

Volvo Car – back as a listed company and transformed for the automotive future. Assuming they deliver on plan the price target is above 100 SEK in a few years. Corporate action involving Polestar could release further upside

Volvo Car has resurfaced as a listed company in 2021 and with clear roadmap to be a leading automotive provider in the EV and new mobility as a service business models.

Volvo used to be the Swedish car champion together with SAAB. While the latter has ceased making cars, Volvo in various ownership structures have repositioned and emerged as a potent contender in the global EV space. Volvo Car is a small player that had flat sales of 400.000 cars per year for a long time. Under Chinese ownership and stewardship with Geely Automotive the model line-up was changed towards SUV's and a clear EV ambition clarified for a more potent future.

Volvo Car production capacity is being ramped up to 1.2 million units per year and with a credible transition for 100% EV in 2030.

It's a busy field with lots of new players and incumbent players rushing complete makeovers, so the potential outcomes in 2030 are quite open. Volvo Car software ambitions as a MaaS as well as its stake in pureplay EV company, Polestar, gives it some cards in the hand others do not have today.

There's a lot of moving parts in this case, but based on cash flows and traditional valuation it's an initial target price of 100-120 SEK in a few years

In 2021 Volvo's key models look more like this;



Background

Founded in 1927 in Göteborg, Sweden and delivered it's first 280 cars in 1928. Volvo together with SAAB was the backbone of Swedish car making for decades, however none of them really managed to become high-volume producers. They did however carve out good business niches for high-end cars known for their high level of safety features. With

increased cost of developing and market new cars SAAB was sold to GM in 1990 and Volvo Car was sold to Ford in 1999.

Volvo made it outside Sweden with the iconic Amazon from 1960s;



Ford paid 6.5bn \$ for and put Volvo into Ford's 'Premier Automotive Group' together with the same division as Jaguar, Land Rover and Aston Martin.

In 2010 Ford sold Volvo to Chinese car manufacturer, Geely Automotive for 1.8bn \$. Under Geely stewardship Volvo has upped the model program, moved production to a platform system called SPA (Scalable Product Architecture) and prepared Volvo Car for the automotive future in electric vehicles and direct to customer platform.

In 2015 sold more than 500.000 cars for the first time ever and led by models with better market appeal in key markets in Europe

In 2015 Volvo Car acquired Polestar, a racecar/ performance car producer and in 2017 Volvo announced Polestar would go all electric with a small range of high-end performance cars and in it's own brand name.

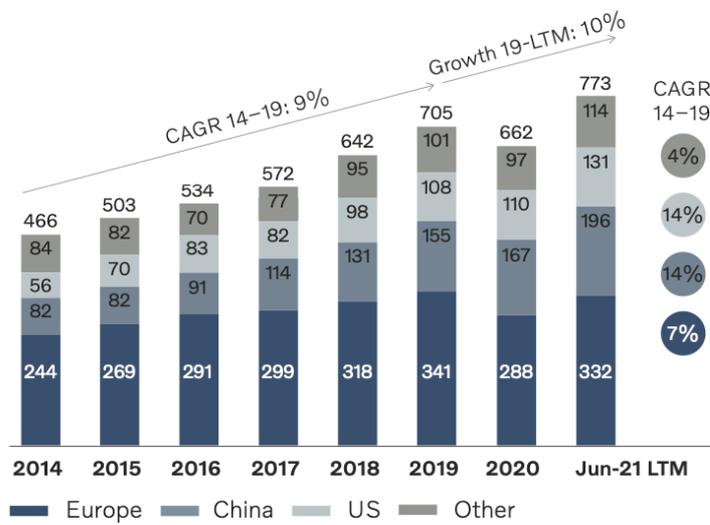
In 2017 Volvo Car announced all models would be available in electric powertrain by 2019. By 2030 Volvo Car will only market electric vehicles

In October 2021 Geely Automotive partially listed Volvo Car on Stockholm Stock exchange at an IPO price of 53 SEK. That translates into 19 billion \$. Geely hold 82% of Volvo Car after the IPO, so the 10 year return on Geely's 2010 investment has been rather good.

