

BMW Group: priced for a permanent trough

Written research note supporting the pitch deck and the Excel valuation model. Data as of 6 October 2026.

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Summary

RATING BUY	SHARE PRICE €54.64	12-MONTH TARGET €73	UPSIDE +33%	EXPECTED TOTAL RETURN +38%
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BMW's shares have fallen 37% in twelve months to €54.64 after management cut its 2026 outlook on 16 June. The Automotive EBIT margin is now guided to 1–3% (from 4–6%), return on capital employed to 1–5% (from 6–10%) and deliveries to a slight decrease. China is the main cause: BMW's deliveries there fell 20.4% in the first half, in line with a market down 20.2%, and tariffs still cost about 1.25 points of margin.

We rate BMW a **BUY** with a 12-month price target of **€73** (+33%; +38% including the €2.62 dividend we expect). The target is the probability-weighted value of FY28E earnings per share at a scenario multiple: bear €49, base €74, bull €110. We use the lens the market itself uses, at the multiple it pays today. The case does not need a re-rating or a return to management's 8–10% margin target. It needs the Automotive margin to reach the middle of the 3–5% interim target in 2028.

The asymmetry comes from the balance sheet. Automotive net financial assets (€42.6bn) and Financial Services equity (€16.4bn) together exceed the €32.7bn market capitalisation. Holding our base-case balance-sheet assumptions, today's price implies that the car business is worth about –13.7bn, equivalent to a flat Automotive EBIT margin of about –1.6% for ten years. That is a worse outcome than our bear case.

1. What happened

Three pressures arrived together. First, **China**: the market is contracting and the decline accelerated in the second quarter. BMW's first-half deliveries fell 20.4% there while Europe grew 5.4% and the US 3.9%. HSBC (24 September) notes that Audi, BMW and Mercedes combined are

down about 22% year to date while local premium brands are up about 15%, and expects China to fall about 25% in 2026 and a further 4% in 2027.

Second, **costs**: BMW cites negative currency effects, higher depreciation, higher commodity prices, and energy costs linked to the Middle East conflict. Tariffs reduced the Automotive margin by about 1.5 points in 2025 and are expected to cost about 1.25 points in 2026. A workforce restructuring programme takes effect in the second half and is already inside the guidance.

	H1 2026	H1 2025	CHANGE
Automotive EBIT margin	3.6%	6.2%	-2.6pp
Group profit before tax	€4,045m	€5,727m	-29.4%
Automotive free cash flow	€1,290m	€2,345m	-45%
Deliveries	1,156,727	1,207,594	-4.2%
Automotive cash investment	€3,502m	€5,124m	-32%

Third, **sentiment and positioning**. Consensus is Hold (21 analysts: 5 Strong Buy, 3 Buy, 10 Hold, 2 Sell, 1 Strong Sell) with an average target of €70.02 and a range of €58.00–€82.50. HSBC downgraded to Hold (€69) on 24 September and Deutsche Bank cut its target to €78 from €90. What did *not* change matters as much: Financial Services is still guided to a 13–16% return on equity, Automotive free cash flow is still guided above €2.5bn, and at its Capital Market Day on 29–30 September BMW reaffirmed 8–10% as the long-term margin target, with 3–5% by 2028 and free cash flow above €5bn by 2028.

2. What the price implies

At €54.64 BMW trades on 7.7x our FY26E EPS of €7.08, which reproduces the €7.1 implied by the consensus forward P/E of 7.67x. It trades on 0.34x book value: Group equity is €95.8bn against a market capitalisation of €32.7bn. BMW itself noted that its market capitalisation was below Group equity at 30 June and ran impairment tests. None was required, even with a 10% deterioration in assumptions, at pre-tax discount rates of 13.7–14.3%.

The residual-income identity makes the implication concrete. A price-to-book of $(\text{ROE} - g) \div (\text{cost of equity} - g)$ equal to 0.34 requires a return on equity of about **4.1%** in perpetuity, using our 8.98% cost of equity and 1.5% growth. Our FY26E return on equity is 4.4%. In other words the market capitalises the 2026 trough as if it were permanent. A reverse DCF reaches the same conclusion: with the base-case balance sheet, the price is justified only by a flat Automotive EBIT margin of –1.6% from FY27E.

