

Audit Integrity Identifies Riskiest and Least Risky Companies in Automotive Sector



Audit Integrity says **Oshkosh Corporation** (OSK) and **BorgWarner** (BWA) are among riskiest North American public companies in the automotive sector, based on their “Very Aggressive” corporate governance practices. Borg Warner is also on Audit Integrity’s Investor Watchlist. Among other factors, the company was “Flagged for incentive compensation of CEO & CFO (91st percentile), ratio of CEO to CFO compensation (83rd percentile), and Chairman is CEO (since June 2003).”

However, **Morningstar** noted on Oct 29 that BorgWarner’s investment-grade balance sheet’s net debt/capital ratio had declined to 21% from 25% at year-end. “Only healthy firms can strengthen their balance sheet in a recession rather than increase leverage to survive. If the positive scenario comes true, then BorgWarner can quickly increase production without hiring more people. Despite the recent decline in auto stock prices, we think BorgWarner is one of the best parts suppliers we cover. The firm’s products should see higher demand for years as governments keep imposing higher fuel economy regulations.”

The least risky, according to audit Integrity, are **Genuine Parts Company** (GPC) and **Westport Innovations** (WPT), both which have Conservative governance practices.

Audit Integrity’s forensic analysis of accounting and corporate governance practices distinguishes between the companies of greatest and least risk based on its Accounting and Governance Risk (AGR) ratings.

Companies in the bottom-ranked Very Aggressive AGR category have had consistently opaque financial reporting, weak corporate governance, and as a group are expected to have inferior performance relative to their peers over the next three months on a total return basis.

In contrast, companies in the top-ranked Conservative AGR category have had consistently transparent financial reporting, strong corporate governance, and as a group are expected to surpass their peers over the next three months on a total return basis.

Audit Integrity says its AGR Ratings and AGR Equity Model scores are highly correlated with equity returns. “Companies with better Audit Integrity ratings outperform those with poor ratings. Our 10- year back-testing produced evidence of a 15.3% return spread between the best and worst deciles.” For the auto industry, trailing-twelve month equity returns are as follows:

| | North America | Western Europe |
|---------------------------------|---------------|----------------|
| Very Aggressive AGR category | 232.90% | 30.50% |
| Conservative AGR category | 83.10% | 86.40% |
| Differential, percentage points | 149.8 | -55.9 |

The full report is available free of charge [here](#).