



Investing in electric vehicles



Author

Nesche Yazgan
BlueBay Asset Management
Senior Corporate Analyst



Electrical vehicles (EVs) have gone mainstream. Over the past five years, sales have surged as the regulatory regime, especially in Europe, has changed dramatically. With outright bans on the sales of vehicles powered by internal combustion engines (ICEs) set to be introduced within a decade in some countries, the ultimate destination of the auto industry is clear. What remains undecided is how to get there.

As investment-grade bond investors, we believe EVs will redefine the auto sector as we know it, presenting us with challenges, opportunities and raising complex ESG questions.

How will EVs disrupt the auto industry?

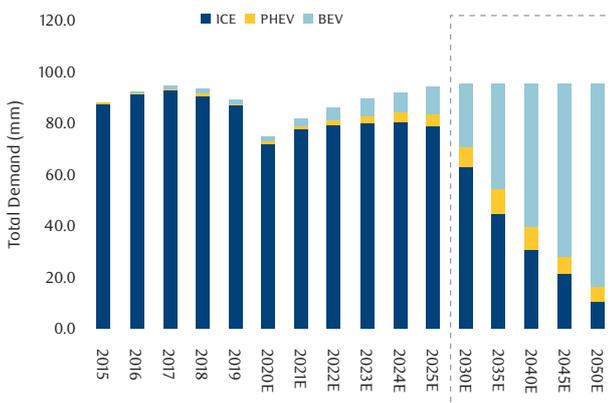
Throughout the transition process, we expect significant pressure on credit metrics across the industry as it deals with:

1. a shifting sales mix between ICEs and EVs
2. elevated investment demands
3. a need to redefine the world's most complex supply chain
4. potential mergers and restructurings.

The transition needs to be accomplished in what is a highly cyclical industry that is still dealing with the impacts of the pandemic.

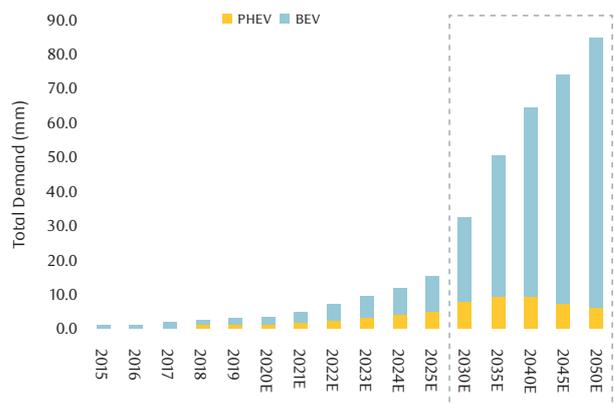
We expect **suppliers** to be the most vulnerable in the medium-term and see a major dislocation in their market positioning. For example, it's unclear how engine component makers will adapt to survive in an EV world where engines are replaced with batteries.

Total global auto sales in units



Source: RBC Capital Markets, as at December 2020. Note: ICE = internal combustion engine vehicles; PHEV = plug-in hybrid electric vehicles; BEV = battery electric vehicles.

Total global EV sales in units



Source: RBC Capital Markets, as at December 2020. Note: PHEV = plug-in hybrid electric vehicles; BEV = battery electric vehicles.

Why are suppliers more vulnerable?

1. There are fewer components in an EV (approx.600) than an ICE vehicle (approx.2500) so the key to their profitability will be driven by economies of scale.
2. The outsourcing trend looks set to reverse as vehicle manufacturers bring more processes in-house to gain greater control over their supply chains.
3. Many suppliers do not have specialisations in key new product areas that add value to EVs, such as software development and architecture or sophisticated chip manufacturing.

What about traditional auto manufacturers?

Here we see the potential for a major market dislocation, as several of the large auto producers have failed to formulate a coherent EV strategy. In an effort to sustain profitability, they have engineered attempted 'catch all' sales mixes that include a range of petrol, diesel, hybrid and electric vehicles. This strategy has been undermined by the recent regulatory moves across Europe. The introduction of outright bans on ICEs within the next decade or so is forcing manufacturers to focus purely on EVs.

