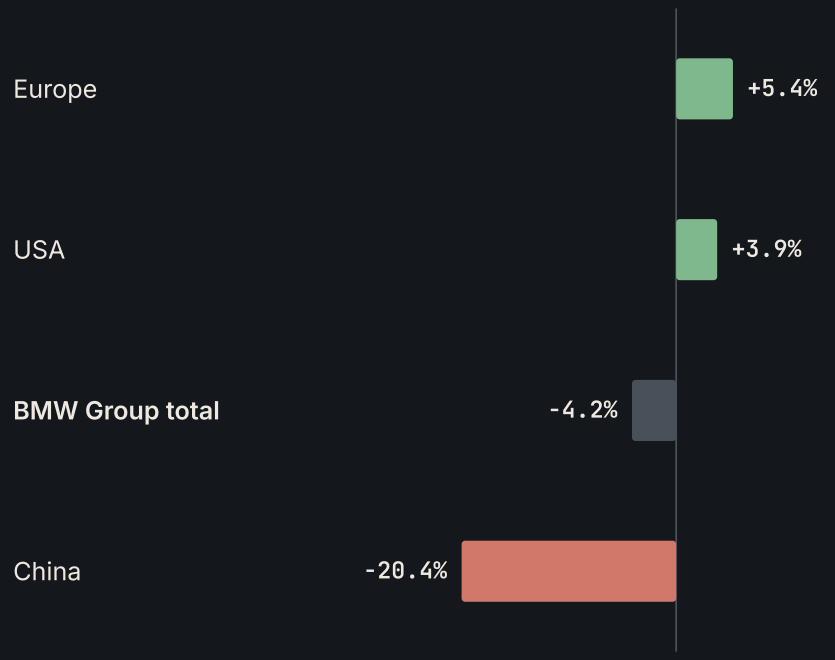
Five-year average Automotive margin: **8.1%** (10.3, 8.6, 9.8, 6.3, 5.3). Our base case never returns above 7%.

Source: BMW annual press releases FY21–FY24; BMW Group Report 2025 financial statements (segment note, cash flow statement); BMW Group Half-Year Report 2026. FY26E–FY28E are analyst estimates (base case).

DEMAND AND COMPETITION

BMW is holding its position in a contracting China while Europe and the US are growing

DELIVERIES, H1 2026 YEAR-ON-YEAR CHANGE BY SALES REGION



Q2 2026: Europe +7.6%, USA +11.9%; the China decline accelerated in the quarter

CHINA: THE SWING FACTOR

- → BMW H1 deliveries **−20.4%** against a China market of **−20.2%**: BMW says its market position "remained relatively stable"
- → HSBC (24 Sep 2026): Audi, BMW and Mercedes are down about 22% year to date while local premium brands are up about 15%; it forecasts China −25% in 2026 and −4% in 2027
- → BMW has launched price and product measures to stabilise transaction prices in China

TARIFFS AND POLICY

- → US-EU framework caps car tariffs at **15%**; a threatened rise to 25% (1 May 2026) is not assumed by BMW, which expects EU export tariffs to the US to stay unchanged
- → EU tariffs on US-built cars and parts fell from 10% to 0% from 1 July 2026

