Should Nio Stock Be Part of Your Portfolio in 2022?

Description

Valued at a market cap of US$33.4 billion, China-based electric vehicle manufacturer **Nio** (NYSE:NIO) has taken investors on a volatile ride. Nio went public on the NYSE back in September 2018 at a price of $9.90 per share. The company was soon wrestling with multiple issues while running out of cash, which meant NIO stock plunged to a low of US$1.5 in Q4 of 2019.

Soon after an equity investment, Nio was among the top-performing stocks in 2020, as it surged a staggering 1,000% that year. After touching a record high of US$57 per share in January 2021, NIO stock is currently priced at US$20, which is almost 70% below all-time highs.

Let's see if Nio stock should be part of your growth portfolio in 2022.

NIO stock will remain vulnerable in 2022

Despite the massive pullback in Nio's share price, investors should understand that electric vehicle (EV) stocks will remain rangebound and vulnerable in 2022 for several reasons.

First, commodity prices have experienced an uptick due to supply chain disruptions amid the pandemic and ongoing war between Ukraine and Russia. While manufacturing units were shut due to lockdowns, the Russian invasion drove nickel contract prices higher by more than 100% to US$100,000 per tonne last month.

Russia is among the world's largest suppliers of nickel, which is an essential component required by EV producers. **Morgan Stanley** analyst Adam Jones estimates higher nickel prices will increase input costs for EVs by at least US$1,000 south of the border.

In addition to rising prices of raw materials, EV manufacturers will have to contend with interest rate hikes. Inflation numbers are trending higher in 2022, which should hit consumer spending and increase borrowing costs across the board.

Additionally, while China is aggressively supporting investments in the clean energy space, the lack of transparency surrounding the country makes investing in Nio and other companies high-risk bets.

Finally, lockdown restrictions have been relaxed in most countries, but they have been re-imposed in China, which led to a selloff in Nio and other ADRs last month. In fact, over the weekend, Nio confirmed it has suspended production after lockdown restrictions disrupted operations for its suppliers.

Nio will postpone deliveries, as it looks to work with suppliers to resolve these disruptions. NIO stock is down almost 9% in pre-market trading today.

The bull case for Nio stock

Yes, the outlook for Nio in 2022 does not inspire confidence. But investing in equities is a long-term game, and here is where Nio can create massive wealth for investors. China is the world's largest EV market and Europe is also experiencing widespread adoption of EVs.

The two regions should account for 65% of total global EV sales by 2030. Nio has already established an enviable presence in China and entered the European markets last year.

Even though Nio has been impacted by supply chain issues, it delivered close to 26,000 units in Q1 of 2022, up from just 4,000 units delivered in Q1 of 2020.

Analysts expect NIO sales to rise by 68.9% to US$9.58 billion in 2022. These estimates are bound to move lower due to higher prices and delays in vehicle production. But even if Nio reports revenue of $8.5 billion this year, the stock is valued at a forward price-to-sales multiple of 4.5, which is quite attractive.

Nio is still unprofitable, but its bottom line is expected to improve to earnings per share of US$0.12 in 2023 compared to a loss of US$1.06 per share in 2021.

The Foolish takeaway

Nio is part of a rapidly expanding addressable market and is racing towards profitability. The stock is reasonably valued, has strong fundamentals, and enjoys a first-mover advantage making it a top bet for growth investors, given its depressed valuation. Analysts tracking NIO stock expect it to gain over 100% in the next 12 months.

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Author
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