

International Stock Market Weekly

International Stocks
Robert Cheek

+822-3787-2261

r.cheek@hmsec.com

Small Cap/ Infrastructure

With the rapidly rising number of EVs on the road and lack of sufficient charging infrastructure to meet the growing demand, the electric charging station business is finally ready to take off. With major technological transformations, transiting to an electrified transportation will not come without considerable effort and investment. 100 years of development brought the ICE to where it is today, along with the vast network of gas stations to support them along with the massive network of dealers and service stations. While the number of EVs on the road is still in the beginning stage of growth, we are now on the cusp of a long-term expansion which will offer investors massive opportunities to capitalize on this business.

While the EV story is widely known in the investment community thanks to the outsized success of companies like Tesla, LG Chem, and Nio as well as the very competitive new products by incumbent automakers what many have overlooked is what we see as the backbone to support this emerging business—the charging infrastructure. Accordingly, we have identified promising companies in this space with the capabilities to become major players in this lucrative new market. And the most attractive company in the EV charging station business is Switchback Energy/ChargePoint, as the company is a monopoly, has an incredibly attractive business model, and is relatively undervalued.

Stock pick for the Third week of January

Switchback Energy / ChargePoint (NASDAQ: SBE)

ChargePoint is the market leader in EV charging stations in the US, which makes it a solid calculated bet on the booming EV sector

Switchback Energy leads the charge in the EV charging business

Our top pick for the third week of January is Switchback Energy (NASDAQ: SBE).

Switchback Energy is a publicly traded special purpose acquisition company (SPAC), which will undergo a reverse merger with the privately held electric vehicle (EV) charging network company ChargePoint. The current deal date for the merger between Switchback Energy and ChargePoint is set for Jan 27, 2021 but this could be delayed if the due diligence takes longer.

Rationale

The EV market is undergoing period of explosive growth as governments around the world are pushing the transition from ICE vehicles to EVs. Major automakers such as GM (NYSE: GM), Ford (NYSE: F), Hyundai Motor (005380), Kia Motors (000270), Nio (NYSE: NIO), and Tesla (NASDAQ: TSLA) are racing ahead to meet present and future demand. However, the lock that is preventing the acceptance by the masses of EVs is what will make them viable and what will catalyze buying by the masses—the supporting infrastructure to power them. ChargePoint is the key that unlocks this massive potential. ChargePoint operates the largest network of independently owned EV charging stations in the world.

While the US has been slower than the EU in the deployment and acceptance of EVs, the zeitgeist makes investment success with Switchback Energy/ChargePoint virtually a foregone conclusion. The fact is the electrification of mobility is inevitable, and consumers and fleets are making the transition at record rates. The political environment in the US with Joe Biden as the President and the Democrats controlling the Senate and House bode well for ChargePoint's outlook. President Biden has returned the US to the Paris Climate Accord, and has stated that boosting EVs is a top priority for his administration and pledged to build 550,000 EV charging stations. In addition, he is supporting new tax credits for consumer credits and retrofitting factories for EV production. The expected massive infrastructure plan to be rolled out also bodes well for tremendous growth potential for ChargePoint.

Even without the coming EV push by the Biden administration, the market for Switchback Energy/ChargePoint's market is huge, essentially every place where vehicles park in North America and Europe. The business case is clear and compelling with the company selling the software, stations, and services. Switchback Energy/ChargePoint does not monetize energy or driver utilization. By selling to businesses, the company enjoys capital-light growth which should translate into substantial revenue and margin expansion going forward.

When the merger was announced on Sept 24, 2020 SwitchBack was at USD12.33 at market open. Since then, the shares have approached the USD50/share level but have since pulled back to the lower USD40 level. While this is not an inexpensive stock by most definitions, the outlook for this industry which it will

likely dominate, means that there is an opportunity for investors to secure a position in what could be home run in the EV game.

