



# Porsche SE

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Albert Bridge Capital

**VALUEx**

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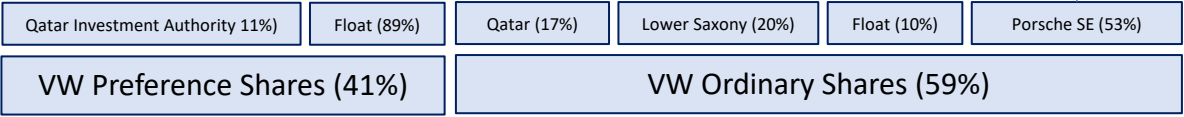
# Porsche SE

- Porsche SE is actually a story about four companies: Volkswagen AG, Porsche AG, Traton SE, and a family-controlled holding company called Porsche SE.
  - And it can get a little complicated, but not as much as it first appears.
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- Firstly, Volkswagen is an automobile manufacturer. It has non-voting *preference* shares (VOW3 GY) and voting *ordinary* shares (VOW GY).
  - Volkswagen owns many automotive and truck brands, among them Porsche.
  - Porsche, or Porsche **AG**, is an automaking entity within Volkswagen. Porsche AG was spun out and listed in September of 2022, with stock symbol P911 GY.
  - Volkswagen also spun out its truck business, Traton, in June of 2019. Its stock symbol is 8TRA GY.
  - Porsche **SE** is *not* an automaking business. Its stock symbol is PAH3 GY. It is a holding company, and owns a controlling interest in the Volkswagen ordinary shares, and therefore controls VW.
  - Porsche SE also owns a stake in Porsche AG.
  - **This is the setup for one of the most underpriced, listed and liquid large-cap assets in capital markets.**

# Porsche SE



Porsche SE



Volkswagen AG



Volkswagen

Bentley

Bugatti

Lamborghini

Porsche Preference Shares (VW 75%, Qatar 10%, Float 15%)

Porsche Ordinary Shares (VW 75%, Porsche SE 25%)

Porsche AG



Audi

Skoda

Seat

TRATON (VW 90% Stake)

MAN

Scania

Navistar

VW Truck & Bus





- Share Prices Today:

	15-Jun-24
Volkswagen Prefs Share Price	€ 104.50
Volkswagen Ords Share Price	€ 112.40
Traton Share Price	€ 29.65
Porsche AG Share Price	€ 70.62
Porsche SE Share Price	€ 42.46

- The question we are trying to answer is do these share prices accurately reflect the value of the company and assets they represent and, implicitly, and are they reasonably tied to each other?
- Or, are there disconnects?
- **And if Mr. Market is indeed making some sort of bias-induced calculation mistake, and if there are valuation anomalies, then why is that the case, and what might change the status quo?**

- So first things first, we'll start with Volkswagen.
- It should be pointed out that the VW preference and ordinary shares are not always perfectly connected in the first place. Most famously, we had the 2008 episode when the VW ords traded at a preposterous premium to the prefs, and VW briefly became the most valuable company in the world.
- I won't get deep\* into the "why" of it now, but today the VW preference shares trade at a 7% discount to the ords.
- Where things started getting very interesting (for me, again) has been over the past few years. A decision to first list Traton (right before COVID, luckily) and then to list Porsche AG in late 2022 was a **welcome departure from previous firm policy and strategy.**

[\\*https://www.albertbridgecapital.com/post/reminiscences-of-a-stock-operator-the-volkswagen-chronicles-ten-years-later](https://www.albertbridgecapital.com/post/reminiscences-of-a-stock-operator-the-volkswagen-chronicles-ten-years-later)

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## VW Prices Porsche IPO at Top of Range