PEER (6 OCT 2026)	TRAILING P/E	FORWARD P/E	P/B	DIVIDEND YIELD
BMW	5.2x	7.7x	0.34x	8.1%
Mercedes-Benz	7.7x	6.7x	0.40x	8.6%
Volkswagen (pref.)	6.6x	n/m	0.17x	7.6%
Renault	7.7x	3.8x	0.32x	8.5%
Stellantis	n/m	5.1x	0.19x	none
Porsche AG	46.5x	24.2x	1.71x	2.4%
Toyota	8.4x	10.5x	0.90x	3.4%

Source: stockanalysis.com. Multiples are consolidated aggregator figures. EV/EBITDA is not shown because captive-finance debt makes it non-comparable across carmakers. VW forward P/E (2.5x) is omitted as unreliable.

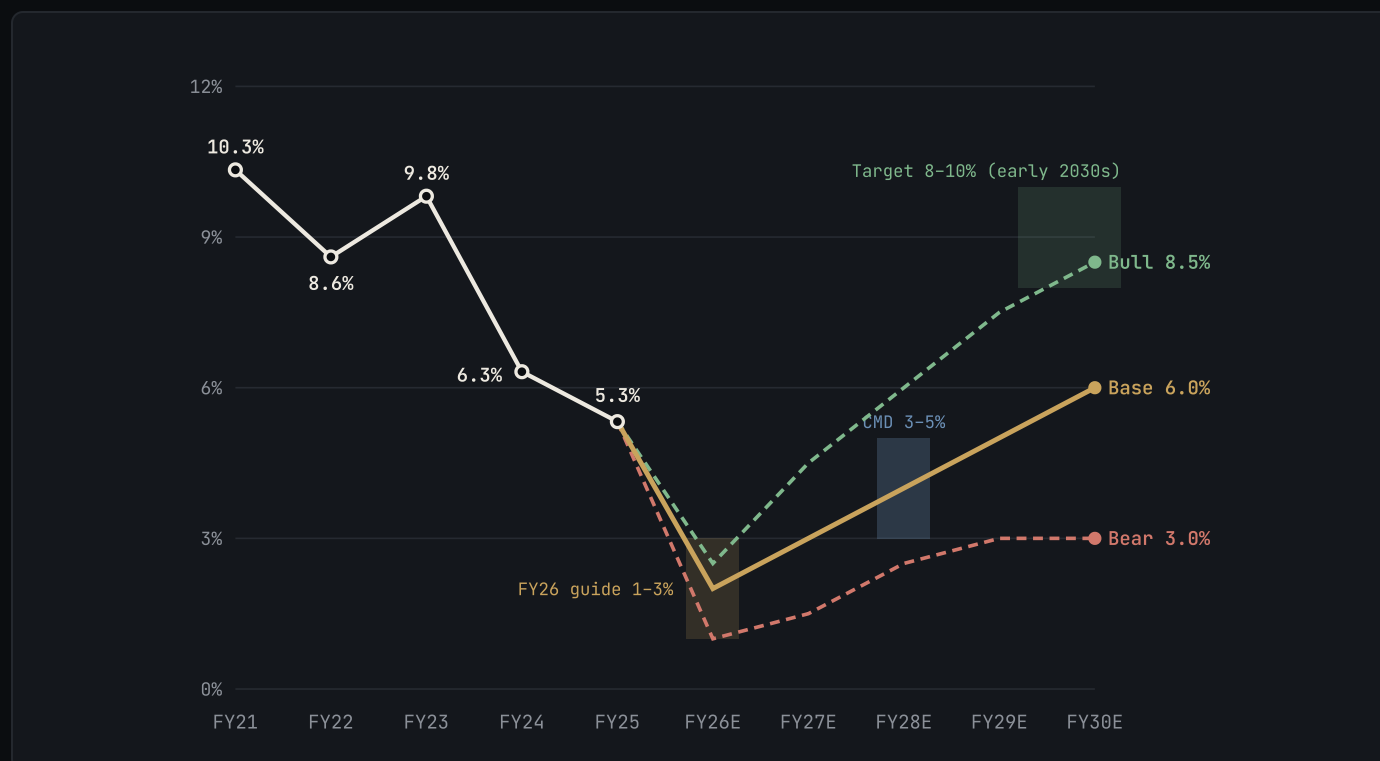
The comparison is a caution as well as an argument. The whole European sector trades near or below book, and on forward earnings BMW (7.7x) is not cheaper than Mercedes-Benz (6.7x). The thesis is therefore not relative cheapness. It is that the sector, and BMW in particular, is being priced on trough earnings while carrying a balance sheet that earns almost nothing in the price.

