BMW profits dented by electric vehicle investment costs

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The costs of developing electric vehicles has sqeezed profits at BMW, although it has managed to avoid a slump in sales that has hit most carmakers

German high-end carmaker BMW on Thursday reported slumping second quarter profits, with pricey investment in electric cars sapping the bottom line, but it remained confident of hitting its financial targets.

Net profit at BMW fell 28.7 percent compared with a year earlier in the April-June period to 1.5 billion euros ($1.7 billion), below the consensus of forecasts of analysts surveyed by Factset.

Chief executive Harald Krueger said the Munich-based group was investing in development of all-electric, hybrid and fuel cell vehicles, as well as upgrading traditional internal combustion engines.

BMW reported increased demand for its i3 compact car and pointed to five all-electric models slated for release over the coming two years.

An all-electric variant of the Mini is set to begin rolling off its Oxford, UK production line in November.

Finance director Nicolas Peter pointed in a telephone conference to "high capital expenditure and upfront investments" which amounted to 1.4 billion euros over the three months.

Meanwhile, "the increasingly challenging market environment and sustained intense competition dampened business development," Peter added, while costs for raw materials and for meeting European carbon emissions targets grew.

Sales increased 2.9 percent, to 25.7 billion euros, but operating, or underlying profit fell 28.4 percent, to two billion euros.

BMW highlighted that it had managed to increase unit sales in the first half, climbing 0.8 percent to more than 1.2 million units, pushing back against a global auto market predicted to contract over 2019.

"We are growing—in a declining and highly competitive world car market," CEO Krueger said.

Krueger is set to cede his post this month after coming in for criticism over BMW's slow progress on electrification.

Looking ahead to the full year, the firm confirmed its outlook for a "slight increase in the number of deliveries".

Push on profitability

Profit margins will be slashed in part by a provision of 1.4 billion euros BMW set aside for an antitrust probe under way at the European Commission—which contributed to shrinking the bottom line by half over the first six months.

Brussels in April accused the company of agreeing with Volkswagen and Daimler not to compete on emissions-reduction technology.

BMW expects an operating margin of between 4.5 and 6.5 percent this year—down from 10.1 percent in 2018.

Investors nevertheless appeared encouraged as the group reported making progress on profitability.

The closely-watched operating margin in its automotive business reached 6.5 percent in the second quarter, lower than the 8.6 percent seen a year before, but up 0.9 points compared with the first three months of 2019.

Bosses are looking to secure still higher margins over the coming years by trimming 12 billion euros of costs, partly by slimming down the product range and boosting efficiency.

"We continue to activate all levers at our disposal to secure our profitability," finance chief Peter said.

Shares in BMW added just over one percent to trade at 67.54 euros around 11:40 am in Frankfurt (0940 GMT), against a DAX blue-chip index up 0.3 percent.