While there are some pundits prattling 'buy the rumor, sell on the news', because the stock is trading at nearly four times its July 2019 IPO price, we hold a contrarian view. We see the Switchback Energy/ChargePoint story as somewhat akin to the Tesla story, and like with the Tesla story, we have the same types lacking the foresight to see how this story could play out and who remain in denial on the inevitability of EVs. And most importantly, they also fail to see that it is now imperative to have the infrastructure to support the rapidly growing number of EVs on not only US roads, but the world's roads. And ChargePoint is the undisputed leading operator in the EV charging station business with more deployments than any other company in the world. What is more, the company is already making inroads into the world's other major automotive markets, such as Germany. Indeed, we would even go so far as to use the California gold rush as an analogy in which those supplying the miners with supplies made far greater fortunes than did most of the gold miners. ChargePoint supplies the critical infrastructure to serve almost all EVs and will continue to support the auto industry in its transformation into clean energy business. And this is all happening in plain sight when everyone is chasing Tesla with the ludicrous belief that it will rise in perpetuity, despite competitors rapidly catching up. For SBE, uncertainty, and broad market weakness, deflated the shares in the wake of its peak of around USD50/share before Christmas. Because of this, some pundits called for investors to take profits and move on. Nevertheless, with the continued slide in the price of lithium-ion batteries, EV sales will undergo exponential growth over the next five years, and this will provide the foundation for ChargePoint's projections.

Despite the stock's extreme volatility and the inherent risks involved with new tech businesses, the potential upside with for Switchback Energy/ChargePoint is so considerable that the bumpy volatility voyage that investors will have to inevitably travel on the journey to massively outsized rewards down the road is well worth it, in our view. For investors currently holding SBE shares, we recommend holding or adding, at least until the SPAC deal is finalized. In the near term, the shares should surge when the IPO takes place. However, what we find far more compelling is the long-term mega growth story, which offers investors exposure to the fast-expanding EV market, and it is because of this that we are recommending investors to begin accumulating positions in Switchback Energy/ChargePoint, as the current price offers an attractive entry point ahead of the merger.

Sustainable investment

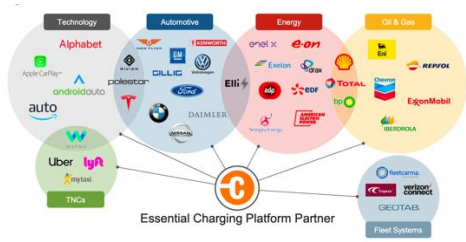
While many pre-revenue EV startups with vague outlooks are seeing astronomical gains, somewhat reminiscent of the dot.com bubble of the late 1990s, ChargePoint stands apart as it boasts the biggest EV charging network, most robust technology, and lucrative and defensive business model which it far ahead of its competitors. At the latest count, the company has seven times the EV charging market share of its competitors and more than 114,000 charging stations in 14 countries. According to Grandview Research, the overall EV sector has a CAGR of 32% from 2020-27 while Switchback Energy/ChargePoint currently projects a whopping CAGR of 60% over the next seven years, with more than USD7bn in revenue

in 2027. As the market currently lacks a company with a similar business model to Switchback Energy/ChargePoint's, it is quite challenging to value Switchback Energy/ChargePoint at this time. Indeed, the only companies which we might use to for comparisons would be Blink Charging (NASDAQ: BLNK), Tesla (NASDAQ: TSLA), Ballard Power Systems (NASDAQ: BLDP), and Plug Power (NASDAQ: PLUG) but Blink is the most appropriate for a comparison as it is an EV charging station pureplay while Ballard and Plug are hydrogen energy companies and Tesla is a conglomerate. And Blink is trading at comparatively eye-watering valuations despite anemic 3Q20 earnings.