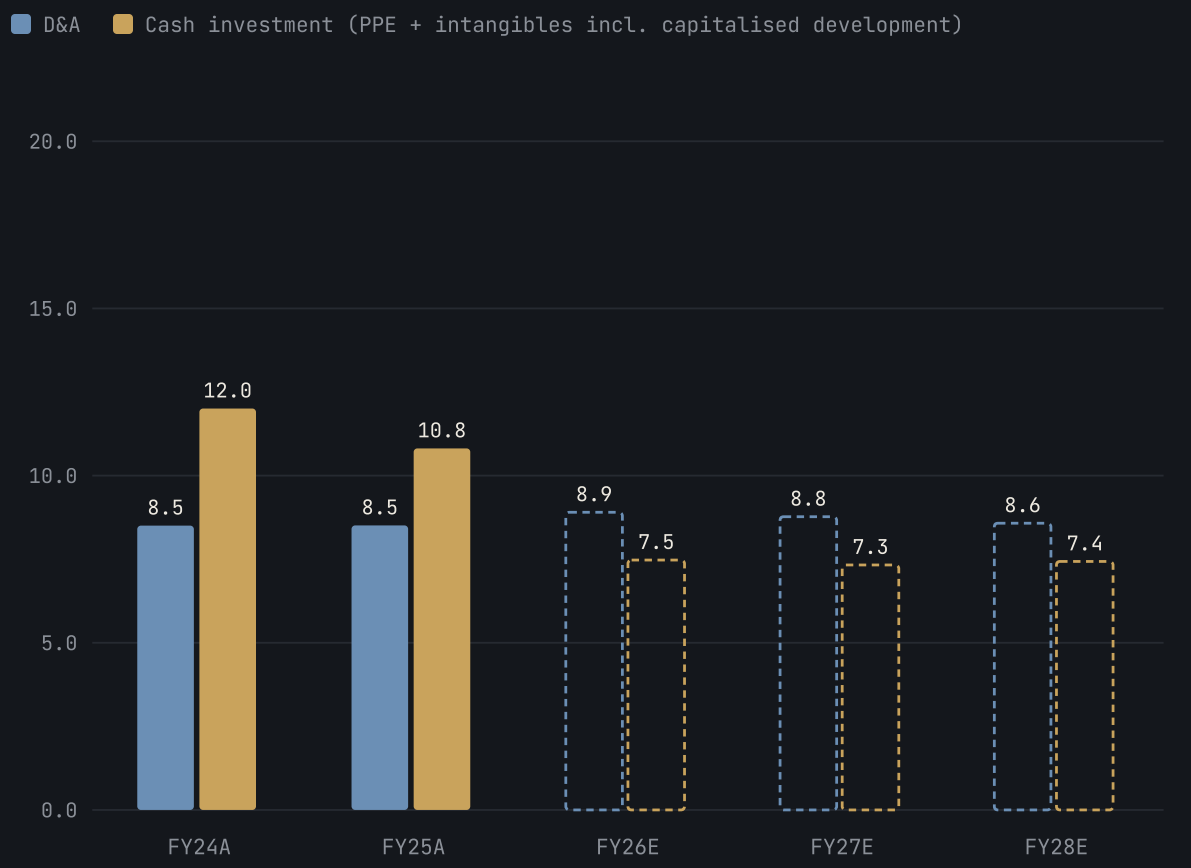
Bear case lens: if China share loss turns structural and tariffs stay, margins stay below the low end of the 3–5% target. We weight that outcome at 35%.

Source: BMW Group Half-Year Report 2026 (deliveries, China market, tariff assumptions); HSBC via Investing.com (24 Sep 2026); digitaldealer.com tariff tracker; European Parliament (CO2 averaging). Tariff status as reported by BMW; verify before relying on it.

PRODUCT CYCLE AND CASH

The investment peak is behind BMW: cash spend is falling below depreciation as Neue Klasse ramps

AUTOMOTIVE D&A VS CASH INVESTMENT (€BN), FY24A–FY28E



NEUE KLASSE (BMW H1 2026 REPORT)

- → **iX3** has "enjoyed strong demand" since the 2025 IAA unveiling; **i3** Launch Edition debuted in June 2026; new X5 and i3 follow later this year
- → **40+ new or revised models** by the end of 2027
- → All-electric cars were **19.8%** of Q2 deliveries (17.9% a year earlier); BEV deliveries +5.2% in Q2

WHY IT MATTERS FOR CASH

- → H1 cash investment **€3.5bn vs €5.1bn** (−32%); BMW guides R&D plus capex to a <9% ratio by 2028
- → Depreciation *rises* in 2026 (guidance), so EBIT is held back by past spend while cash is not
- → CMD target: Automotive FCF **> €5bn by 2028** and > €7bn early next decade

Source: BMW Group Report 2025 (FY24–FY25 D&A and cash flow statement); BMW Group Half-Year Report 2026; BMW Capital Market Day 2026 key messages. FY26E–FY28E are base-case analyst estimates.

