

Initiated 2026-10-27 · Price \$55.71 (as of 2026-10-27 close, stockanalysis) · Mkt cap \$11.35bn (203.7mm shares; \$11.52bn on 206.8mm diluted) · Consumer discretionary / auto parts (powertrain) · Model: verified

Rating: Hold — Conviction: High

BorgWarner is a well-run, cash-generative supplier: ~\$1bn of free cash flow a year, net debt of only 0.65x EBITDA, and an adjusted operating margin that has risen three years running while sales went nowhere. After a 27% rise in a year, though, the price already pays for that. Our Base case, which needs production to recover modestly and PowerDrive losses to keep shrinking, is worth about today's price. The bull and bear outcomes are roughly symmetric around it, so we wait for evidence that growth returns before calling it a Buy.

Conviction tests (3a-v-c): T1 pass (Base midpoint -9.4% at +1pp and +12.0% at -1pp; Hold at both, though +1pp sits near the Sell boundary) · T2 pass (Gordon DCF alone +4.2%, exit DCF alone -3.9%; Hold on either) · T3 pass (every FY0 fact and historicals series from EDGAR or company releases; the one estimate is the split of total debt into the EUR 2031 tranche, which does not move value) · T4 pass (no pending deal, ruling or single-contract event; Q3 results on 2026-10-29 are inside the cases)

MODEL VALUE RANGE VS PRICE



Business overview

BorgWarner sells powertrain components to light-vehicle and, to a lesser extent, commercial-vehicle and off-highway OEMs. In H1 2026 sales were \$7.18bn: Turbos & Thermal 40%, Drivetrain & Morse 40%, PowerDrive (e-motors, inverters) 17%, and Battery Energy Systems 3%. The two combustion-and-hybrid segments earn all of the profit: H1 segment adjusted operating income was \$439mm and \$537mm. PowerDrive lost \$65mm and BES lost \$4mm. Volkswagen (13%) and Ford (12%) are the largest customers. 84% of sales are outside the US, and China is 21%. Earnings turn on (1) global light-vehicle production, guided -3% to flat for 2026 on BorgWarner's weighting; (2) how long hybrid and combustion content lasts against battery-electric share; (3) whether PowerDrive reaches breakeven.

Competition

The 10-K names Bosch, Denso, Garrett Motion, Hitachi, Magna Powertrain, Valeo, Schaeffler and CATL. In turbochargers, the main profit pool, the comparison that matters is Garrett. Garrett grew Q2 2026 sales 7% (5% ex-FX) to \$976mm, while BorgWarner's Turbos & Thermal segment fell 2.6% to \$1,442mm over the same quarter (both companies' Q2 releases, three months old). Garrett also reports Q3 on 2026-10-29. Pressure would show first in turbo share on new hybrid programs, and in eProducts pricing against Chinese inverter and battery suppliers. On stockanalysis's lease-inclusive basis, Garrett trades at 8.1x TTM EV/EBITDA, against BorgWarner's 6.4x and Magna's 5.2x.

Bull case

1. **Combustion and hybrid content lasts longer, and industrial adds a leg** — slower battery-electric adoption keeps turbo and Morse volumes up. Turbine-generator and storage products for data centers start in 2027 (Q2 call), and sales grow 4–5% a year. Plays out if global production stabilizes in 2027 and hybrids keep gaining share. *Model: rev_growth, terminal_growth*
2. **PowerDrive reaches breakeven** — losses fell from \$76mm to \$65mm year on year in H1. Closing the gap is worth ~0.8pp of EBITDA margin, which reaches ~16.5% by FY2030. Plays out if inverter and e-motor awards launch on schedule. *Model: ebitda_margin*
3. **Re-rating toward Garrett** — a steady ~\$1bn of FCF and margins above 11% move the multiple from 6.0x toward ~7x model-basis EBITDA. Plays out if FY2027 guidance returns to organic growth. *Model: exit_ev_ebitda*