3. Earnings view and price target

Our earnings bridge adds Automotive EBIT, Financial Services EBT (€2.3bn, held flat: the 2026 return-on-equity guide of 13–16% on about €16bn of equity) and other items (€1.5bn, covering Motorcycles, the financial result and eliminations), then applies a 27.5% tax rate and a 2.5% minority share, and divides by 598.9m shares. The other-items figure is calibrated so that FY26E EPS (€7.08) matches the consensus-implied €7.1; FY24 and FY25 residuals were €540m and €1,576m.

	BEAR	BASE	BULL
Probability	35%	45%	20%
Automotive EBIT margin FY26E / FY28E / terminal	1.0% / 2.5% / 3.5%	2.0% / 4.0% / 7.0%	2.5% / 6.0% / 9.0%
FY26E / FY27E EPS	€5.76 / €6.34	€7.08 / €8.42	€7.78 / €10.60
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
Versus current price	-10%	+36%	+102%

The multiples are anchored to the market, not to history: the base 7.5x sits at the peer trailing average of 7.6x (Mercedes-Benz, Volkswagen, Renault, Toyota) and just below the 7.7x BMW trades on for FY26E. The bear 6.5x matches Volkswagen's trailing 6.6x and the bull 8.5x Toyota's 8.4x. The probability-weighted value is $35\% \times €49.28 + 45\% \times €74.13 + 20\% \times €110.14 = €72.63$, which we round to €73.



Automotive EBIT margin: history and scenario paths. The base case takes the middle of management's 3–5% target for 2028 and stops at 7%, below the 8–10% long-term target and the 8.1% FY21–25 average.

Dividend. The 8.1% trailing yield (€4.40) should not be underwritten. BMW has paid out 37% of earnings (FY25: €4.40 on EPS of €11.89) and guides to 30–40%. On FY26E EPS of €7.08 that implies about €2.62 (4.8%), paid in May 2027. We include it in the expected total return but not in the price target.

4. Cross-check: asset backing

A sum-of-the-parts values the Automotive business with a ten-year free-cash-flow DCF, then adds the non-operating assets. We build free cash flow from EBIT (NOPAT plus depreciation, less cash investment including capitalised development, less working capital and restructuring timing) rather than using BMW's reported Automotive free cash flow, which is struck after interest and tax and so includes income on the net financial assets that we value separately. Using it would double-count.

Discount rate: WACC 8.38% (risk-free 3.48% Bund; beta 1.10; equity risk premium 5.0%; cost of equity 8.98%; pre-tax debt cost 4.48%; 10.5% debt weight at market values). **Terminal value:** Gordon growth at 1.0% / 1.5% / 2.0% with a 10% return on new capital, which puts terminal value at 54% of base-case enterprise value and implies 8.9x EBIT and 4.8x EBITDA, a sanity check we find reasonable for a cyclical manufacturer.

Net financial assets of €42.6bn include €31.0bn lent to Financial Services, so external net cash is only €11.7bn. We deduct cash in Russia (7% of Group cash, €1.3bn) and 3% of revenue as operating cash, leaving €38.1bn of excess. We then apply a capital-allocation haircut equal to the share of cash reinvested multiplied by $(1 - ROIC \div WACC)$: 48% in the bear case (75% reinvested at 3%), 20% in the base case (50% at 5%) and 1% in the bull case (25% at 8%). **Financial Services** is valued at book (€16.4bn) times 0.6x / 1.0x / 1.3x; at the mid-point 14.5% return on equity guide, a 9.5% cost of equity and 2% growth the justified multiple is about 1.7x, so 1.0x is conservative. Motorcycles and associates are held at book and minorities and pensions deducted.



Base-case equity bridge in €bn. Market capitalisation is €32.7bn.

