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Stellantis takes $1.6bln Leapmotor stake to revive China fortunes

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[1/2] A view shows the logo of Stellantis at the entrance of the company's factory in Hordain, France, July 7, 2021. REUTERS/Pascal Rossignol/File Photo Acquire Licensing Rights

HANGZHOU/MILAN, China, Oct 26 (Reuters) - Stellantis said on Thursday it is buying a 21% stake in EV maker Leapmotor in a $1.6 billion deal that will give it a fresh shot in China, the world's biggest car market by sales, and the smaller Chinese carmaker a European foothold.

Legacy international carmakers are playing catch-up in the shift to electric vehicles and the deal gives Stellantis access to Leapmotor's advanced technology.

Meanwhile, a growing number of Chinese EV makers are launching lower-cost models across Europe.

"The Chinese offensive is visible everywhere," Stellantis CEO Carlos Tavares told reporters. "With this deal we can benefit from it rather than being the victims of it."

Stellantis, formed at the start of 2021 through the merger of France's PSA with Fiat Chrysler (FCA), has struggled to sell cars in China and has sought a reset in the country, where it has a joint venture with Dongfeng Motor Group.

The group, whose brands include Fiat and Peugeot, said a year ago it was closing its joint venture with Guangzhou Automobile Group that makes Jeeps in China.

Massimo Baggiani of London-based Niche AM, which manages a value fund focused on electric mobility, said the deal comes at "complicated if not belligerent times" for relations between Europe and China. The EU has launched an anti-subsidy probe into Chinese EVs while China has tightened exports of crucial EV battery material graphite.

"I see this move as part of a strategy by Stellantis to gain a foothold in China, before such an opportunity might disappear," Baggiani said.

Stellantis' new deal follows a tie-up between Volkswagen and Xpeng announced in July which heralded a new era of automotive alliances in China and reflects how the country has emerged as a global centre of EV technology.

As part of a joint venture 51% controlled by Stellantis, the Chrysler parent will have exclusive rights to export, sale and manufacture Zhejiang Leapmotor Technology's products outside Greater China.

Banca Akros analysts said China is at the forefront of EV technology and "enjoys a huge cost advantage.""We believe that Stellantis' relatively cheap move makes absolutely sense and represents an intelligent "de-risking" step," they wrote.

Some analysts were sceptical that minority-stake partnerships would help foreign auto brands revive their flagging fortunes in China. Small investments like this are unlikely to be the "silver bullet they (international carmakers) are hoping it is," said Tu Le, founder of Beijing-based advisory firm Sino Auto Insights. Bill Russo, CEO of Shanghai-based advisory firm Automobility, said "successful automotive partnerships are few in number, and often dissolve when the interests diverge."

Stellantis was previously concerned about growing competition from cheap Chinese EVs in Europe, which spurred the EU probe. Tavares, once a vocal critic of lower-cost Chinese imports into Europe, told reporters the Leapmotor deal did not make Stellantis a "Trojan horse" and was critical of the EU's probe.

"We like competition. To start a probe is not the best way to tackle those questions," he said.

Leapmotor shares fell 11% on Thursday on concerns about competition and the dilution of existing shareholdings, while shares in Stellantis were down 0.6%.

More than 40 EV brands are locked in a price war in China, triggered by Tesla earlier this year. Despite steep price cuts, sales are slowing due to weak consumer demand, putting margin pressure on automakers and their suppliers.

MORE PARTNERSHIPS

The Netherlands-incorporated joint venture should start exports in the second half of 2024, while Stellantis would have two seats on the Chinese firm's board. The partnership will help Stellantis expand its EV lineup and meet a 2030 target of EVs accounting for all of its sales in Europe and half in the U.S.

Leapmotor, ranked ninth by new energy vehicle sales in China, has been looking to license its EV platforms and other EV assets to established foreign automakers to generate cash. The company said last month it needed at least a five-fold increase in sales to survive in a consolidating EV industry.

"We will certainly see more and more such partnerships as Chinese EV startups have a real urgency to survive and they are open to have foreign shareholders," said Yale Zhang, managing director at Shanghai-based consultancy Automotive Foresight.

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