A MOMENT IN MARKETS – LOOKING BEYOND BATTERY DAYS INTO A BATTERY FUTURE

Mobeen Tahir – Director, Research
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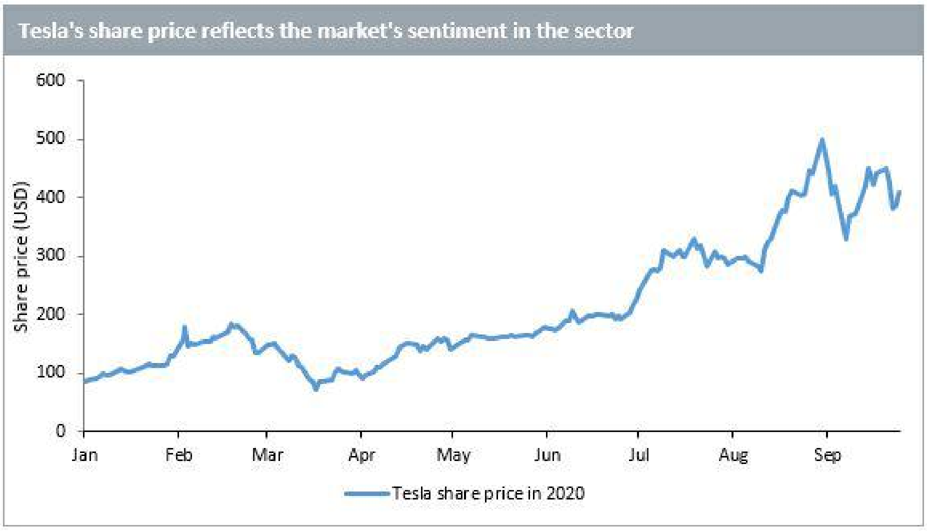
Tesla's tumultuous tale

The share price of Tesla dropped by almost 18% over 22nd and 23rd September last week. What happened? The electric vehicle manufacturer had its 'battery day' on Tuesday 22nd September when it made several announcements. Among the key revelations were the following:

1. A new high spec 'Plaid' trim for its model S – an upgrade on its current Ludicrous model

2. The aspiration to build a $25,000 car

3. A new 'tabless' battery that would be built in-house and would be expected to improve production efficiencies. It would also use higher loadings of nickel and lower loadings of cobalt.



Source: Bloomberg, Data as of 28 September 2020.

Historical performance is not an indication of future performance and any investments may go down in value.

So why did the share price drop? Possibly because the market was expecting the company to announce a new 'million-mile battery', i.e. for the company to focus on battery range rather than cost efficiencies. Having said that, the carmaker has had a stellar ride so far this year, defying valuation multiples and leaving the broader US equity market well behind. Tesla's turbulent rally represents the culmination of the market's excitement in the sector for electric vehicles – exuberance on the way up and disappointment when new announcements fall short of very high expectations.

Another associated by-product of this excitement is the impact on related companies. For example, Tesla's plans to vertically integrate its lithium procurement, as part of manufacturing a cheaper battery, pressed the brakes on the share price of the company's lithium supplier, Albemarle, on the so called 'battery day'.

Investors have options

Thematic investors excited by the growth in electric vehicles may want to consider the following two factors:

1. **The value chain:** Electric vehicles are merely one application of the exciting and growing innovation in battery solutions. The space is represented by an entire value chain which includes raw materials, component manufacturers, emerging technology such as wireless charging and enablers such as grid services. Thematic investors, seeking to benefit from the long-term growth prospects in the sector, may want to look across the value chain. This approach may also provide much-needed diversity and protection from the volatility in single stocks.

2. **Investing in fundamentals:** Nickel prices did not jump when Tesla announced that more of the industrial metal will likely be needed in its new battery design. Industrial metals don't move in the same way as stocks. They tend to move more in line with fundamentals. If a shift in battery technology starts demanding greater quantities of nickel, it won't get priced in immediately upon the announcement of such technology. The price will probably move gradually as actual demand starts to go up. This is a favourable profile for thematic investors looking to take a long-term view on fundamentals.

Thus, events like battery days are interesting as they give us clues as to where the technology is headed. But investors have the option to look past the volatility in individual stocks and benefit from the poise and promise of a growing technology.

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