Bear case

1. **Production downturn, led by China and Europe** — China production is already guided –7% to –4% for 2026. In a mid-cycle downturn, FY2027 sales fall ~7% with 25–30% decrementals, and EBITDA margin drops to ~13%. Plays out if auto credit tightens and Chinese OEMs keep taking share from BorgWarner's Western customers. *Model: rev_growth, ebitda_margin*
2. **Combustion content shrinks before PowerDrive replaces it** — turbo and Morse earnings are a melting asset in the terminal year. The market prices BorgWarner like Lear or Aptiv (4.3–4.8x). Plays out if battery-electric share resumes rising in Europe and China. *Model: terminal_growth, exit_ev_ebitda*
3. **Investment without return** — capex runs at ~4.6% of sales, above depreciation and tooling amortization of 3.7%, to fund eProduct and industrial launches. If those programs underdeliver, spending stays elevated. Plays out if eProduct impairments recur (Q4 2024: \$646mm). *Model: capex_pct_rev*

Valuation & balance sheet

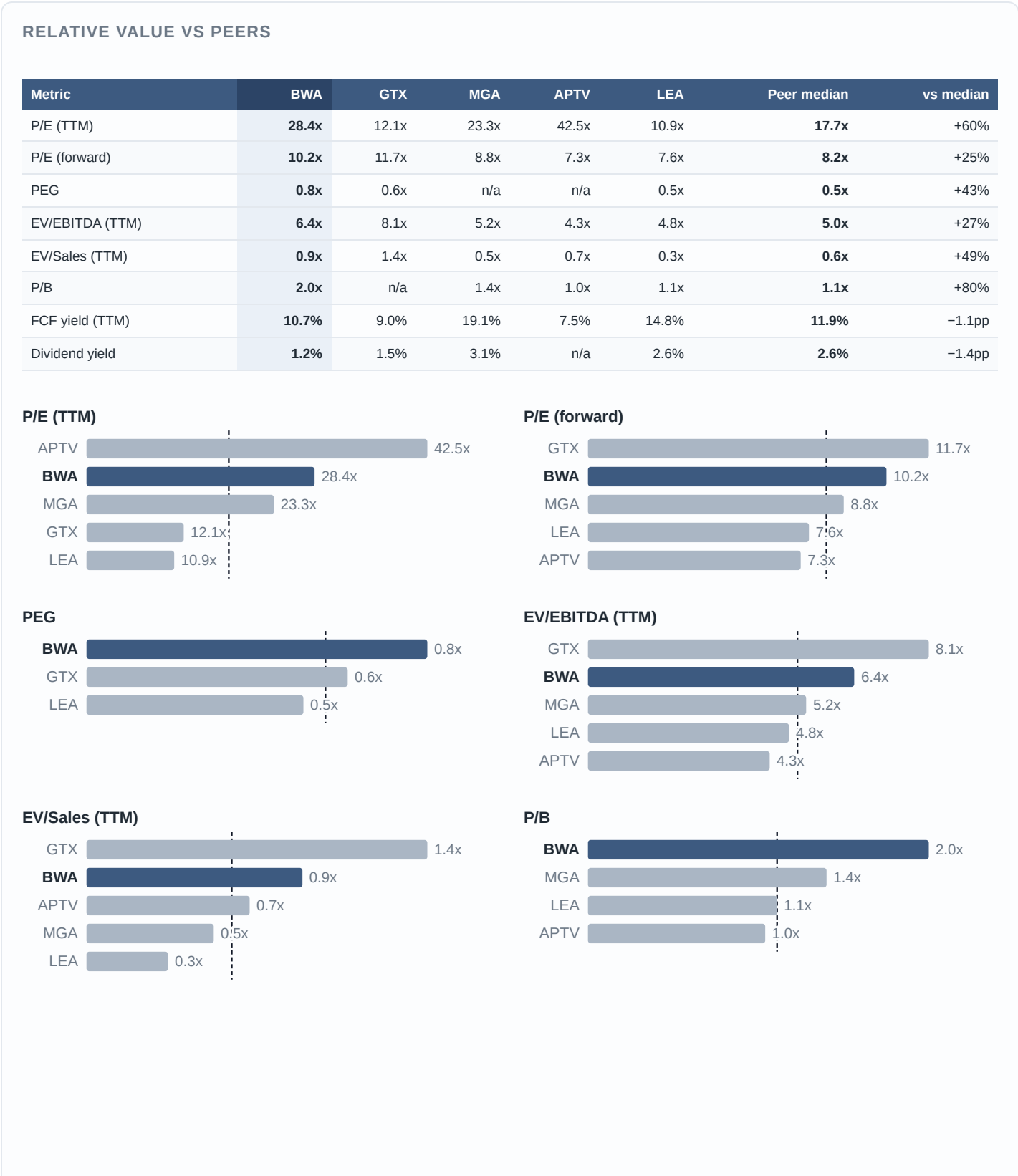
Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
EV/EBITDA, model basis (diluted mkt cap – cash + debt + NCI book + retirement liabilities; excl. operating leases; EBITDA = adj. OI + D&T)	6.05x FY2025 EBITDA \$2,190mm	n/a (unverified)	not computed on this basis	Q2 release/10-Q 2026-06-30; price 2026-10-27
EV/EBITDA TTM (stockanalysis, lease-inclusive)	6.36x	n/a (unverified)	GTX 8.14x · MGA 5.21x · APTV 4.34x · LEA 4.80x	stockanalysis, 2026-10-27
P/E forward (stockanalysis consensus)	10.2x (company adj. EPS guide \$5.05–5.30 → 10.5–11.0x)	52-week price change +26.6%	GTX 11.7x · MGA 8.8x · APTV 7.3x · LEA 7.6x	stockanalysis; Q2 release
FCF yield (company FY2026 FCF guide \$0.9–1.1bn / mkt cap)	~8.8% at midpoint (TTM 10.7%, stockanalysis)	FCF \$565mm / \$729mm / \$1,208mm FY2023–25	GTX 9.0% · MGA 19.1% · APTV 7.5% · LEA 14.8% (stockanalysis TTM)	Q2 release; FY2025 release