EARNINGS PATH

We underwrite management's interim target, not its 8–10% ambition

AUTOMOTIVE EBIT MARGIN: HISTORY AND SCENARIO PATHS



MARGIN ASSUMPTIONS

	BEAR	BASE	BULL
FY26E (guide 1–3%)	1.0%	2.0%	2.5%
FY28E (CMD: 3–5%)	**2.5%**	**4.0%**	**6.0%**
FY30E	3.0%	6.0%	8.5%
Terminal (FY32E+)	**3.5%**	**7.0%**	**9.0%**

WHY THESE PATHS

→ **Base:** 2% in FY26, the 3–5% mid-point in 2028, then 7%, below the 8–10% target

→ **Bear:** below 3% through 2028, settling at 3.5%: a structural step-down

→ **Bull:** the 8–10% target is reached early next decade

BMW reaffirmed 8–10% as the long-term target at its Capital Market Day (29–30 Sep 2026), with 3–5% by 2028 as the interim step.

Source: BMW annual results FY21–FY25; BMW Group press release 16 Jun 2026 (FY26 guidance); BMW Capital Market Day 2026 key messages (interim 3–5% by 2028, 8–10% early next decade). Scenario paths are analyst estimates.

BALANCE SHEET AND CAPITAL ALLOCATION

€42.6bn of net financial assets and €16.4bn of finance-arm equity sit against a €32.7bn market cap

AUTOMOTIVE NET FINANCIAL ASSETS, 30 JUNE 2026 (€BN)



Market cap €32.7bn | Group equity €95.8bn (P/B 0.34x) | External net cash €11.7bn

WHY THE MARKET DOES NOT PAY FOR IT

- → **€31.0bn is a loan to BMW's own finance arm**, not free cash; only €11.7bn is external net cash
- → Cash earns roughly 2–3% after tax against a cost of equity near 9%, so unreturned cash destroys value
- → About 7% of Group cash sits in Russia with restricted transfers

WHY WE STILL GIVE IT CREDIT

- → Market cap is below Group equity, so BMW ran impairment tests at 30 June 2026: **no impairment even with a 10% deterioration**, at pre-tax discount rates of 13.7–14.3%
- → Financial Services earned a **14.3% RoE** in FY25 (2026 guide: 13–16%)
- → CMD: payout up 6 points with scope to 40%; buybacks continue

Our treatment: deduct Russian cash and 3% of revenue as operating cash, then apply a haircut = reinvested share × (1 − ROIC / WACC): 20% in the base case, 48% in the bear case.

Source: BMW Group Half-Year Report 2026 (net financial assets table, balance sheet, impairment test note, Russia cash); BMW Group Report 2025 (segment note); BMW Capital Market Day 2026. External net cash = cash €15.5bn + securities - external liabilities €3.8bn.

VALUATION FRAMEWORK

Three lenses, one conclusion: the share price embeds something worse than our bear case

LENS	METHOD	BEAR	BASE	BULL	ROLE
1 · Earnings power	**FY28E EPS × scenario P/E (6.5x / 7.5x / 8.5x)**	**€49**	**€74**	**€110**	**Price target: €72.63**
2 · Asset backing	Automotive DCF + net financial assets (haircut) + Financial Services at P/B	€104	€197	€267	Floor and upside if cash is returned
3 · Market-implied	Reverse DCF: margin that equates value to price	-1.6% flat Automotive EBIT margin FY27E+			Sanity check

WHY LENS 1 SETS THE TARGET

It is the lens the market itself uses, and the most conservative. We apply the multiple the market pays today (7.7x FY26E) to earnings two years out, when management's own interim target applies.

