Tire makers 'face more challenging trading conditions' in 2024

Global tire manufacturers could find it increasingly challenging to deliver the robust earnings performances seen generally over recent years.

That's according to the latest HSBC Global Research analysis of costs, pricing and inventory levels in both OE and replacement tire markets worldwide.

One potential game-changer relates to raw materials costs, which are forecast to switch from being a tailwind to become a significant headwind for tire makers later this year.

After a record increase that began in mid-2020 and peaked two years later, raw material prices have declined since the second half of 2023, the HSBC analysts noted.

While they expect this decline to continue in first-half 2024, the equity experts see trend materials cost reversing in the second half of the year.

"Current spot prices imply that raw materialss will turn into a headwind again from second half 2024," according to HSBC Global Research.

Similarly, the report noted that shipping costs and energy prices had both also declined in second half 2023, "leaving an unprecedented tailwind to operating profits of tire makers."

"Raw materials and other costs have been on a roller coaster since 2020, with 100% inflation in our index followed by a more than 30% drop since second half 2023," the analysts commented.

They, therefore, identified the downside risks facing tire makers as including "greater-than-expected inflationary headwinds in the form of raw materials and energy inflation."

2023 sales and earnings results from major tire makers

Company	Sales 2023	Sales vs 2022	Earnings 2023	Company metric	Earnings vs 2022
Bridgestone	YEN4,313bn	+4.9%	YEN480.6bn	Adjusted operating income	-0.4%
Continental – Tires	EUR13.9bn	-0.3%	EUR2.6bn*	EBITDA	+5.1%
Goodyear	USD20.0bn	-3.5%	USD968m	Segment operating profit	-24.0%
Hankook	KRW8,939bn	+6.5%	KRW706bn	Operating profit	+88.1%
Michelin	EUR28.3bn	-0.8%	EUR3.57bn	Segment operating income	+5.1%
Nexen Tire	KRW2,700bn	+4.0%	KRW186.7bn	Operating profit	-KRW54.3bn
Nokian	EUR1.1bn	-15.0%	EUR65.1m	Segment operating profit	+265.0%
Pirelli	EUR6.6bn	+0.5%	EUR1.0bn	Adjusted EBIT	+2.5%
Toyo - Tires	YEN505bn	+11.2%	YEN76.7bn	Operating income	+64.5%
Sumitomo Rubber Industries – Tires	YEN1,000bn	+7.1%	YEN63.5bn	Business profit	+416.0%
Yokohama Tires	YEN875bn	+41.4%	YEN92bn**	Business profit	+37.0%

Pressure on tire volumes could present a further challenge, the HSBC report projecting a "weak outlook" for mid-term growth.

"We expect below 2% annual volume-growth through 2025," said the analysis, though noting that factors such as car parc, and miles driven could support higher growth rates – especially if consumer purchasing power improves.

Nevertheless, HSBC Global Research has reduced its forecast for global light vehicle tire volumes by 1% for 2024, compared to its previous projection issued in December 2023.

The analysts went on to describe the outlook for OE demand as "weak" with a decline expected in 2024 and growth possibly remaining "muted" to 2030.

Regarding the replacement market, the report noted that "globally, tire aftermarkets have remained fairly stable compared to OE, and have recovered much faster after the Covid-19 declines.

"Nonetheless, we have been reducing our expectations for these markets since 2022, and [now] reduce this year forecast by nearly 1% versus our December 2023 estimates."

Going forward, HSBC Global Research said pricing strategies will be key to profitability in the tire sector, with manufacturers now facing challenging decisions ahead of the expected materials cost increases.

Share-price trends among selected tire manufacturers

Company	18-19 Jan	14-15 March	Change
Bridgestone	YEN6,223	YEN6,170	-0.9%
Goodyear	USD13.75	USD12.37	-10.0%
Hankook	KRW47,800	KRW52,700	+10.3%
Michelin	EUR30.52	EUR34.59	+13.3%
Nokian	EUR8.27	EUR8.11	-0.7%
Pirelli	EUR5.12	EUR5.34	+4.3%

'Making more from less' a major theme in 2023

World's largest tire makers comment on business performance and market trends

At **Bridgestone Corp**. an improved sales-mix of 'premium' PCR replacement tires and expanded sales of mining tires helped offset lower demand in the US and Europe. Higher costs for raw materials and inflation, meanwhile, were offset by improved price & sales mix, along with cost-management and production efficiencies. In Europe, Russia, Middle East, India and Africa, Bridgestone reported 4% higher sales of Yen908bn, though unit sales of replacement PC/LT and TBR tires "fell sharply." Japan saw sales rise 7% to Yen1,242bn. Asia-Pacific revenue rose 1% year-on-year to Yen461bn. In North America, unit sales of OE and replacement PC/LT tires remained flat, while unit sales for truck & bus tires fell "significantly."