Relative to Blink, Switchback Energy/ChargePoint is clearly the better value proposition when comparing revenue projections and we see it as a fairly valued stock, even is in the midst of the EV SPAC frenzy. While the automotive industry has traditionally proven a challenge for most startups, a new generation of EV players focusing on the global transition to EVs will foster an environment for tech-focused startups to thrive. SPACs have been the vehicle providing these startups with the mountains of capital required to finance their growth plans. While Switchback Energy/ChargePoint's investor presentation states that a fair valuation in 2026 based on its sales projections could be in the USD8bn-19bn range with a midpoint of roughly USD13.5bn. The company recommends annually discounting the future valuation by 15%, which has a current fair value of USD6.5bn, meaning that the stock could undergo a steep albeit short lived correction from the current price level, in our view. Despite the handful of naysayers claiming that ChargePoint's valuation is excessive, our stance is that their doubts are largely due to a lack of an understanding of the unique mix of technology, network, business model, and environment that provide the perfect cocktail for massive growth. Indeed, we can look at other stocks in the EV and related spaces such as hydrogen and see that they, too, trade at P/S levels of around 100x as well. Despite the clear differences in the companies in the table below in terms of business and other factors, we use them simply for demonstrative purposes. As mentioned previously, the closest among comparable stocks is Blink as it is a pure play EV charging company and when comparing it to Blink, it is all the clearer why ChargePoint is such a compelling investment opportunity, in our view.

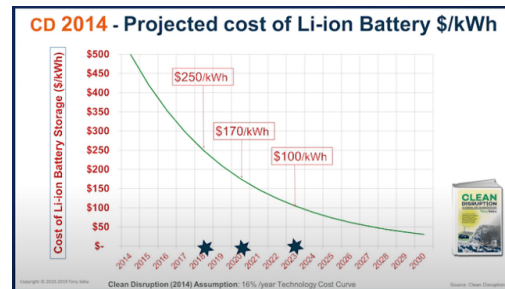
Company	Mkt cap	2020E Revenue	P/S
Switchback/ChargePoint (SBE)	USD 1,546mn	USD 135mn	1.7(2025E)
Ballard Power Systems (BLDP)	USD 9,939mn	USD 106mn	-
Plug Power (PLUG)	USD 29,252mn	USD 329mn	-
Blink (BLNK)	USD 1,859mn	USD 5mn	-
Tesla (TSLA)	USD 783,117mn	USD 31,105mn	-

Fig 1. Market committed to electrification



Source: ChargePoint, Hyundai Motor Securities

Fig 2. Projected cost of Li-ion battery



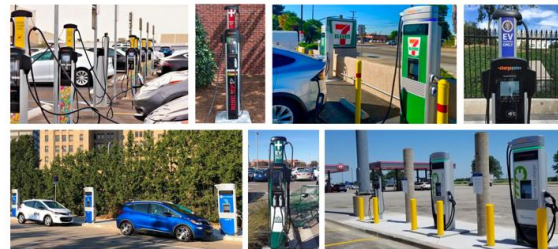
Source: Future ofTransportation / Keynote: 2020 DOT Summit, Hyundai Motor Securities

Fig 3. ChargePoint public charging station at Hillsboro Civic Center in Oregon



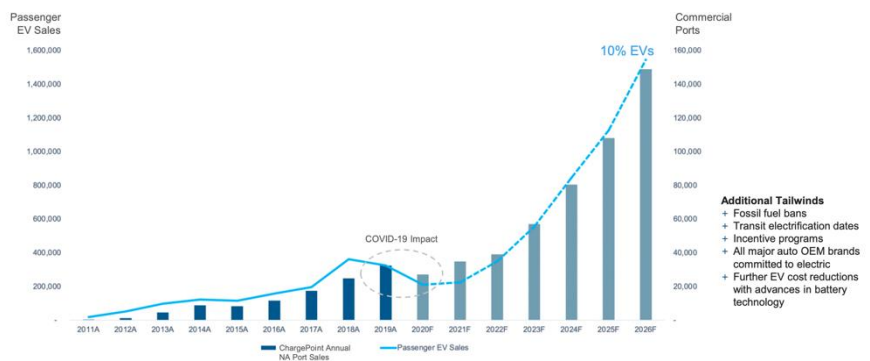
Source: Kowloonese Hyundai Motor Securities