In December 2021, Polestar is in process for a listing via SPAC Gores Guggenheim. The listing is likely in 1H 2022. The valuation of other pureplay EVs leaves significant upside provided the investor enthusiasm remains as it is today

The Geely stewardship period has transformed Volvo Car into a potent competitor for the automotive EV future. Annual sales were around 400.000 units per year from 2000 to 2012. By 2015 the sleeker model line-up and Geely's sales efforts in China pushed sales above 500.000 units for the first time in Volvo Car 80 year history and the current run-rate is close to 800.000 units per year as illustrated below.

The chart below illustrates Volvo Car Group's sales volumes and CAGR for the periods indicated.

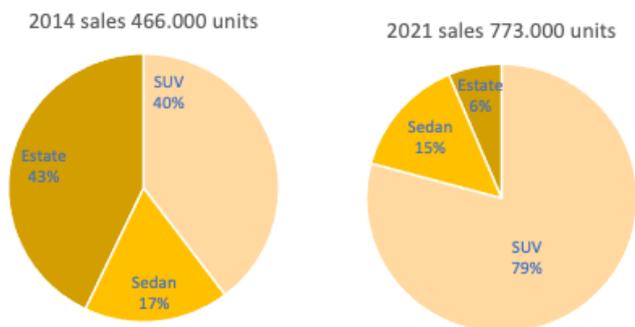


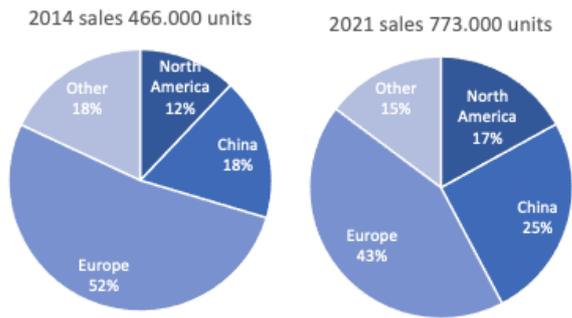
Source: Volvo Car Group's annual report and interim report for the respective period.

Operating segments

Volvo provide sales data per model/vehicle category and geographical region, but no data on operating profit for the segments

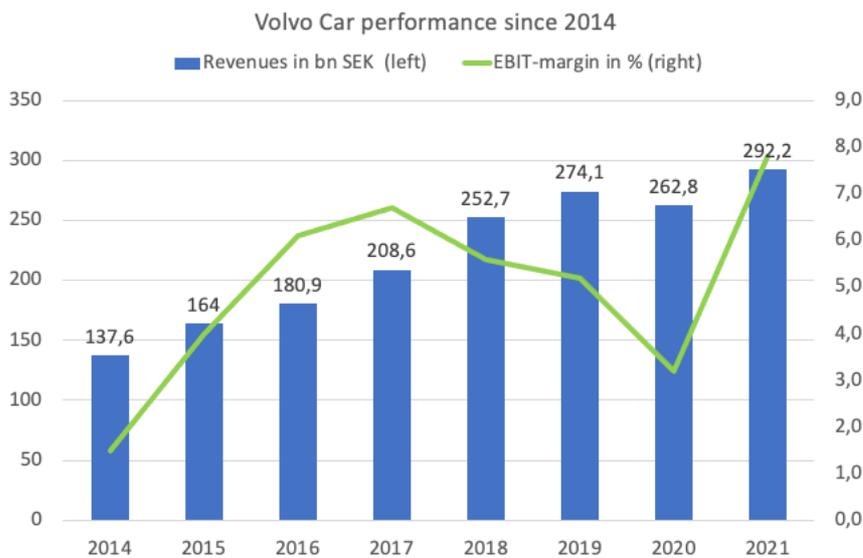
The journey since 2014 has in rough terms been selling more cars in China and especially moving the categories towards SUV segment as the move towards more SUV's have lifted the average selling price on group level from 295.000 SEK to 378.000 SEK or 28%. This is easily illustrated;





Source: Volvo Car IPO prospectus

The transformation journey under Geely stewardship has not only made Volvo Car the fastest growing premium car brand, but also lifted sales and earnings substantially



Source: Volvo Car IPO prospectus

Assets for the forward journey

Volvo Car model line is as follows:

Volvo models

Volvo Car Group currently designs, develops, manufactures and sells a range of premium cars, including SUVs, sedans and estate cars. Volvo Car Group's focused range of premium cars is recognised for its design, safety and technological innovation.

