Forget Rivian and Buy This Canadian EV Stock Instead

Description

In 2022, electric vehicle (EV) stocks have experienced a steep decline in share prices due to valuation concerns and a challenging macro environment.

As the majority of electric vehicle companies are still unprofitable, they will have to focus on maintaining robust liquidity positions to offset a high cash-burn rate. Manufacturing EVs is extremely cost intensive and requires significant capital expenditures before companies can benefit from economies of scale and deliver consistent profits.

So, in case entities have to raise capital, they would have to do by issuing new shares or by increasing debt on their balance sheet. Both these cases are detrimental to existing shareholders, as they will either result in shareholder dilution or higher leverage. Further, a high interest rate environment in 2022 will increase the cost of debt significantly for companies in the near future.

In addition, EV manufacturers such as **Rivian** (NASDAQ:RIVN) are also wrestling with higher input costs and supply chain disruptions, which are impacting both demand and production numbers. However, the long-term prospects for EV stocks remain quite enticing, as the shift towards clean energy solutions is inevitable globally.

Is Rivian stock a buy right now?

In the first 10 months of 2022, Rivian Automotive lowered its production targets several times for the year, announced a recall of almost every electric vehicle it manufactured, and widened its losses considerably year over year. As a result, RIVN stock price is down over 80% from all-time highs, valuing the company at a market cap of US$28.8 billion.

Analysts now expect the EV company to increase its sales from US$55 million in 2021 to US$1.81 billion in 2022 and US$6.16 billion in 2023. So, RIVN stock is priced at less than five times 2023 sales, which is not too steep, given its growth rates.

But Rivian is nowhere close to profitability, and the possibility of an upcoming recession might easily lower its projected sales numbers going forward. While Rivian ended the second quarter with a cash balance of almost US$15 billion, its free cash flow in the last 12 months stood at a negative $4 billion.

Due to its explosive growth, the EV industry is attracting both new and legacy players, which will act as a headwind for Rivian, making it a high-risk bet right now.

Is this Canadian EV stock a better bet than Rivian?

One Canadian electric vehicle company that's flying under the radar is **Lion Electric** (TSX:LEV), which designs, develops, and manufactures battery-powered, medium- and heavy-duty urban vehicles. These EVs consist of seven mid-range truck and bus models. The company has an attractive development pipeline and is expected to launch eight new mid-range truck and bus models in the next two years.

Lion Electric has a manufacturing facility located in Montreal, allowing it to manufacture 2,500 vehicles each year. It also plans to develop a large-scale facility south of the border, which should increase its manufacturing capabilities rapidly.

Valued at $837 million, Lion Electric shares are down almost 84% from all-time highs. However, the company is forecast to increase its sales from just $74 million in 2021 to $540 million in 2023.

To combat the current environment, Lion Electric has lowered its capital expenditure target for 2022 to $80 million, which is lower than the previous forecast of $115 million.

The company has forecast its total addressable market at $110 billion, providing it with enough room to grow its revenue in the next decade. Analysts remain bullish on LEV stock and expect shares to more than double in the next 12 months.

CATEGORY

1. Investing

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