Model-implied value range (from `model-summary.json` ; generic module, Gordon-growth DCF and exit-EV/EBITDA DCF, midpoints): Bear \$29.24 · Base \$55.80 · Bull \$83.53 per share, i.e. implied returns of –47.5% / +0.2% / +49.9% vs \$55.71. *These ranges show how the bull and bear drivers translate into value; they are not price targets.* The price sits exactly on Base: the market prices modest recovery, not the industrial or hybrid upside. The exit method uses 6.0x, a ~1% de-rating from today's 6.05x, and gives \$53.53. The Gordon method gives \$58.06. Its terminal value implies ~6.6x Y5 EBITDA, a ~9% re-rating, so the two methods agree within 10% and the gap is a mild Gordon re-rating.

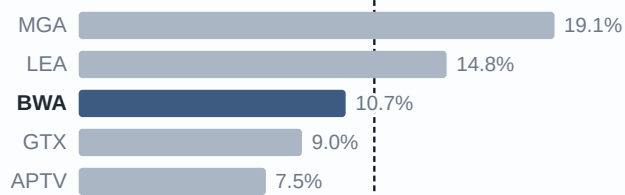
Balance sheet: net leverage 0.65x FY0 EBITDA on the model basis; EBITDA/net interest 17.8x (model Credit sheet). Liquidity: \$2.45bn of cash at 2026-06-30; revolver availability n/a (unverified). The nearest material maturity is \$1.1bn of 2.65% notes in July 2027. In the August 2026 tender, BorgWarner retired ~\$770mm of 2029, 2034 and 2045 notes, but tendered none of the 2027s. Ratings: n/a (unverified).

