Volkswagen confident despite braking car market

30 October 2019, by Yann Schreiber

Lower costs related to the 'dieselgate' emissions cheating scandal helped VW's bottom line, even if it is selling fewer cars

German car giant Volkswagen said Wednesday it was confident of hitting financial targets despite a lower unit sales outlook, warning "vehicle markets will contract faster than previously anticipated in many regions".

The Wolfsburg-based group now expects deliveries to match 2018's level, rather than the slight growth forecast until now, after unit sales fell 1.5 percent in the year to September at around eight million.

A global growth slowdown triggered by trade wars and Brexit uncertainty has hit the car industry particularly hard, while VW's Asian sales were dragged down by a three-percent fall in the vital Chinese market.

"The best of the party is over" for the car sector, finance chief Frank Witter told journalists in a telephone conference.

Worldwide demand has fallen around five percent, Witter said, prompting VW to slash its production plans for this year by 900,000 vehicles.

But in January-September, net profits at the group grew 19 percent, to 11.2 billion euros ($12.5 billion).

Sales income added 6.9 percent, reaching 186.6 billion euros, making for an operating profit up 24.5 percent, at 13.5 billion.

Performance was "good... amid a challenging market environment," Witter said, adding he was "optimistic that we will achieve our full-year targets".

The sprawling 12-brand group is confident of increasing revenue "as much as" five percent year-on-year, and keeping its closely-watched operating profit margin between 6.5 and 7.5 percent, compared with 7.3 percent last year.

SUVs ramping up

"VW was able to clearly beat market expectations for revenue and profits," LBBW analyst Frank Schwope commented.

"While various carmakers and parts suppliers had to issue profit warnings in recent months, VW is bursting with strength."

Witter reported that "above all, we're growing in the highly profitable SUV segment," helping pump up the group's operating margin to 7.9 percent in January-September.

Around one-third of the group's vehicles sold so far this year have been SUVs.

The flagship VW brand managed to increase revenue five percent while selling the same number of cars, and plans to roll out its all-electric new ID.3

range beginning later this year.

Meanwhile, the group suffered lower charges related to the company's "dieselgate" emissions cheating scandal dating back to 2015.

In January-September 2018, the diesel burden reached 2.4 billion euros, falling to 1.3 billion over the same period this year.

A major element in 2019's total was a 535-million-euro fine Stuttgart prosecutors issued in May to sports car subsidiary Porsche over so-called "defeat devices", designed to cheat regulatory emissions tests.

Elsewhere in the group, "we cannot be satisfied with developments at Audi," Witter said.

The high-end subsidiary's sales continued to suffer from new emissions testing procedures that have disrupted production, while revenues were also weighed down by higher investments in new technologies and growing labour costs.

Shares in Volkswagen were up 1.4 percent around 11:40 in Frankfurt (1040 GMT) at 175.68 euros, against a DAX blue-chip index down 0.2 percent.

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