Fig 4. One system, infinite brands



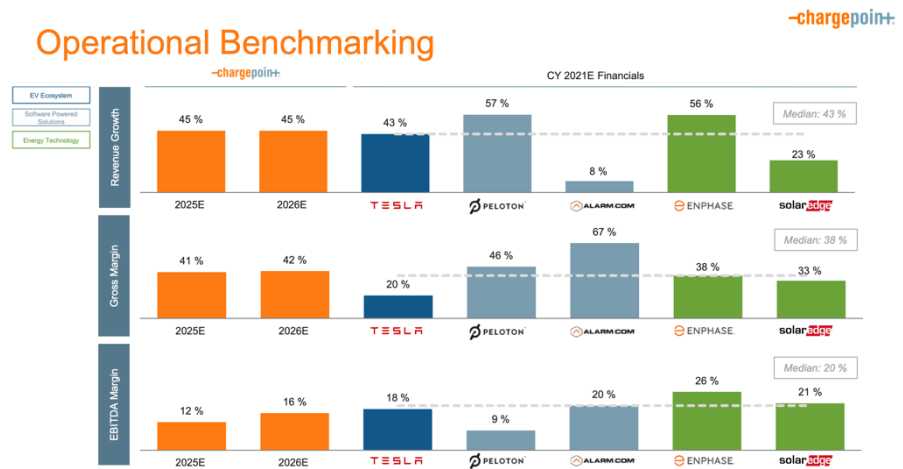
Source: ChargePoint, Hyundai Motor Securities

Fig 5. ChargePoint growth directly proportional to EV penetration



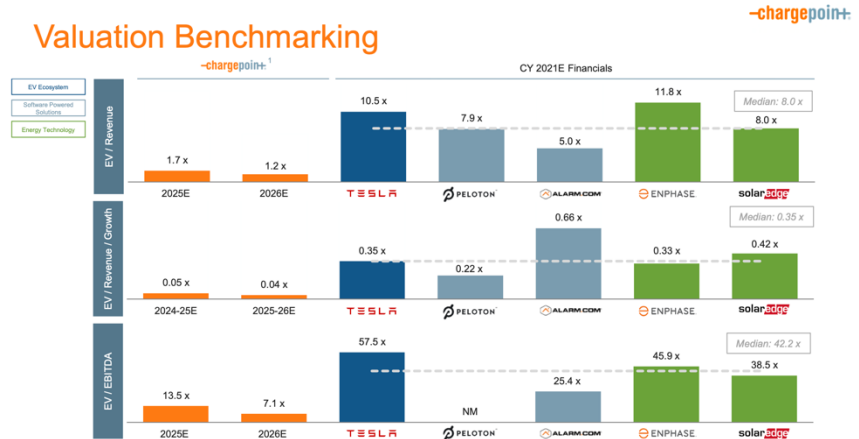
Source: Historical EV sales from InsideEVs and Baum. Future EV sales projections from Bloomberg NEF Electric Vehicle Outlook 2020 as of October 2020, ChargePoint, Hyundai Motor Securities