Model note: Built and verified (LibreOffice matched all 3,207 formula cells). Unverified input: the EUR 1.00% 2031 tranche (\$1,147mm), derived as total debt less the USD tranches at face. It reallocates debt and does not change value. Assumptions without basis: none. No

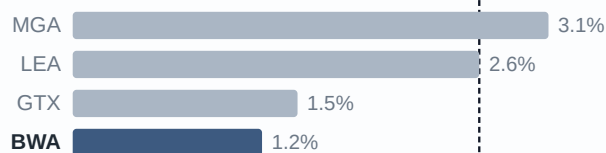
consistency CHECKs. Cash and debt are at 2026-06-30, before the tender. Its funding isn't disclosed, so net debt is unchanged; the ladder overstates 2029–2045 debt by ~\$770mm. NWC carries a \$515mm offset for H1 2026 cash generation already in that cash. FY0 EBITDA adds reported D&T to adjusted operating income, which may double-count ~\$20–40mm of accelerated depreciation (est.). Base WACC 9.06% equals the CAPM/market-weight arithmetic (β 1.14, rf 5.00%, 25% debt), with no adjustment. Model Y1 EPS of \$5.51 is 6% above the \$5.05–5.30 guide, because model EPS excludes intangible amortization (~\$60mm), which company adjusted EPS includes, and charges interest only on net debt. The tax rate (24%) is a judgment.



FCF yield (TTM)



Dividend yield



As of 2026-10-27. One source and one definition for every company: TTM multiples, forward P/E on stockanalysis consensus, EV/EBITDA and EV/Sales on stockanalysis EV (lease-inclusive) and TTM EBITDA. Not the model's own EV basis (which excludes operating leases and adds noncontrolling interest and retirement liabilities). Quotes are the 2026-10-27 4:00 PM ET close (market closed when fetched). Dashed line = peer median. Source: [stockanalysis.com /stocks/<ticker>/statistics/](https://stockanalysis.com/stocks/<ticker>/statistics/), fetched 2026-10-27.

Notes. PEGs are the source's own, resting on its analyst growth estimates; the source shows none for MGA and APTV. BWA's TTM earnings are depressed by restructuring and the 2025 impairments (FY2025 GAAP EPS \$1.28 vs adjusted \$4.91); the forward P/E is the more comparable figure. Garrett Motion has negative book equity (-\$675mm), so P/B is not meaningful. Aptiv pays no dividend.