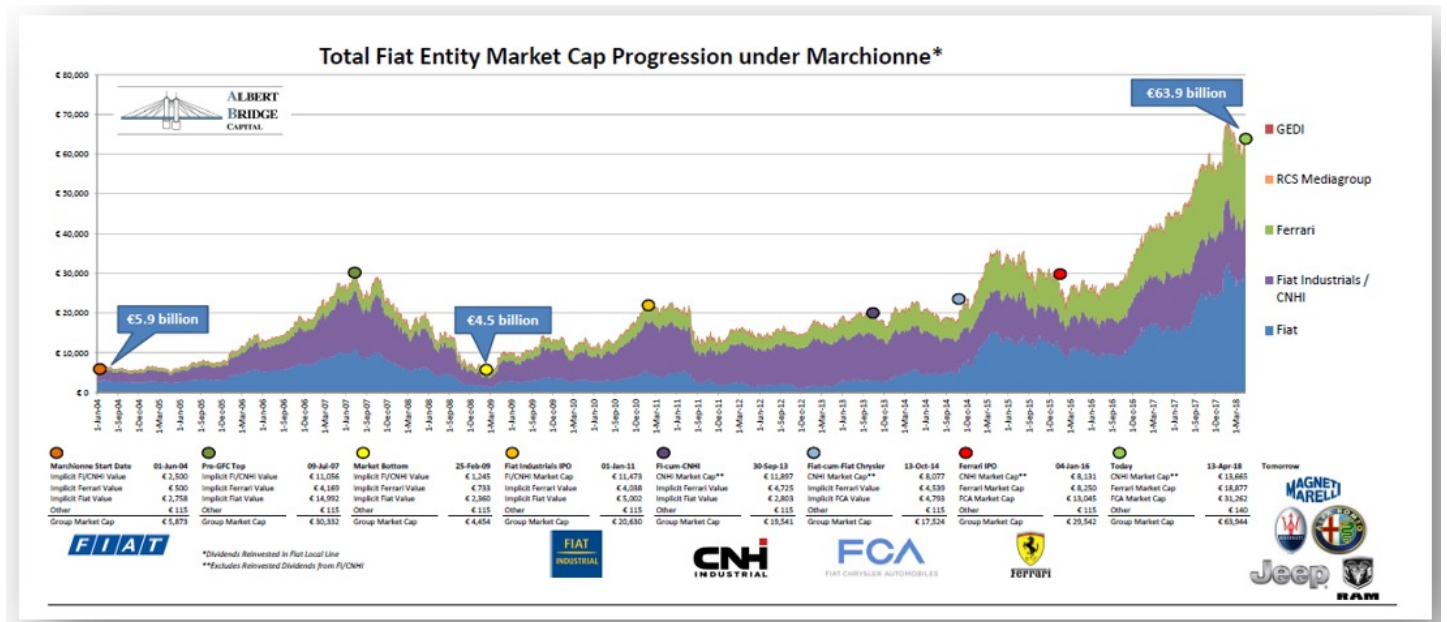
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- For some background, and perhaps motivation, the Jedi Master of creating shareholder value within automotive companies was Sergio Marchionne at (then) Fiat Chrysler.
- His first bold stroke was to combine the truck and heavy equipment businesses at Fiat, and list them as a separate entity (Fiat Industrial-cum-CNH Industrial). He then spun Ferrari out of Fiat-Chrysler.
- Believe it or not, Ferrari was basically valued at Fiat multiples (or even lower) when the brand was sitting within the structure. And it wasn't like everyone didn't know that, it just needed to be "released".
- Anyway, in the process of his tenure, Marchionne took a €6 billion market cap business and turned it into something that people would pay over €60 billion for ten years later.
- Does this "list the trucks business, then list your marquee luxury brand business" strategy sound familiar?



- So, where are we today with Volkswagen?
- The first thing we'll do is back out the financials from VW's consolidation of publicly-listed Porsche AG and Traton shares; to see what kind of market cap, sales, and profits remain for the main business (you know, the one with VW, Audi, Bentley, Lamborghini, Bugatti and others).
- VW has a market cap of about €55 billion today.
- Porsche AG has a €65 billion market cap, and VW's 75% stake is worth about €48B to VW (that isn't a typo).
- **This stake alone is worth nearly 90% of the current Volkswagen market cap.** It is as if the rest of the businesses (and its €15 billion of net industrial cash) are not worth much at all. But they are.
- On the next pages, you'll see a (very rudimentary) methodology showing how we think Volkswagen's non-Porsche/non-Traton brands and business alone are worth ~€60 billion.
- Or even if you value their net cash at zero (a bit silly), VW's remaining brands are still worth another 100% of *the entire market cap* of VW today - as if you are getting the Porsche and Traton stakes, and the cash for free.





- Ahh yes, don't forget little old Traton, where the market value of VW's stake there is worth €13 billion alone.
- And this market value itself is probably low – in fact it is extremely low vs. its similar peers.
- Traton trades at a 60% discount to peers on an EV/Sales basis, and 45-50% discounts on EV/EBIT or P/E metrics.

