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ELECTRIC VEHICLE SALES - A MASSIVE REBOUND MIGHT BE AHEAD OF US

Global new vehicle sales, including electric ones, have undoubtedly been weakened by the coronavirus outbreak. With countries progressively going under lockdown and up to 4 billion people confined to their homes, the purchase of a new vehicle did slide down the priority list. Latest Chinese numbers indicate that car sales plunged 42.4%¹ YoY in Q1 2020 while electric vehicles (EV) sales alone were down 56.4%² YoY over the same period. With China being, by far, the world's largest EV market, it is safe to say that the EV industry took a severe hit. However, the situation isn't all doom and gloom, and the bounce back might very well be of greater magnitude.

As stated in our April 8th [research note](#) we believe that as countries start easing their lockdowns, social distancing will work in favor of private vehicle ownership since people will avoid using public transport. Interestingly enough, China's highway traffic numbers were back to above 2019 levels by the end of March, while the number of passengers using public transport remained well below normal³. According to a recent survey conducted in China⁴, 72% of the respondents who currently don't have a car claimed that the current outbreak had strengthened their intention to purchase new vehicles, infection risk being their primary driver.

On a related note, China's prime minister recently announced that it would extend the subsidies (up to \$3.6k per EV) and the 10% tax exemption provided to the purchase of so-called "New Energy Vehicles" or NEVs (basically EVs and plug-in hybrid electric vehicles). These incentives (supposed to terminate by the end of 2020), are now extended until the end of 2022. On top of that, several local governments are reinstating regional subsidies, with, for instance, Guangzhou offering an additional \$1,440 per electric car purchased within the next ten months. As already witnessed in the past, such incentives can be of significant impact and are, in our view, likely to ignite China's EV demand and foster market recovery in the upcoming months.

Concerning Europe, the world's second EV market after China, things appear to be even brighter. During the first two months of the year, EV sales were up 121% and 111% YoY respectively⁵, while preliminary results suggest a YoY increase of 27% for March⁶. These good metrics can admittedly be attributed to a later spread of COVID-19 in the Old Continent.

Nevertheless, it is worth remembering that Europe is implementing this year one of the tightest CO2 emission regulations to the car industry, setting an average car emission target of 95g CO2/km for all manufacturers. Most large automakers have already made massive investments in electrification programs, and the COVID-19 crisis won't hamper the market shift to EV. Quite the contrary, we believe that in this context of economic downturn, only automakers that have already invested in developing dedicated EV platforms, batteries procurement channels, and optimized EV production processes will survive.

The current crisis will widen the competitiveness gap between automakers that already started to embrace the EV shift and the ones that didn't.

The latest results from **Tesla** (TSLA US) are a great illustration of the above. The company's sales did indeed surpass all estimates with 88'000 new cars delivered in Q1 2020, making it its best quarter ever. As already stated in our recent [research piece](#), we believe that companies with production close to the point of sale are best positioned to benefit from the new economic paradigm. The fact that Tesla only shutdown its US factories late in March certainly helped the company to stay on course till quarter-end. While many countries were confined, Tesla anecdotally

¹ http://www.caam.org.cn/chn/21/cate_463/con_5229825.html

² http://www.caam.org.cn/chn/21/cate_463/con_5229822.html

³ Source: Covid-19 Indicators: China Focus, BNEF, March 30, 2020

⁴ <https://www.ipsos.com/sites/default/files/ct/news/documents/2020-03/impact-of-coronavirus-to-new-car-purchase-in-china-ipsos.pdf>

⁵ <https://insideevs.com/news/407029/february-2020-plugin-car-sales-europe>

⁶ <https://lmc-auto.com/news-and-insights/covid-19-bev-sales/>

produced its millionth car (a new Model Y crossover), reopened its Shanghai factory on February 10th, and registered a 450% MoM surge in China's March sales. Now that the coronavirus spread is at its highest in the US, Tesla can leverage on its Shanghai facility, with a production capacity of 3'000 cars per week, to address China's rebounding market.

The last point to address is the current low oil price context, which undoubtedly remains an important element for anyone looking at the electric vehicle industry. While we won't deny its theoretical impact, we believe that in reality, such price drop only has a minimal effect on EV sales. Oil price volatility is something challenging to factor into EVs' total cost of ownership (TCO). Beyond that, EV sales today are correlated primarily to model availability, purchase price, vehicle's performances, and charging infrastructure.

Moreover, EVs' economic competitiveness keeps on improving notably through enhanced battery technology and economies of scale. Tesla, for instance, is to use **CATL's** (300750 CH) cell-to-pack battery technology with lithium iron phosphate (LFP) cathodes for its China's standard-range models; a battery intended for the entry-level version of its made-in-China Model 3 as it is 20% cheaper but features lower energy density (i.e., reduced driving range) than the more common nickel manganese cobalt oxide (NCM) batteries. It is also discussing with **Samsung SDI** (006400 KS) for the supply of nickel cobalt aluminum oxide (NCA) batteries for its long-range models. **BYD** (1211 HK), on its side, just revealed its company-made LFP "Blade Battery," which they claim to be 30% cheaper. The EV battery sector is making great strides on the technology front resulting in always cheaper & more efficient batteries year after year.

All in all, we remain bullish on the electric vehicle investment case and firmly believe that the ongoing structural growth is to accelerate in the coming years. R&D breakthroughs, as well as economies of scale, makes new EVs more affordable to such an extent that they will reach purchase price parity with internal combustion engine (ICE) cars (without subsidies) within the next 2-5 years. The economic pressure created by the COVID-19 did only temporarily slow down EV growth, and many indicators suggest that a steep rebound is in the making.

We remember our investors that we are maintaining our exposure to the electric vehicle sector along with its related batteries, which together account for roughly 15% of our investments into the Sustainable Future certificate.

■ Sustainable Future



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