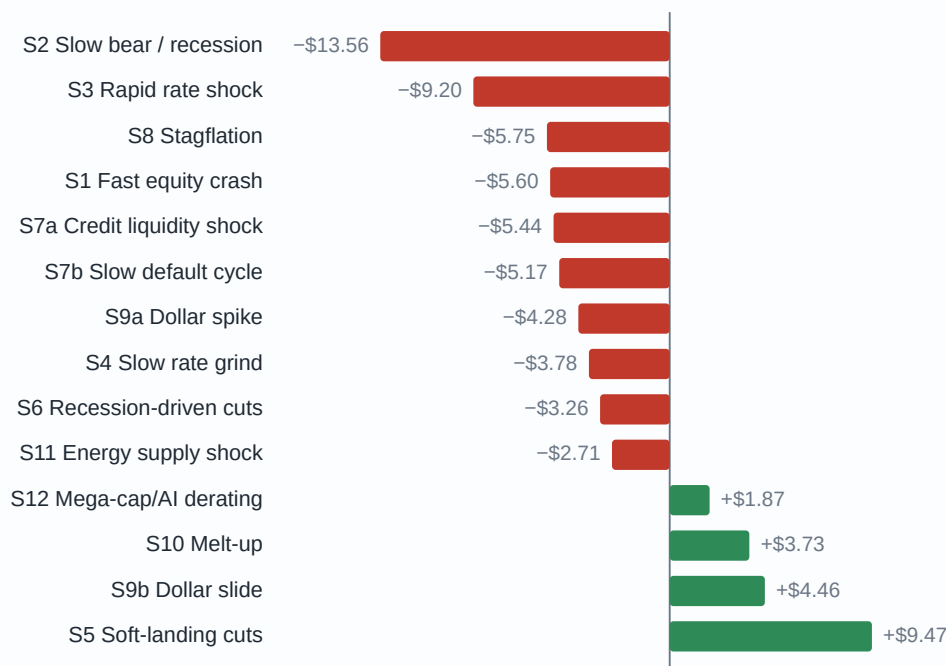
Scenario stress test

Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	-	Beta-1.1 cyclical de-rates; no operating channel	Med	-\$5.60
S2 Slow bear / recession	-	LV and truck production cuts, 25–30% decrementals, trough multiple. About half of Base – Bear (\$26.55) on purpose: a two-year dip, not the bear's permanent margin and multiple reset	High	-\$13.56
S3 Rapid rate shock	-	Discount rate and auto-loan affordability; debt is fixed-rate	High	-\$9.20
S4 Slow rate grind	-	Same channels, slower	Low	-\$3.78
S5 Soft-landing cuts	+	Cheaper auto credit lifts production; cyclical re-rates	High	+\$9.47
S6 Recession-driven cuts	-	Production cuts outweigh rate relief	Low	-\$3.26
S7a Credit liquidity shock	-	Low leverage and \$2.4bn cash limit it to a modest de-rating	Med	-\$5.44
S7b Slow default cycle	-	Sub-supplier distress and support costs; weaker auto credit	Med	-\$5.17
S8 Stagflation	-	Steel, aluminum and wage costs recovered from OEMs with a lag; weaker volumes	Med	-\$5.75
S9a Dollar spike	-	84% of sales outside the US; translation cuts sales and EBITDA	Med	-\$4.28
S9b Dollar slide	+	Mirror of S9a; FX is +\$175mm in the 2026 guide	Med	+\$4.46
S10 Melt-up	+	Cyclical re-rates in a risk-on tape	Low	+\$3.73
S11 Energy supply shock	±	Weaker vehicle demand and freight costs, partly offset by more turbo and hybrid content when fuel is dear	Low	-\$2.71
S12 Mega-cap/AI derating	+	Rotation into cheap cyclical without recession; data-center power products a small plus	Low	+\$1.87

Currently active/on watch per the playbook: S3 partially active (10Y 5.00% price leg met, pace legs short); S8, S10, S11 on watch, with Brent near \$115.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if: FY2027 guidance (February 2027) implies positive organic growth and an adjusted operating margin of at least 11.5%, or PowerDrive's segment loss falls below \$20mm a quarter, either of which moves value toward the bull case. **Downgrades if:** Q3 or Q4 2026 shows organic sales falling faster than 4% or an adjusted operating margin below 10.5%, FY2026 FCF lands below \$900mm, or 2027 guidance implies another year of organic decline.

Watch items

- **W1:** Q3 2026 — adjusted operating margin $\geq 10.7\%$, FY2026 guide (sales \$14.0–14.3bn, adj. EPS \$5.05–5.30) held or raised — Q3 release — 2026-10-29 — *Model: ebitda_margin*
- **W2:** PowerDrive segment adjusted operating loss keeps narrowing (H1 2026 –\$65mm vs –\$76mm) — Q3/Q4 releases — 2026-10-29 / Feb 2027 — *Model: ebitda_margin*
- **W3:** FY2027 guidance — organic growth $\geq 0\%$ and turbine-generator/storage start of production confirmed — Q4 release — Feb 2027 (est.) — *Model: rev_growth*
- **W4:** FY2026 FCF $\geq \$900\text{mm}$ with capex within the \$600–700mm guide — FY2026 release / 10-K — Feb 2027 (est.) — *Model: capex_pct_rev*

Sources

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Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.