Consensus Estimates	USD MCap	Last Price	Broker Recs (1-5)	Current Net Debt	Current EV	2025 EV/Sales	2025 EV/EBIT	2025 P/E	2025 EPS %
CNH Industrial	\$13,078	\$10.40	4.05	\$296	\$13,374	0.7x	5.7x	7.0x	-1%
Daimler Trucks	\$32,114	€ 36.47	4.80	€ 17,221	€ 47,234	0.8x	8.3x	7.2x	11%
Paccar	\$55,937	\$106.72	3.42	-\$8,659	\$47,278	1.4x	9.0x	12.2x	5%
<b>Traton</b>	<b>\$15,863</b>	<b>€ 29.65</b>	<b>4.05</b>	<b>€ 5,777</b>	<b>€ 20,602</b>	<b>0.4x</b>	<b>4.6x</b>	<b>4.8x</b>	<b>14%</b>
Volvo	\$51,120	263.60 kr	3.92	129,247 kr	667,579 kr	1.2x	9.6x	9.9x	5%
<b>Consensus Average (Western Majors ex Deere)</b>			<b>4.05</b>			<b>0.9x</b>	<b>7.5x</b>	<b>8.3x</b>	<b>7%</b>

- This, we think is partly due to the fact that VW still owns 90% of the shares.
- But this is changing.
- VW recently hinted that they would be monetizing 15% of Traton, which we expect will not only help the free-float at Traton, it may also increase trading volume, and potentially eliminate some of that ambiguity aversion.





- But before we jump into the “what are VW shares actually worth” question, we should also know what the balance sheets look like between these VW entities. Basically, VW has about \$18 billion of net cash (excluding that held at Porsche AG or Traton), and it is likely that if they monetize some of their stake in Traton, this will bump \$2 or \$3 billion higher.
- Simply adding the €48 billion stake of Porsche AG to the €18 billion of net cash at VW, we get 120% of the current overall market cap of VW.
- And as you might have guessed, we don’t think that VW, Audi, Bentley, Bugatti, Lamborghini et al are worth nothing. In fact, even on a paltry EV/Sales multiple of 0.225x, or an EV/EBIT multiple of just 4.5x, this gets us to an EV of *another* ~€50-55 billion.
- Yet, currently, the market assigns a ~€40 billion value **to the entire enterprise** at Volkswagen, and merely €55 billion of value to the equity.

	15-Jun-24
<b>VW Net Industrial Cash</b>	<i>(in billions)</i>
VW Net Liquidity (including Traton and Porsche)	€ 15.17
Porsche AG Net Cash	€ 2.79
Traton Net Cash (Debt)	-€ 5.48
<b>Estimated Volkswagen Net Industrial Cash ex Traton and Porsche</b>	<b>€ 17.86</b>

Valuation of VW ex Porsche/Traton	2025	Oper
	Sales	Profits
VW Group (billions)	€ 327.8	€ 24.2
Porsche	€ 43.7	€ 7.6
Traton	€ 48.8	€ 4.5
VW ex Porsche/Traton	€ 235.3	€ 12.1
<b>Fair EV Multiple</b>	<b>0.225x</b>	<b>4.50x</b>
Fair EV Valuation	€ 52.9	€ 54.4
Net Cash ex Porsche/Traton	€ 17.9	€ 17.9
<b>Fair Equity Valuation</b>	<b>€ 70.8</b>	<b>€ 72.3</b>



- And when we put all this together, we get something fairly astonishing. Volkswagen, based on the current (not target) share prices of Porsche AG and Traton, plus a reasonable valuation (see previous page) for their VW, Audi, and other auto businesses (ex Porsche and Man/Scania/Navistar), plus considering that they have nearly €18 billion in net cash, should have a fair value market cap of €130-135 billion.

VW Fair Value vs. Market Cap	(in billions)
VW Share of Porsche Market Cap (in Billions)	€ 48.25
VW Share of Traton Market Cap (Billions)	€ 13.30
Valuation of VW/Audi and other non Porsche/Traton Brands	€ 53.70
Net Excess Cash (Exclusive of Porsche and Traton)	€ 17.86
Fair VW Market Cap	€ 133.11
Current VW Market Cap	€ 54.72
Upside to Fair Value	143%

- Translating this to our language, the VW preference shares, which currently trade at ~€110/share are worth over €260, today.