Volvo Car Group categorises its cars by model range (40, 60, and 90) as well as by body type (SUV (XC), Sedan (S), Estate (V) and the recently launched Crossover (C)). Since 2019, all models launched are offered with some kind of electric motor option; either full electric, plug-in hybrid (Recharge line-up) or as a mild hybrid. Currently, Volvo Car Group's fully electric models include the XC40 Recharge and the C40 Recharge, and PHEV include all models except the C40, which is the first car only offered in a full electric version.

SUV (XC) models:



■ PHEV and ICE
■ Fully Electric

Sedan (S) models:



Estate (V) models:



Crossover (C) model

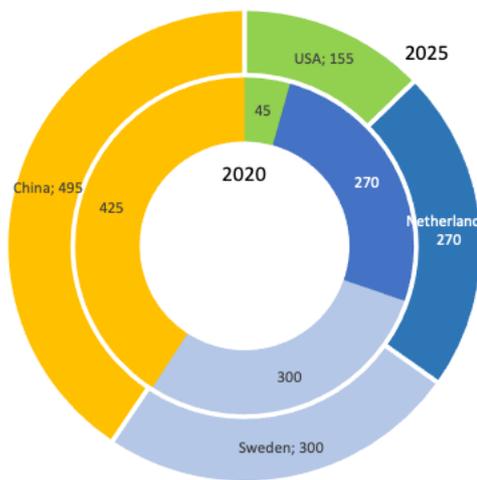


All models are produced on the SPA platform and available in ICE, EV, or hybrid. As mentioned, Volvo Car will by 2030 only make EV's.

Making cars is not an easy task and Volvo Car source from 9.700 suppliers from 1.700 manufacturing sites. The assembly process not only involves getting components to the assembly line at the right time, but also making sure the comply with local regulation, export/import conditions and environmental and social issues throughout the supply and value chain.

Volvo Car have 6 assembly facilities; Charleston in USA, Ghent in Netherlands, Torslanda in Sweden and three sites in China; Chengdu, Luqiao and Daqing. The current production capacity is 1.040.000 cars per year. Volvo Car plan to expand production in USA and China and bringing capacity to 1.22 million units per year by 2025;

Volvo Car production capacity in 2020 and 2025



Volvo Car selling model used to be the traditional dealership model; make the car, transport it to the dealer and dealer sells the car to the end-user. The dealer would have the customer contact for service and repairs and the car maker send spare parts etc to the dealer.

Care by Volvo subscription

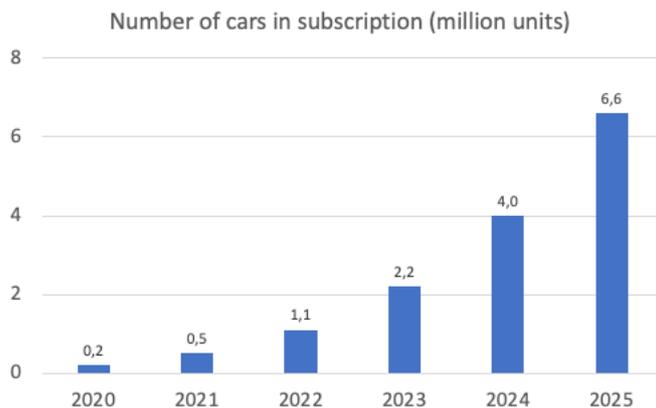
Volvo Car have modified the operating model to 'Care by Volvo', which is an 'all inclusive' car online subscription service. The subscription runs for 24 months and include maintenance, insurance, a monthly driving range of 1.500 km and roadside assistance. The subscriber pays for fuel, toll-roads, and parking. The model is found here; [Care by Volvo](#)

The subscription model meet the change in car ownership patterns for the future and flexible car ownership and mobility as a service. Instead of purchasing the asset the customer buys a

solution to his or her transportation needs, which can change over time. For the affluent segments that want premium cars and/or low emission transportation Volvo Car offers solution albeit it's still early days for this business model.

