SUSTAINABLE INVESTMENT
2023 INVESTMENT THEMES

Source: iStock

ELECTRIFICATION OF THE CAR

The world has changed in many ways this year; supply chains, including automotive and semis, are under stress, high inflation and rising interest rates must dampen demand at some level, while higher raw material prices will question affordability.

Despite these short-term risks, we continue to believe that long term electric vehicles (EVs) will become more popular than internal combustion engines (ICE). The question is not about if, but when. Adoption will be driven by a mixture of drivers: environmental, regulatory, economical and consumer.

In 2022, battery electric vehicles (fully electric, BEV) will likely account for over 10% of global light vehicle production, up from c.6.5% in 2021. With intensifying emission regulations and dramatic clean air initiatives in several cities and regions, the only way for automakers to meet their targets is by selling more EVs.

However, the world may not be able to de-adopt from ICE as quickly as we had expected even a few months ago. Geopolitical risks pose serious potential issues to growth and margins for both EV and ICE. Fuel prices are higher than they were a year ago, which increases the cost of owning an ICE vehicle. But, at the same time, raw material prices for battery cells are expected to be up 20-30% in the fiscal year 2022, pushing the cost of manufacturing a BEV even higher, reducing affordability. But ICE manufacturing costs are also going up due to further regulation – not least Euro 7 proposals, thus potentially reducing some of this cost gap with BEVs.

With so many moving parts, where do we stand today? We think it is possible to be bullish on the long-term case for EV penetration, while still being constructive on internal combustion engines in the short.

For legacy manufacturers, the cash generated from auto manufacturers' legacy business (ICE) can be seen as valuable capital which is necessary to invest into some of the riskiest, capital-intensive projects in the world (EVs).

From the pure EV players, Tesla would be our pick, and from across the supply change to EV, we like Aptiv who is a US supplier whose portfolio of technologies provide exposure to the industry's mega-trends of advanced safety, electrification, automation and connectivity. In technology, we also like Infineon Technologies, a leading provider of semis for applications in the automotive amongst industrial and security markets.

While one can argue that China is an overly saturated market, we continue to see Tesla in a one-horse race in the Western EV market as legacy competitors look for savings in a downturn, including getting more frugal on EV spending. Infenion continues to increase content in 7 out of the 10 top selling EVs, while given revenue diversification across other growing markets within energy transition applications.

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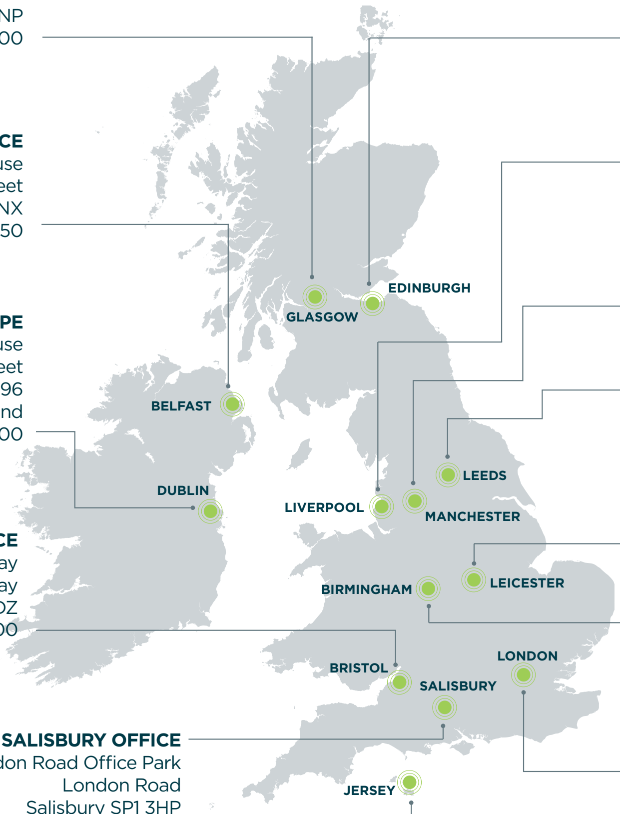

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