Target Share Prices at Volkswagen	€ 265.52
Current Weighted Average Share Price of Prefs and Ords	€ 109.15
Upside	143%



- So far, we have shown you that Volkswagen shares are extremely cheap vs. the value of their underlying stakes in Porsche AG and Traton (which itself is cheap) and their remaining core brand businesses.
- And, by the way, we have altogether excluded their JVs with SAIC and FAW in China, which we estimate contribute €2.0-3.0 billion of earnings annually.\*
- But, believe it or not, the “hey, VW is trading for ~€110 a share but is worth over €260 today” pitch, is only part of the story.
- Because, if the Volkswagen shares are a way to (effectively) get a discount on the stakes in Traton and Porsche AG and the other underlying VW brands, well, **then Porsche SE is the way to get a discount on Volkswagen itself.**

*\*these local JVs insulate VW, almost entirely, from retaliatory import duties and fees that the Chinese may or may not place on Western European auto manufacturers, but that is an entirely different conversation*



*And now for the rest of the story*



- We established above that VW, including the market value of its Porsche and Traton stakes, is worth about €130-135 billion. Porsche SE owns 31.4% of those economics, and that works out to about €42 billion.
- Porsche AG (P911) has a market cap of about €65 billion and Porsche SE (PAH3) owns 12.5% of it.
- That’s worth about €8 billion.
- We add these two stakes and subtract net debt of nearly €6 billion and get a target market cap at Porsche SE of nearly €45 billion (and, btw, we are ignoring all the other smaller investments Porsche SE has made).
- Yet, the current market cap at Porsche SE is just €13 billion.

Porsche SE Fair Value vs. Market Cap	(in billions)
Porsche Economic Share of Fair Value of VW (~31.375%)	€ 41.76
Porsche SE 12.5% Share in Porsche AG Ordinary /Shares	€ 8.04
Porsche SE Value of Stakes	€ 49.80
Less Net Debt at Porsche SE	-€ 5.72
Porsche Fair Market Cap	€ 44.09
Current Porsche SE Market Cap	€ 13.00
Upside to Fair Value	239%



- From a share price perspective, with Porsche SE changing hands today at €42 per share, fair value (based on the analysis from the previous pages) is €144/share.
- Even at a 20% Holdco discount (which we believe makes more sense), Porsche SE is worth €125 per share.

Target Share Price at Porsche SE	€ 144.08
Current Share Price at Porsche SE	€ 42.49
Upside	239%



## So where can this analysis all go wrong?

### *Possibilities?*

- Porsche AG shares are way overpriced.
- The economy rolls over, and VW falls with it.
- The Chinese and Europeans are about to embark on a trade war that will destroy VW profitability.
- When Porsche SE tried to take over Volkswagen back in 2008, many shareholder lawsuits ensued, and they all haven't been settled or thrown out yet. Is this why Porsche SE should trade at such a discount?

### *Responses*

- Maybe, Porsche AG trades at a 2025 P/E of 11.9x, and Ferrari is on 44.1x. So maybe not.
- Yeah, who knows? It is all everyone is talking about, and VOW3 is on a 2024 P/E of 3.4x, so maybe things are overcooked already.
- Nope, it won't. VW sales in China are almost entirely produced by Chinese JVs locally. And yes, Porsche production is indeed outside the country, but even if Porsche profits in China went to zero (which they won't), that would only drive a 7% EPS downgrade at VW.
- This argument was weak in 2009 and 2010 and is even weaker today. VW nimbly got all the venues moved to Germany for the litigation, and my guess is that they ultimately emerge owing the hedge fund shorts (those short VW ords) absolutely nothing. They could probably make it all go away for a measly €1-2B, but they probably aren't ever going to do that.

## How can this even be? Why has the market let this happen?

Those are the right questions, and we don't have an answer other than the market can be stupid, and it has been really stupid lately.

And ambiguity aversion sucks. And when people are nervous, it really sucks for market participants, particularly in this kind of market.

## So what changes things. What is the catalyst here?

We don't need no stinkin' catalysts. Catalysts matter if you are playing the quarter. This isn't a quarter call. This is a call that eventually, whenever eventually is, share prices will reach equilibrium.

But if you need one, maybe the fact that Volkswagen is clearly trying to pull a "Marchionne" means that they finally care about maximizing shareholder value too. And that could change everything.





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