According to Volvo Car IPO prospectus the car subscription model is expected to grow from 200.000 units in 2020 in Europe and USA to 6.6 million units by 2025. This is the total market size

Market growth for car subscription in Europe and USA (units in operation)



Summary: Volvo Car is well positioned in its program line up going all in on EV's from 2030. The Care by Volvo subscription model meet the future consumer patterns for flexible high end car transportation needs

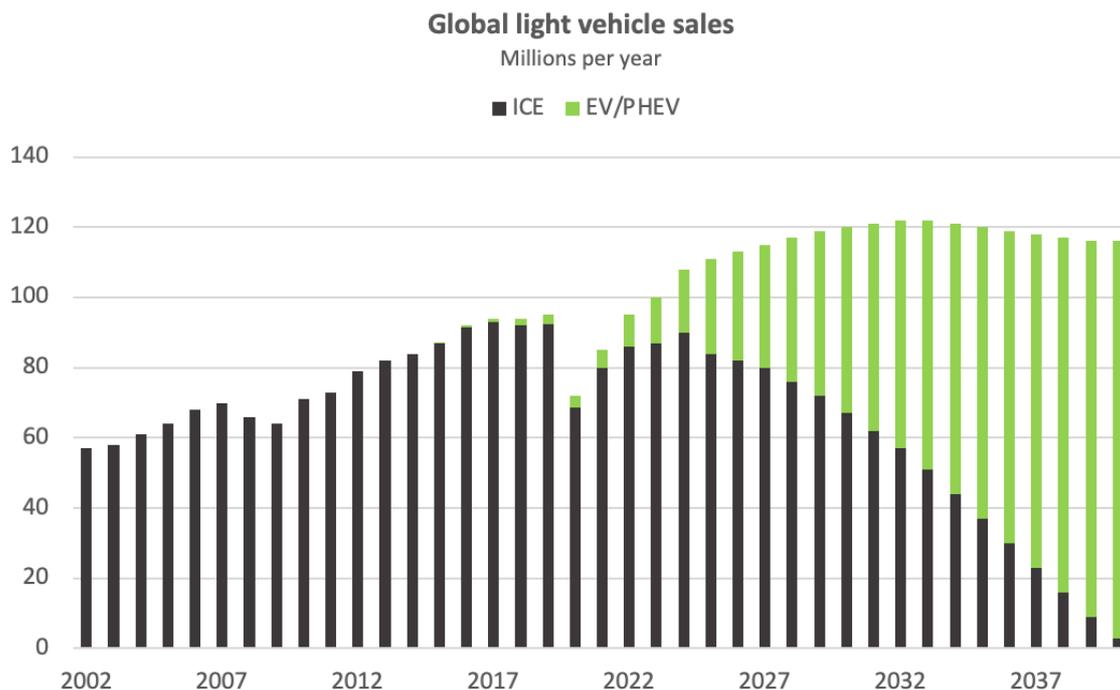
The market

The global car and light vehicle market in 2020 are around 85 million units. The slump in global vehicle sales since 2019 is unprecedented in over the past 50 years. The 2008-09 slump was followed by 7 years of steady growth led by China.

The 2020-21 episode will likely be driven by increased share of electric and hybrid vehicle sales. The 2035-40 forecasts made in 2015-18 suggested peak car sales of 140 million units in 2040. The big change in forecasts over the past few years have been that peak vehicle sales will be around 120 million units in early 2030s. The downward shift in forecast are mainly driven by new mobility models such as robo-taxis, shared cars, and the subscription models such as Care by Volvo. Uber and Lyft models are fine for now, but they must move toward robotaxi model where individuals can be the owner of the vehicle and then rent it out to one of the platforms

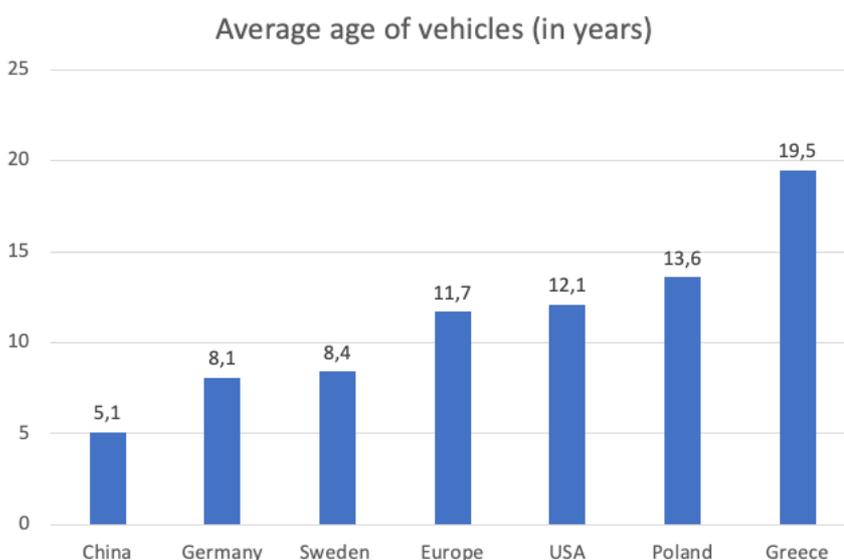
The traditional 'buy a car, drive it and park it at home' will still exist, but it's going to lose market share going forward.

