

Fiat Chrysler, Peugeot in talks to create \$50 bn car giant

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Fiat is back seeking a French partner with PSA after a tie-up with Renault failed earlier this year

Fiat Chrysler and Groupe PSA, the maker of Peugeot and Citroen cars, announced Wednesday they are in merger talks that could propel them into the top ranks as the world's fourth largest automaker.

The potential \$50 billion tie-up, coming on the heels of a failed attempt earlier this year to combine Fiat Chrysler with Renault, could help

navigate both a highly competitive global environment and a costly shift from traditional to electric cars.

Italian-US carmaker Fiat Chrysler Automobiles (FCA) said "there are ongoing discussions aimed at creating one of the world's leading mobility groups" with France's PSA.

A similar statement from PSA offered no additional details.

Both companies were holding board meetings Wednesday evening, sources said.

A source close to the matter said that the two companies could announce as early as Thursday that they have entered exclusive discussions.

According the French union CFDT, PSA's management has invited employee representatives to a meeting early Thursday.

A person with knowledge of the matter told AFP on Tuesday that a merger—which is not guaranteed—would create a firm valued at about \$50 billion.

A combined FCA-PSA would produce the scale needed in an industry facing slowing demand, with 8.7 million vehicles sold per year and 184 billion euros in annual sales.

Auto manufacturing globally—which accounts for 5.7 percent of global GDP and eight percent of goods trade—shrank by 1.7 percent last year by volume of vehicles produced, according to the IMF.

Size matters

If the deal goes through, PSA could gain access to the lucrative US

market while fulfilling the long-held goal of late ex-FCA head Sergio Marchionne for a merger to survive escalating costs and competition.

The tie-up would make the new automaker the fourth largest in terms of sales behind Volkswagen, Renault-Nissan-Mitsubishi and Toyota, and would combine a host of well-known brands from Alfa Romeo, Jeep and Dodge to Citroen, Opel and Peugeot.

Investors cheered the news. FCA shares in Milan closed up nine percent on Wednesday while PSA shares added four percent in Paris.

"We're in a period where grey skies are gathering over the auto industry. When business is harder, competition is stronger and margins get thinner," said Flavien Neuvi, director of the Cetelem Observatory, a research unit of BNP Paribas.



Fiat Chrysler would benefit from the investments PSA has made in electric vehicles, like the electric Peugeot 208 model

To offset the billions required to invest in advanced technologies, size is critical, Neuvy added.

Talks to merge FCA with Renault broke down in June, scuppered in part by resistance from the French government, which owns a stake in Renault—as it does PSA.

Analyst Michael Hewson at CMC Markets UK cautioned that political pressure could again be an obstacle, given France's approximately 12 percent stake in PSA.

"It is hard not to see that this attempt by Fiat might well go the same way as the failed Renault attempt earlier this year," Hewson said in a note. "Business and government always make uncomfortable bedfellows."

France's economy ministry said in a statement that the state would be "particularly vigilant" about jobs, corporate governance and preserving the industrial footprint when assessing any merger.

Italian vice economy minister, Antonio Misiani, said it was "vital to preserve (existing) sites in Italy."

Under a merger, Carlos Tavares, the chief executive of Peugeot's parent, Groupe PSA, would lead the company as CEO while John Elkann, FCA's chairman, would be chairman, one source said.

Consolidation

A new company would bring under one roof Alfa Romeo, Chrysler, Citroen, Dodge, DS, Jeep, Lancia, Maserati, Opel, Peugeot and Vauxhall.

FCA is weaker in Europe than PSA, with its French and German mass market brands. The company also lags in bringing electric cars to market and investing in new forms of mobility.

PSA meanwhile is absent from the massive US market, where FCA sells the Chrysler, Jeep, Dodge and Ram brands.

China's Dongfeng holds a 14 percent stake in PSA, which could be an asset as a larger PSA-FCA tries to take a share in the world's largest single car market.

"Both FCA and PSA need an alliance," Marco Bentivogli, head of the Italian trade union Fim-Cisl, said late on Tuesday when reports of the merger talks first began to circulate.

Patrick Michel, head of the FO trade union at PSA, expressed scepticism but said the deal could give PSA "greater heft vis-a-vis giants such as Toyota or Volkswagen," plus access to advanced technologies lacking at Fiat.

PSA posted revenues of 74 billion euros (\$82 billion) in 2018 compared to FCA's 110 billion euros.

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