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EV STOCK SECTOR REVIEW

Move over Tesla – the new kids on the block:
But can they really compete?

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Summary

The electric vehicle (EV) market is growing fast and is expected to continue doing so over the next couple of decades. By the end of this decade, it is likely to account for a sizable proportion of the automobile market.

Policy focus on cleaner, greener energy sources, shifting consumer preferences, declining costs of EVs and the success of Tesla, have all come together to create the right conditions for the market's fast growth.

This has encouraged proliferation of new EV companies, many of which are already publicly listed giving investors the opportunity to take part in the EV growth story. Among the ones creating buzz among investors are Chinese companies listed in the US. This is not surprising given that China is the largest auto market in the world today.

There are also North American companies among these, both from the US and Canada, which are not just producing EVs but also supplying the support infrastructure to enable their smooth functioning.

While there is much room for growth, competition is also heating up. The now muted, but still persistent US-China trade disagreements also have implications for these companies. Besides this, established automotive companies from Daimler to Ford have big plans to move into EVs themselves.

This raises the big question - can the new EV companies succeed? This question acquires increased significance because valuations for EV stocks rose exceptionally fast in the stock market rally late last year, even though some of them are still pre-revenue.

This report looks at 10 publicly listed EV companies and assesses their potential for success. These include China's NIO, Li Auto and XPeng, the US's Nikola, XL Fleet, Fisker, Blink Charging and Canoo and Canada's ElectraMeccanica and Ballard Power Systems.

While some companies are too new to allow for assessment, others like NIO, XL Fleet and Ballard Power Systems show promise.

The big EV opportunity

EVs had only 2.5% share in global vehicle sales in 2019, but it is growing fast. It doubled in just the two years since 2017 according to consulting firm, Deloitte.

Competitive costs

It is not hard to see why. Even though EVs have been around for a while, they have become cost effective relatively recently. According to the UK based car insurer Direct Line, the average lifetime cost of an EV is now slightly lower than that for a comparable petrol car.

Tesla's success, as evident from consistent growth in revenue, has shown potential manufacturers the scope in EVs. It even turned profitable last year.

Policy push

Besides this increased awareness about climate change has meant a policy push towards cleaner and greener energy sources. The UK government plans to ban all petrol and diesel cars by 2030. The Chinese government has extended subsidies on clean vehicles and is phasing out polluting vehicles as well.

Future of EVs

With the wind clearly in favour of EVs, according to Bloomberg, by 2025 EVs will be 10% of passenger vehicles. Deloitte predicts that by 2030, EVs share in the auto market will rise to almost 30%. For China, EVs' share is expected to be 50%. In Europe too, a sizable 40% is expected to come from EVs.

This increased demand potential has been met with the manufacturing of EVs. EV companies cover the whole market spectrum from sedans to single-person vehicles and from commercial vehicles to support infrastructure provision.

Company Profiles

10 companies are covered in this segment. Majority focus on vehicle manufacturing while three of them are support services' providers.

NIO

- **Founded:** 2014, China
- **Notable investors:** Funded by big technology companies like Tencent, Baidu and Lenovo and also financiers like Temasek and Sequoia. Additional investment of \$1bn from three Chinese state owned companies received last year, including Hefei City Construction and Investment Holding Group and Anhui Provincial Emerging Industry Investment Co, both associated with the Anhui Province, where NIO operates.
- **Products and services:** Positioned as a premium brand that sells sedans and SUVs. Buyers can purchase batteries as a service, lowering their upfront cost, while paying a relatively small subscription rate.
- **Financials:** NIO saw an over doubling of revenues in 2020 to £1801mn (RMB16,257.9mn) from the year before. Net loss fell by 53% to £588mn (RMB5,304.1mn).
- **Stock price trends:** Had a muted IPO listing in 2018. The stock caught investor attention in mid-2020 as it received additional funding, and the share price rose by over 20 times between May, 2020 and January, 2021. It has fallen since, by only around 25% from the highs.
- **Plans:** It has launched a new sedan and expanding its product portfolio. It is also launching in Europe this year, starting with Norway which has the highest penetration of EVs.

Li Auto

- **Founded:** 2015, China
- **Products and services:** Focuses on smart SUVs, with primary product being an SUV named Li ONE, aimed at the Chinese middle-class market. Its USP is a fuel-tank for charging batteries, reassuring for owners when EVs are not yet mainstream.



- **Financials:** From relatively small operations in 2019, it reported a 33 times increase in revenue in 2020 to £1048mn (RMB 9456mn). Its net loss shrank sharply to £17mn (RMB 152mn).
- **Stock Market Trends:** The NASDAQ listed company raised \$ 1.1 bn through its IPO in July last year. Like all other EV stocks, it has been a volatile year, with its share price now almost half of that in November, 2020.
- **Outlook and Plans:** Expects vehicle deliveries to rise by almost 300% in the first-quarter of 2021 and revenue can rise by 280% from last year. It is also preparing for the rollout of a full-size SUV in 2022, with higher computing power.