ASSET-BACKING VALUE PER SHARE	BEAR	BASE	BULL
Automotive EV (€bn)	33.0	71.3	101.2
Excess net financial assets after haircut (€bn)	19.8	30.4	37.6
Financial Services (€bn)	9.9	16.4	21.4
Value per share	€104	€197	€267

Why this is a cross-check and not the target. Valuing cash at par assumes it is eventually returned or earns its cost of capital. The market does not give that credit, because the cash earns roughly 2–3% after tax against a cost of equity near 9%. The gap between the asset-backing value and the earnings-power value (about €122 per share in the base case) is the price of doubting capital allocation. It becomes upside if payouts rise (BMW's Capital Market Day gives scope to a 40% payout), if buybacks continue, and if investment keeps falling. As a stress test, with the car business valued at zero, a 30% haircut and Financial Services at 0.6x book, the assets alone support about **€60** per share, above the current price.

5. Cash flow and the investment cycle

Cash spend is the lever that does not depend on China. Automotive investment in property, plant, equipment and intangibles (including capitalised development) fell from €12.0bn in FY24 to €10.8bn in FY25, and was €3.5bn in the first half of 2026 against €5.1bn a year earlier. BMW guides R&D plus capex to below a 9% ratio in 2028. Depreciation, by contrast, *rises* in 2026

because of past investment and capitalised development, which holds EBIT down while cash is not affected. Our base case has depreciation of €8.9bn against cash investment of €7.5bn in FY26E, and free cash flow to the firm of €3.2bn (BMW guides Automotive free cash flow above €2.5bn). By FY28E our base-case figure is €4.1bn, against management's target of more than €5bn on its own definition, which is struck after interest and tax and so also includes income on the net financial assets that we value separately.

Neue Klasse supports the margin path. The iX3 has "enjoyed strong demand" since its 2025 unveiling, the i3 Launch Edition debuted in June 2026 and a new X5 follows later this year, with more than 40 new or revised models by the end of 2027. All-electric cars were 19.8% of second-quarter deliveries (17.9% a year earlier) and BEV deliveries grew 5.2% in the quarter.

6. Risks and what would change our mind

RISK	WHY IT MATTERS	HOW WE TREAT IT
Structural China share loss	Local premium brands are growing while Audi, BMW and Mercedes shrink (HSBC); China is roughly a fifth of deliveries	Bear case, 35% probability
US tariffs rise to 25%	A threatened rise (1 May 2026) is not assumed by BMW; tariffs already cost about 1.25 points of margin in 2026	Monitor; not in base case
Cash is not returned	If reinvested below the cost of capital the €42.6bn is a value trap	Haircut of 0-48%; earnings lens is the target
Financial Services stress	Falling used-car prices reduce remarketing income; return on equity is guided to 13-16%	P/B of 0.6-1.3x
Dividend cut	A 30-40% payout on lower EPS implies about €2.6, not €4.40	Modelled
Neue Klasse pricing and ramp	Margin recovery depends on mix and cost, not volume alone	Base versus bear

What would change our mind: a further guidance cut to a margin below 1%; Automotive investment rising instead of falling; credit or residual-value losses in Financial Services; or evidence that BMW's China share loss is accelerating beyond the market.

Catalysts (indicative; confirm on the BMW financial calendar): Q3 statement in November 2026; FY26 results and FY27 guidance in March 2027; the AGM and dividend decision in May 2027; and restructuring savings (about €700m a year according to press reports, not BMW) in 2027-28.

7. Method, data quality and limitations

Reported figures come from BMW's own documents: the Half-Year Report 2026, the FY2025 Group Financial Statements, the 16 June 2026 guidance release and the Capital Market Day key messages. FY21–FY23 history is from BMW's annual press releases. Segment and cash-flow items were cross-checked internally (for example, Automotive operating cash flow less investment reconciles to reported free cash flow). **Market data** (price, ratios, consensus) come from stockanalysis.com (S&P Global data); the price was confirmed on Yahoo Finance and cash.ch. Peer multiples are single-source aggregator figures.

Analyst assumptions are labelled in the workbook: equity risk premium (5.0%, versus Damodaran's 4.23% for Germany in January 2026), beta (1.10, versus observed 0.77–1.02), debt spread, tax rates, return on new capital, the Financial Services and other-items EBT, scenario growth and margins, target multiples, haircuts and probabilities. **Not used** because not verified: BMW bond yields, a 2026 S&P rating confirmation, Q3 2026 global deliveries, and the US 10-year yield (irrelevant for euro cash flows). BMW's tariff assumption is reported as BMW states it. The Excel model recalculates every figure in this note and was verified against a second, independent implementation.

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