WHY LENS 2 IS NOT THE TARGET

It values the cash at par. The market does not, because the cash earns far below the cost of equity. The gap of about €122 per share (base) is the price of doubting capital allocation.

WHAT CLOSES THE GAP

Evidence that cash is returned or earns its keep: a higher payout (CMD: scope to 40%), continued buybacks, falling investment, and the margin recovery that lifts return on equity above the cost of equity.

Calibration check: our FY26E EPS of **€7.08** reproduces the €7.1 implied by consensus (forward P/E 7.67x at €54.64), and our valuation inputs reconcile to BMW's reported net financial assets, segment equity and share count.

Source: analyst model (BMW_DCF_Model.xlsx); stockanalysis.com (forward P/E, 6 Oct 2026). WACC 8.38% (Rf 3.48% Bund, beta 1.10, ERP 5.0%, 10.5% debt weight); terminal growth 1.0–2.0%; RONIC 10%.

From €7.08 of trough EPS to about €10 by FY28E: worth €74 at today's multiple

PRICE TARGET BUILD

	BEAR	BASE	BULL
FY26E EPS	€5.76	€7.08	€7.78
FY27E EPS	€6.34	€8.42	€10.60
FY28E Automotive EBIT (€bn)	2.6	4.6	7.2
FY28E Group EBT (€bn)	6.4	8.4	11.0
FY28E EPS	**€7.58**	**€9.88**	**€12.96**
Target P/E	6.5x	7.5x	8.5x
Value per share	**€49.28**	**€74.13**	**€110.14**
vs current price	-10%	+36%	+102%
Probability	35%	45%	20%
Probability-weighted price target		**€72.63**	**(+33%)**

EPS = (Automotive EBIT + Financial Services EBT €2.3bn + other €1.5bn) × (1 − 27.5% tax) × (1 − 2.5% minorities) ÷ 598.9m shares. Other EBT is calibrated so FY26E EPS matches consensus-implied €7.1.

VALUE PER SHARE VS PRICE AND CONSENSUS (€)