At **Continental AG's** Tires operations, adjusted EBIT margin improved to 13.5% from the prior-year 13.1% reported last year, reflecting "the continued high share of premium tires and a strong end-of-year business in Europe." The group also noted its "strong position" in the OE tire segment for EVs, stating: "the 10 highest-volume manufacturers of electric vehicles currently all place their trust in tires from Continental."

Akron, Ohio-based **Goodyear** reported lower sales volumes and operating income impacted by "increased conversion costs of $599m" – reflecting lower tire production on fixed-cost absorption, inflation and higher energy costs. Lower tire volumes of $250m, primarily in Americas and EMEA, a $55m impact from the Tupelo storm and an increase of $30m admin costs impacted income. The US tire maker was also hit by a €23m foreign currency impact and a $18m negative impact of a fire at its tire plant in Debica, Poland. These factors were partially offset by global improvements in price and product mix ($579m), lower raw material costs ($67m) and lower R&D costs ($25m).

In South Korea, **Hankook Tire** linked an impressive 2023 performance to its premium brand strategies as well as progress of its R&D programmes in adapting to new-mobility trends. In the premium tire market, Hankook said it supplied around 250 OE tire models to about 40 global car brands, including Audi, BMW, Mercedes-Benz, Porsche, and Tesla. High-points, it added, included an expansion of the iON range of EV tires, strengthened supply for super-cars and global premium brands and increased sales of 18"+ car tires. Last year also saw a decline in the cost of raw materials such as synthetic rubber and carbon black and in maritime freight costs, the company further noted.

Michelin reported profits up on marginally lower sales amid "adverse market conditions and currencies." "Highly favourable price-mix" helped increase operating income by nearly €1.5 billion, offsetting a €1-billion negative effects of cost acquisitions, volumes decline, under-utilisation and currency impact. Michelin also noted a €545-million negative impact of industrial restructuring projects in Germany and the US. Earnings were helped by a €1 billion reduction in working capital, driven by a decline in both inventory volumes and value.

Italian tire maker **Pirelli** linked growth in annual earnings to a €486-million price/mix gain, as well as €92 million from an ongoing efficiency programme. These factors more than offset a €246-million increase in 'cost-of-input'. Sales, though remained almost flat in 2023, in part due to a 6.3% negative foreign exchange effect. A 1.8% year-on-year dip in volumes, meanwhile, partly reflected reduced exposure to 'standard' smaller tires. The 'high value' larger-rim-sized segment, meanwhile, saw 5% growth in volumes: replacement up 4%, OE up 6%.

Sumitomo Rubber Industries' (SRI) strong recovery in 2023 reflected a "significant reduction" in freight costs and a lull in raw-material and energy cost rises which drove up profits, as did expanded sales of high-performance products. Domestic OE sales "significantly exceeded" 2022 levels, while domestic replacement sales slightly fell after price increases on winter tires in July, and a warm winter. Overseas OE sales were almost on par with last year, reflecting increased sales in Europe and the US, and declines in China and Indonesia. Overseas replacement demand in Asia 'remained low,' recovered in China, though European volumes fell on reduced consumer purchasing-power.

Revenues at **Toyo Tire Corp**. increased in 2023, helped by higher unit sales of tires in North America, while operating income grew on depreciation of the Yen as well as the lower costs of raw materials and ocean freight. Earnings improved on a Yen25-billion positive impact of lower freight costs and a Yen2.6 billion impact of lower raw materials prices. A positive foreign currency impact of Yen8.6 billion more than offset Yen4.6 billion higher SGA expenses and Yen1.6-billion plant start-up costs in Serbia.

Yokohama Rubber Co.'s (YRC) reported a "strong sales and earnings performance" by its passenger car tires segment in 2023. Improvements in product-mix, price increases, declines in raw materials and logistics costs, and a weaker Yen contributed to enhanced margins. OE sales grew in Japan and North America, while growth in the replacement market reflected "robust" demand in Japan, China and India.