XPeng

- **Founded:** 2015, China
- **Products and services:** Designs, develops, manufactures and markets an SUV and a sports sedan. Also provides support services to its customers like maintenance and supercharging. Ride-hailing and vehicle leasing services are also covered.
- **Notable Investors:** Received additional investment from the investing arm of Guangdong provincial government, where XPeng is also headquartered, recently. Big chinese companies like the e-commerce company Alibaba and technology products' brand Xiaomi have stakes in the company.
- **Financials:** Revenues almost doubled in 2020 to around £642 mn (RMB 5.84bn) from 2019. It is loss making, but its net loss shrank 26% from 2019 to £263mn (RMB 2,732 mn).
- **Performance in 2021:** Brisk business seen in 2021 so far. For the two months of January and February, its sales have risen 577%.
- **Stock price trends:** In August, 2020, it debuted on the New York Stock Exchange (NYSE). Its share price has been volatile so far. As stock markets grew bullish in November, its share price rose more than three-times in less than a month. It is now at half the levels seen then.
- **Plans:** Aims to use its \$1.5bn raised through the IPO for both further research and sales expansion. Autonomous driving is an area of focus. It invested one-third of its technology development funds into this segment in 2019.

Ballard Power Systems

- **Founded:** 1979, Canada
- **Products and services:** Manufactures and sells hydrogen fuel cell products in companies like the USA, Canada, Germany and Japan.
- **Stock Market Trends:** The NASDAQ listed stock rose almost consistently last year, and by January this year, it had reached peak levels. Even after some share price softening though, it remains elevated compared to the same time last year.
- **Financials:** It has consistently generated revenues, even though it reported 2% decrease in 2020 numbers to £75mn (\$104mn) because of coronavirus related disruptions. It has been loss making too, and these rose in the past year too. However, its cash position is strong.
- **Outlook:** Notably, it intends to expand operations in 2021 in China along with other geographies with a focus on commercial vehicles like trucks, trains and buses.

XL Fleet

- **Founded:** 2009, USA
- **Products and services:** Provides the option for electrification of existing commercial vehicles like trucks and delivery vans. Notably, it has a ready customer base including big companies like Pepsi and FedEx.
- **Stock Market trends:** The NYSE listed company went public only in December last year and has seen much fluctuation in stock price since.
- **Outlook:** From a revenue of £5mn (\$7.2mn) in 2019, it hopes to grow by almost 200 times by 2024.

Financials for EVs				
	Incorporation	Country	Revenue (£m)	Profit/Loss (£m)
Tesla	2003	USA	22737	520
NIO	2014	China	1801	-588
Li Auto	2015	China	1048	-17
XPeng	2015	China	642	-263
Ballard Power Systems	1979	Canada	75	-37
XL Fleet[^]	2009	USA	15	--
Blink Charging[*]	2009	USA	2	-6.9
Electra Meccanica[*]	2015	Canada	0.5	-18
Nikola	2018	USA	0.07	-277
Fisker	2017	USA	--	-
Canoo	2018	USA	--	-

[^] Expected figures for 2020, ^{*}Financials are for 2019

Note: Numbers have been converted from RMB, USD and CAD to GBP at current exchange rates

Blink Charging

- **Founded:** 2009, USA
- **Products and services:** Provides EV equipment and networked charging services. The network allows property owners, managers and parking companies remote monitoring, management of EV charging stations and payment processing. It also provides EV drivers with station information.
- **Stock Market Trends:** It was publicly listed in January, 2018. Its share price was mostly muted until late last year.
- **Financials:** Saw sharp revenue growth in the first nine months of 2020. Revenues are now at £2.7mn (\$3.8mn). However, its loss widened to £2.8mn (\$3.9mn) in the third quarter of the year.
- **Notable developments:** In February, the City of St. Antonio, Texas named it the public EV charging infrastructure provider. It also won a \$1mn contract from InterEnergy for 150 fast charging stations.



ElectramMeccanica

- **Founded:** 2015, Canada
- **Products and services:** Manufactures and sells single person EVs named SOLO for the mass market.
- **Stock Market Trends:** Like many other EV stocks, NASDAQ listed Electra Meccanica too participated in the November rally. Its share price is still at fairly elevated levels, even though it has come off the November highs.
- **Financials:** Made its first delivery of SOLO in the third quarter of 2020 and reported revenues of £0.2mn (CAD0.3mn). However, its net loss was far higher at almost £8.6mn (CAD14.9mn).
- **Notable developments:** It is setting up a facility in Arizona, US that can produce up to 20,000 vehicles per year.

Nikola

- **Founded:** 2018, USA
- **Products and services:** Produces both battery-electric and hydrogen powered trucks and powersports vehicles.
- **Stock Market Trends:** When it listed in June, 2020, Nikola saw a huge spike in its share price, but it has crashed to a fifth of that level from there.
- **Financials:** Presently earns a relatively small revenue. It also runs a loss, which are expected to continue till its deliveries pick up pace. Deliveries start only in 2022 for battery-EVs.
- **Notable developments:** Its South Korean partner, Hanwa, has recently decided to halve its stake in Nikola. This follows a stake reduction by Robert Bosch three months ago. Forensic financial research provider Hindenburg Research, had called Nikola an intricate fraud in September, 2020 sending its shares tumbling down.

