NIO Stock: Here's Why I Won't Touch it With a 10-Foot Pole Right Now

Description

Shares of **NIO** (NYSE:NIO) continue to be under pressure in 2022. Interestingly, NIO stock yielded an eye-popping return of around 1,112% in 2020, which attracted investors' attention and made it one of the most popular electric vehicle (EV) stocks. However, the stock couldn't sustain these gains for long. At the time of writing, NIO stock was trading at US$17.62 per share with 44% year-to-date losses after witnessing a 35% value erosion in 2021.

While bulls are hoping NIO stock to repeat history by starting another 2020-like remarkable rally in the near future, I would still prefer to avoid it — at least for now. Before I explain why, let's take a closer look at NIO's business model and recent business growth trends.

NIO stock

NIO is a Shanghai, China-based electric vehicle company with a market cap of about US$29.4 billion. With the help of its joint ventures with other Chinese companies like JAC Motors and Jianglai, NIO manufactures its electric car models, including ES8, ES6, EC6, and ET7. While the company primarily sells its vehicles in China, it recently started international market expansion by shipping its full-size electric sedan ET7 to Europe in August 2022.

NIO hasn't yet publicly revealed any clearly laid out strategy and exact timeline to enter the U.S. market. On its second-quarter (Q2) earnings call in September, the company's interpreter Eve Tang said, "the U.S. market is very competitive and regulatory environment is also quite different from China and Europe." But she added that the Chinese electric carmaker has "been making long-term thinking and preparation about the U.S. market entry."

Recent business growth trends

In the second quarter, NIO's total revenue rose by 22% YoY (year over year), as it reported a 14% YoY increase in car deliveries. However, its Q2 car deliveries on a sequential basis fell by 3% to 25,059 due mainly to challenges like the recent pandemic-related lockdowns in China, extreme weather conditions, and supply chain disruptions.

With this, NIO's adjusted loss from operations increased by nearly 360% YoY in Q2. Similarly, its gross profit margin contracted to 13% in the last quarter — significantly lower than 18.6% a year ago.

Here's why I'd avoid buying NIO stock right now

In my opinion, NIO's stock price rally was overdone in 2020, especially considering its not-so-great growth in car deliveries and top line in the last few years. Despite witnessing a massive selloff in recent quarters, I find the Chinese electric vehicle company's stock highly overvalued, as it still trades with 338% gains from its 2019 closing level.

In fact, NIO stock has consistently been falling since January 2021, when it posted a record high close to US$66 per share. This downtrend could be a reflection of a shift in investors' sentiments. At this point, NIO needs a really solid fundamental reason to escape this downtrend and regain investors' confidence. And I don't see that happening anytime soon amid ongoing macroeconomic concerns, including high inflation, rising interest rates, supply chain disruptions, and fears of slowing global economic growth.

Moreover, the new Chinese lockdowns in the last few months have made the global supply chain crisis more severe. These supply chain bottlenecks could badly affect NIO's production and car deliveries in the coming quarters. Given all these negative factors, the possibility of NIO stock falling further can't be denied completely. Also, NIO's stock price has been extremely volatile since its American depositary shares started trading on the **New York Stock Exchange** in September 2018, making it too risky to buy for investors with a low-risk appetite.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:NIO (Nio Inc.)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. jparashar
2. kduncombe

Category

1. Investing
2. Stocks for Beginners

Date
2025/09/06
Date Created
2022/09/27
Author
jparashar