Fig 6. Operational benchmarking



Source: McKinsey, Hyundai Motor Securities

Fig 7. Valuation benchmarking

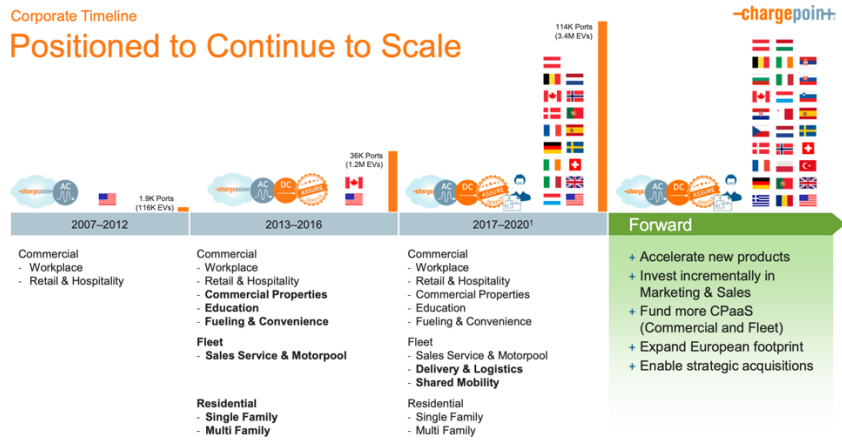


Source: McKinsey, Hyundai Motor Securities

Charging ahead in the subscription economy

We remind investors that this is an emerging market and that ChargePoint like Tesla, Amazon (NASDAQ: AMZN), or the countless other companies of the same ilk that have vanished in the dustbins of history, offers massive potential but not without the risk that such potential gains entail. Having said that, long term, we are very bullish on Switchback Energy/ChargePoint as a safe long-term investment. With the growing number of EVs on the road, the demand for charging stations will increase at an incredible rate. And as non-Tesla EVs roll out in increasing numbers, the demand for charging solutions will surge. What we also find very appealing is the company's subscription-based model from which software and services should account for around half of revenues within the next six years. Switchback Energy/ChargePoint as the company is a monopoly, has an incredibly attractive business model, and is relatively undervalued. Investors would do well to accumulate positions in Switchback Energy to gain exposure in the EV revolution.

Fig 8. Positioned to continue to scale



Source: ChargePoint, Hyundai Motor Securities

Fig 9. Winning North American and expanding in Europe

Winning North America, Expanding in Europe



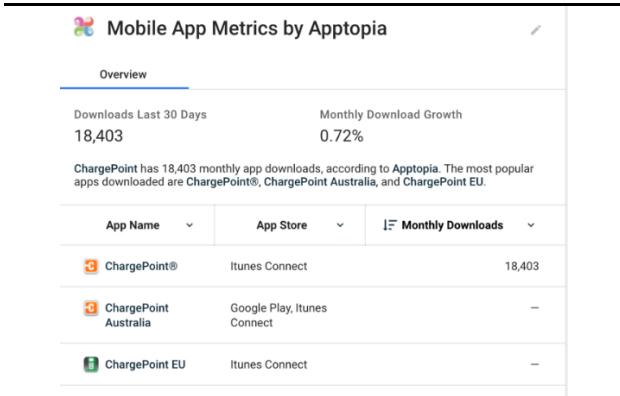
Source: Future of Transportation / Keynote: 2020 DOT Summit, Hyundai Motor Securities

Fig 10. ChargePoint's formula for success



Source: ChargePoint, Hyundai Motor Securities

Fig 11. ChargePoint mobile app downloads



Source:Crunchbase, Hyundai Motor Securities

Fig 12. Public comparable universe



Source:ChargePoint, Hyundai Motor Securities

Fig 13. Sales from H/W, recurring S/W and services



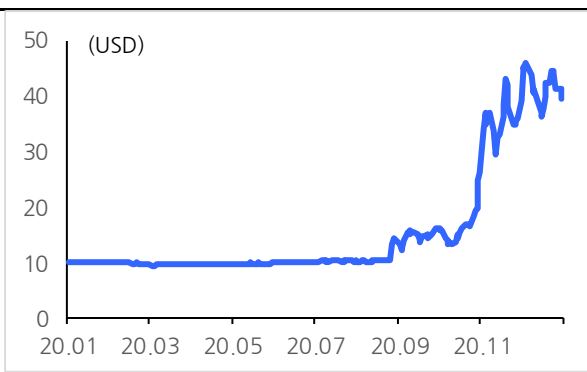
Source:ChargePoint, Hyundai Motor Securities

Fig 14. H/W powered by S/W



Source:ChargePoint, Hyundai Motor Securities

Fig 15. ChargePoint Stock Price



Source: Bloomberg., Hyundai Motor Securities

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Stock ratings distribution (January 1-December 31, 2020)

Rating	Count	% of rating category
BUY	145	89%
MARKETPERFORM	18	11%
SELL	0	0%

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