Fisker

- **Founded:** 2017, USA
- **Background:** Founder Henri Fisker, had earlier started Fisker Automotive with a hybrid SUV named Karma as its product. Because of quality issues, however, Karma did not take off and the company went bankrupt.
- **Products and services:** Its first products, Ocean will be available only in 2022. It targets the mid-market. Fisker will outsource the manufacturing, while designing the car itself.
- **Stock Market Trends:** Listed in October 2020, it saw a 13% jump in share price on the day of debut and climbed through November. Share price was flat for a few months but has picked up traction this month again.
- **Plans:** Instead of going through dealerships like other automobile companies, Fisker aims to sell directly. It will offer customer leases, rather than direct purchase, which should help making it cost effective.

Canoo

- **Founded:** 2018, USA
- **Products and services:** Starts production in 2022 of vans and a pickup truck in 2023.
- **Stock Market Trends:** Since listing only a few months ago in December 2020, the share price has fluctuated, but appears to revert to the average of around \$15.
- **Notable developments:** There are reportedly talks between Canoo and Apple, which is also keen on getting into the EV market. They are said to be discussing from an investment to an acquisition.
- **Outlook:** Though pre-revenue, Canoo has robust financial forecasts. It expects sales of \$329

million in 2022. This is expected to rise on average at 88% till 2026, when its sales will be over \$4 billion. It expects to start making EBITDA profits in 2024, which are expected to grow fast from there.

- **Plans:** Aims at a no-commitment subscription model. Also plans an SUV for 2025.

Can new EV companies compete?

EV companies have had a good 2020. Most notably, EV pioneer Tesla had a particularly significant year as it turned profitable, while its revenues showed more than 4-fold growth in four years. Its share price too sky-rocketed during the year as its results improved and bullish investors rushed back into the stock markets in November. From the start of 2020 to the start of 2021, its share price had increased by more than 5 times.

Stock market performance				
	Market Cap (\$bn)	Share price (\$)	52 week high	52 week low
Tesla	628.6	654.9	900.4	82.1
NIO	67.6	43.4	67.0	2.2
XPeng	26.7	37.5	74.5	17.1
Li Auto	23.8	26.3	47.7	14.3
Ballard Power Systems	7.4	24.9	42.3	7.2
Nikola	6	15.4	94.0	10.5
Fisker	5.7	20.7	32.0	8.7
Canoo	3.6	15.4	24.9	9.7
XL Fleet	1.6	12.1	35.0	9.5
Blink Charging	1.6	38.2	64.5	1.3
ElectraMeccanica	0.6	5.6	13.6	0.9

While Tesla's success has also increased investor appetite for other EV stocks, it remains to be seen whether they can replicate the former's success or not.

US-China disagreements

Indeed, there are already signs of stumbling blocks ahead for Tesla itself, that also have implications for other EV companies. Amid challenged relations between the US and China, a recent report by The Telegraph states that Chinese authorities see Tesla's cars as a security threat. A quarter of the company's sales come from the rapidly growing market.

The big concern for Chinese EV companies listed on the US exchanges is that they may get delisted if they do not comply with accounting rules. Amid increased stress between the two countries, in the recent past, big Chinese technology firms have got a dual listing at the Hong Kong Stock Exchange, including the e-commerce giant Ali Baba.

Increasing competition

Besides policy related challenges, there is also much competition in the EV space. NIO now

faces direct competition in the Chinese market with Tesla, which already has a lead in the Chinese EV market. Besides this, EV companies are competing with each other too.

But possibly the biggest threat to EV companies is from established vehicle manufacturers who are now entering the space. Mercedes manufacturer Daimler will have 20 EVs on offer by 2030. Honda wants that two-thirds of its sales should be electric in ten years. Ford is already selling an EV.

High valuations

Despite these risks, the stock prices of new stocks have gone through the roof. Tesla's earnings ratio is at 1053, while that for Volkswagen and Toyota is at 13 and 16 respectively.

It is a similar story for other EV stocks. In the case of NIO, the price-to-book ratio, in lieu of the earnings ratio because it is still loss-making is considered, the number is at over 7 times compared to less than 2 times for General Motors.

For companies that are still in their early days and are yet to prove their credentials, these valuations look like a bubble that can burst.

Conclusion

While there is no dearth of challenges in the EV industry, there are opportunities for specific companies as well. Among car manufacturers, NIO is a challenger to Tesla and can stand to gain market share if the Chinese authorities see it as enough of a security threat.

Among service providers, the Canadian Ballard Power Systems has earned revenues for a few years and has promising expansion plans. The US's XL Fleet with its ready customer base is another one that looks good. An investments from among these companies may be one to consider for an investor who wants to get in the EV space.

It is difficult at this stage to say how companies that have just started turning a revenue or are pre-revenue will turn out overtime. These can be on the watchlist, but buying their stock right now can be risky.

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