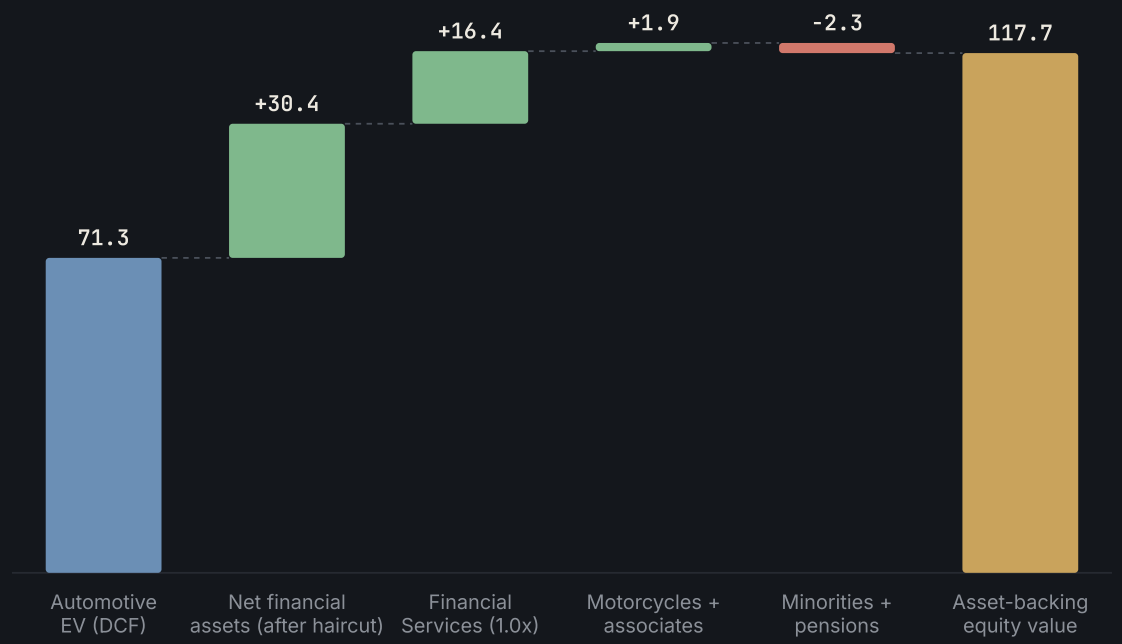


The market pays **7.7x** for FY26E trough EPS. We apply 7.5x to FY28E EPS, the year management's 3–5% interim target applies. No re-rating is assumed in the base case: the upside is earnings recovery.

Source: analyst model. Consensus: stockanalysis.com (S&P Global data), 1 Oct 2026, 21 analysts, average target €70.02, range €58.00–€82.50. Peer trailing P/E average (Mercedes, VW, Renault, Toyota) 7.6x, 6 Oct 2026.

Even after a 20% haircut on the cash, the market values the car business at less than zero

BASE-CASE EQUITY BRIDGE (€BN) VS MARKET CAPITALISATION



Market capitalisation €32.7bn | Asset backing €197 per share vs price €54.64 | Floor (Auto = 0, 30% haircut, FS 0.6x) €60

VALUE THE MARKET ASSIGNS TO AUTOMOTIVE OPERATIONS (€BN)

CASH HAIRCUT ↓ / FS P/B →	0.6x	0.8x	1.0x	1.2x
0%	-14.8	-18.0	-21.3	-24.6
10%	-11.0	-14.2	-17.5	-20.8
20%	-7.1	-10.4	**-13.7**	-17.0
30%	-3.3	-6.6	-9.9	-13.2
40%	0.5	-2.8	-6.1	-9.4
50%	4.3	1.0	-2.3	-5.6

Market cap less value of cash, Financial Services, Motorcycles and associates, plus minorities and pensions. Green = positive. Base case outlined.

To justify today's price you must haircut roughly half of the net financial assets *and* value Financial Services at 0.6x book, and still assume the car business is worth only about zero. Reverse DCF: a flat **−1.6%** margin for ten years.

Source: analyst model (DCF_Base sheet, equity bridge); BMW Group Half-Year Report 2026 (net financial assets, minorities, pensions); BMW Group Report 2025 (segment equity, Motorcycles). Automotive EV: 10-year FCFF DCF, WACC 8.38%, terminal growth 1.5%, RONIC 10%.

SCENARIOS AND SENSITIVITY

The skew is favourable: −10% in our bear case against +102% in the bull case

SCENARIO SUMMARY

	BEAR	BASE	BULL
Probability	35%	45%	20%
FY26E revenue growth (Automotive)	-8.0%	-6.5%	-5.0%
FY28E / terminal EBIT margin	2.5% / 3.5%	4.0% / 7.0%	6.0% / 9.0%
Terminal growth	1.0%	1.5%	2.0%
Automotive EV (DCF, €bn)	33.0	71.3	101.2
Cash reinvested / return on it	75% / 3%	50% / 5%	25% / 8%
Financial Services P/B	0.6x	1.0x	1.3x
Earnings-power value / share	**€49**	**€74**	**€110**
Asset-backing value / share	**€104**	**€197**	**€267**

China share loss proves structural, tariffs persist and Neue Klasse fails to lift pricing. Margins stay below the low end of management's 3–5% 2028 target.