From our vantage point, the manufacturing success stories will be those that:

1. have a clear R&D strategy
2. are able to restructure their manufacturing footprint
3. have the balance sheet to promote affordable EVs
4. can streamline their product offering in a cost-efficient way.

Our attention is focused on manufacturers within Europe and China, as these are the geographies at the epicenter of the electrification theme. Both regions have the political will and the financial means to pursue decarbonising the auto industry. Conversely, US manufacturers are lagging behind due to the domestic market's preference for large vehicles with high energy consumption (AC, heated seats) and an increased need for towing power in agricultural states.



This document may be produced and issued by the following entities: in the European Economic Area (EEA), by BlueBay Funds Management Company S.A. (the ManCo), which is regulated by the Commission de Surveillance du Secteur Financier (CSSF). In Germany and Italy, the ManCo is operating under a branch passport pursuant to the Undertakings for Collective Investment in Transferable Securities Directive (2009/65/EC) and the Alternative Investment Fund Managers Directive (2011/61/EU). In the United Kingdom (UK) by BlueBay Asset Management LLP (BBAM LLP), which is authorised and regulated by the UK Financial Conduct Authority (FCA), registered with the US Securities and Exchange Commission (SEC) and is a member of the National Futures Association (NFA) as authorised by the US Commodity Futures Trading Commission (CFTC). In United States, by BlueBay Asset Management USA LLC which is registered with the SEC and the NFA. In Switzerland, by BlueBay Asset Management AG where the Representative and Paying Agent is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich, Switzerland. The place of performance is at the registered office of the Representative. The courts of the registered office of the Swiss representative shall have jurisdiction pertaining to claims in connection with the distribution of shares in Switzerland. The Prospectus, the Key Investor Information Documents (KIIDs), where applicable, the Articles of Incorporation and any other applicable documents required, such as the Annual or Semi-Annual Reports, may be obtained free of charge from the Representative in Switzerland. In Japan, by BlueBay Asset Management International Limited which is registered with the Kanto Local Finance Bureau of Ministry of Finance, Japan. In Australia, BlueBay is exempt from the requirement to hold an Australian financial services license under the Corporations Act in respect of financial services as it is regulated by the FCA under the laws of the UK which differ from Australian laws. In Canada, BBAM LLP is not registered under securities laws and is relying on the international dealer exemption under applicable provincial securities legislation, which permits BBAM LLP to carry out certain specified dealer activities for those Canadian residents that qualify as “a Canadian permitted client”, as such term is defined under applicable securities legislation. The BlueBay group entities noted above are collectively referred to as “BlueBay” within this document. The registrations and memberships noted should not be interpreted as an endorsement or approval of BlueBay by the respective licensing or registering authorities. Unless otherwise stated, all data has been sourced by BlueBay. To the best of BlueBay’s knowledge and belief this document is true and accurate at the date hereof. BlueBay makes no express or implied warranties or representations with respect to the information contained in this document and hereby expressly disclaim all warranties of accuracy, completeness or fitness for a particular purpose. Opinions and estimates constitute our judgment and are subject to change without notice. BlueBay does not provide investment or other advice and nothing in this document constitutes any advice, nor should be interpreted as such. This document does not constitute an offer to sell or the solicitation of an offer to purchase any security or investment product in any jurisdiction and is for information purposes only. This document is intended only for “professional clients” and “eligible counterparties” (as defined by the Markets in Financial Instruments Directive (“MiFID”)) or in the US by “accredited investors” (as defined in the Securities Act of 1933) or “qualified purchasers” (as defined in the Investment Company Act of 1940) as applicable and should not be relied upon by any other category of customer. No part of this document may be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, in whole or in part, for any purpose in any manner without the prior written permission of BlueBay. Copyright 2021 © BlueBay, is a wholly-owned subsidiary of RBC and BBAM LLP may be considered to be related and/or connected to RBC and its other affiliates. © Registered trademark of RBC. RBC GAM is a trademark of RBC. BlueBay Funds Management Company S.A., registered office 4, Boulevard Royal L-2449 Luxembourg, company registered in Luxembourg number B88445. BlueBay Asset Management LLP, registered office 77 Grosvenor Street, London W1K 3JR, partnership registered in England and Wales number OC370085. The term partner refers to a member of the LLP.

November, 2021.



**Global Asset
Management**