VALUE PER SHARE (€): TARGET P/E VS FY28E AUTOMOTIVE EBIT MARGIN

P/E ↓ / FY28E MARGIN →	2%	3%	4%	5%	6%
6.0x	43	51	59	67	75
6.5x	47	55	64	73	82
7.0x	50	60	69	79	88
7.5x	54	64	**74**	84	94
8.0x	57	68	79	90	101
8.5x	61	73	84	95	107
9.0x	65	77	89	101	113

Green = above the €54.64 price. Base case outlined (7.5x, 4.0%). Other sensitivities (WACC, terminal margin, cash haircut, Financial Services P/B) are in the Excel model.

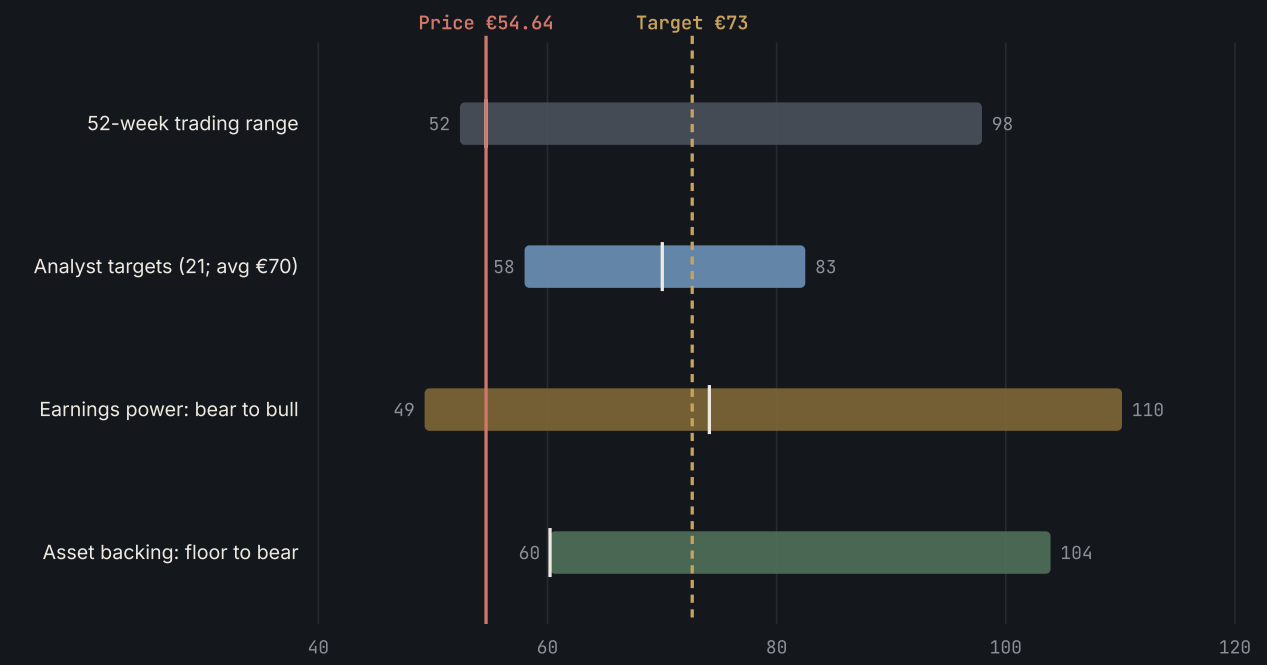
Even at a 2% FY28E margin (the 2026 guidance midpoint, no recovery at all) and a 7.5x multiple, earnings power is worth about **€54**.

Source: analyst model (Summary, Scenarios and Sens sheets). Scenario probabilities and assumptions are the analyst's own estimates; see the Excel model for every input and formula.

VALUATION SUMMARY

The price sits below the lowest analyst target and below our asset-backing floor

VALUE PER SHARE (€)



52-week high €97.92. Asset-backing base (€197) and bull (€267) lie beyond the axis. Tick marks show mid-points (price, consensus average, base case, floor).

STREET POSITIONING

Consensus rating (21)	Hold
Strong Buy / Buy / Hold / Sell / Strong Sell	5 / 3 / 10 / 2 / 1
JPMorgan, Bernstein	Buy, €82
Deutsche Bank	Buy, €78 (from €90)
UBS, Jefferies	Hold, €70
HSBC (downgrade 24 Sep)	Hold, €69

Our €73 target sits **inside** the Street range (€58–€82.50) and just above the €70 average. The differentiated view is not the target; it is the **risk/reward** and the balance-sheet floor beneath it.

Source: stockanalysis.com (S&P Global consensus, 1 Oct 2026); named broker targets as reported by Investing.com and other press, 29 Sep–1 Oct 2026; Yahoo Finance (52-week range); analyst model.

RISKS AND CATALYSTS

What would break the thesis, and what would prove it right

KEY RISKS

RISK	WHY IT MATTERS	OUR RESPONSE
Structural China share loss	Local premium brands +15% while Audi, BMW, Mercedes −22% (HSBC); China about a fifth of deliveries	Bear case (35%)
US tariffs rise to 25%	Tariffs already cost about 1.25pp of margin in 2026 (BMW); a higher US rate would add to that	Monitor
Cash is not returned	Reinvested below WACC, the €42.6bn is a value trap	Haircut 0–48%
Financial Services stress	Falling used-car prices hit remarketing; RoE guided 13–16%	FS at 0.6–1.3x
Dividend cut	Payout of 30–40% on lower EPS implies about €2.6, not €4.40	Modelled
Neue Klasse pricing / ramp	Margin recovery depends on mix and cost, not volume alone	Base vs bear

CATALYSTS (INDICATIVE TIMING)

- → **Nov 2026:** Q3 statement: margin run-rate versus the 1–3% guide
- → **Mar 2027:** FY26 results and FY27 guidance; first read on the 2027 recovery
- → **May 2027:** AGM: dividend and payout policy
- → **2027–28:** restructuring savings (about €700m a year per press reports) and falling R&D/capex ratio

WHAT WOULD CHANGE OUR MIND

- → Guidance cut again to a margin below 1%
- → Investment rising instead of falling (cash reinvested below WACC)
- → Credit losses or residual-value hits in Financial Services
- → Evidence that China share loss is accelerating beyond the market

Source: BMW Group Half-Year Report 2026; HSBC via Investing.com (24 Sep 2026); BMW Capital Market Day 2026. Event dates are indicative: confirm against the BMW Group financial calendar. Savings figure is from press reports, not BMW.

BUY: €73 price target, +33% upside, +38% expected total return

RECOMMENDATION

→ **BUY** BMW Group (XETRA: BMW) with a 12-month price target of **€73** (probability-weighted €72.63)

→ Bear €49 (−10%), base €74 (+36%), bull €110 (+102%)

→ Floor: assets alone support about €60 with the car business valued at zero

→ Position as a recovery and capital-return trade, not a yield trade

DISCLOSURES

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SOURCES

→ BMW Group Half-Year Report 2026 (30 Jun 2026): bmwgroup.com/ir

→ BMW Group Report 2025, Group Financial Statements (segment note, cash flow statement)

→ BMW Group press release, 16 Jun 2026: guidance adjustment (press.bmwgroup.com)

→ BMW Group Capital Market Day 2026 key messages (29–30 Sep 2026)

→ BMW annual results press releases FY21–FY25

→ stockanalysis.com / S&P Global: price, ratios, consensus (6 Oct and 1 Oct 2026)

→ Yahoo Finance and cash.ch: price cross-check; Trading Economics: 10-year Bund 3.48%

→ Damodaran: Germany equity risk premium (Jan 2026)

→ HSBC (24 Sep 2026) and broker targets via Investing.com; Just Auto, Quartz, XTB, Morningstar: guidance coverage

→ Model: BMW_DCF_Model.xlsx (all formulas and inputs; reconciled to a second implementation)