Many persons using the same vehicle will increase the usage of the vehicles. A Scandinavian car drives for around one hour per day and is parked for 23 hours. Very inefficient usage of such an asset.

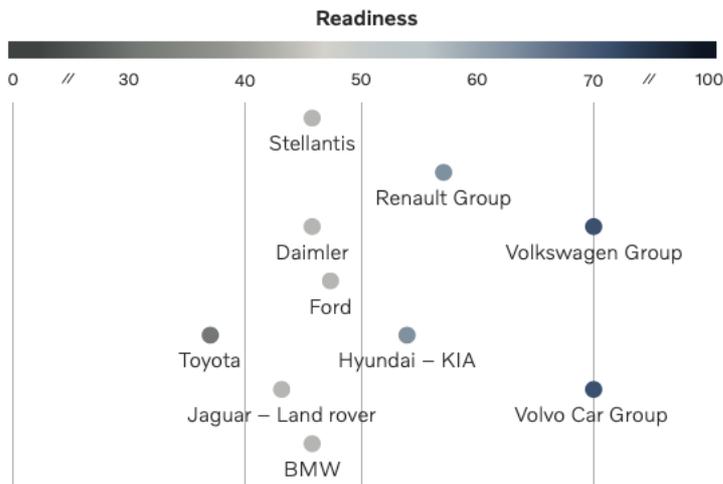


Source: own design and based on company reports, IHS, KPMG and Refinitiv

If you do a parallel to the 2008-09 slump, then the years following 2020-21 slump could be the start of a multi-year bull run for the automotive industry. Older vehicles need to be replaced and upgraded to EV and hybrid in the affluent parts of the world and in less affluent parts it's upgrades for vehicles with better emission standards.



Volvo Car predict global EV sales will grow from 2.2 million units in 2021 to 11.2 million units in 2025. In the same time span the unit sales of hybrids is expected to grow from 1.0 million units to 2.6 million units. Volvo Car is well positioned and prepared in both categories as they illustrate in the IPO materials.

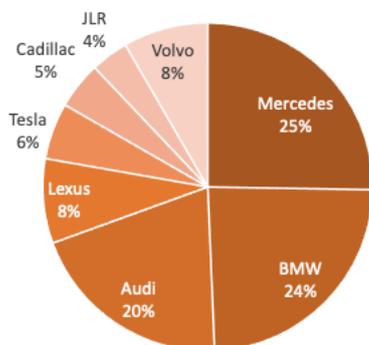


The total global car and light vehicle market is as mentioned 85 million units in 2021 and will be 100 million units in a few years. EV and hybrid unit sales are expected to grow from 3.5 million units in 2020 to 50-60 million units in 2030. The ramp up pace is highest in the 2020-25 period.

The luxury and premium segment is constituted by Mercedes, BMW, Audi, Volvo, Lexus, Tecla's, Cadillac, Jaguar/Land Rover and Porsche plus a handful of super premium cars such as Ferrari, Lamborghini, Bentley etc which combined sell around 25.000 units per year

In 2019 the premium segment had sales of 450 billion \$ and unit sales was 9 million units. The expected growth rate for the premium segment is 5% volume growth per year towards 2025 according to Volvo Car

Market shares of premium segment (2020)



Now, there's a lot of moving parts and competitors are rushing changes all the time. The above illustration about readiness is from autumn 2021. Since then, Ford's F150 Lightning orderbook of 200.000 units has changed the impression about Ford and same goes for Daimler, Stellantis and Volkswagen with their updated EV communication in 4Q 2021. And

on 14th December Toyota chipped into the game with a 35 billion \$ investment program to accelerate their EV program.

Conclusion: it's a busy marketplace and Volvo Car hold less than 1% market share. In the premium segment the position is stronger with 7-8% and their subscription model and EV model focus paves the way for higher market share.

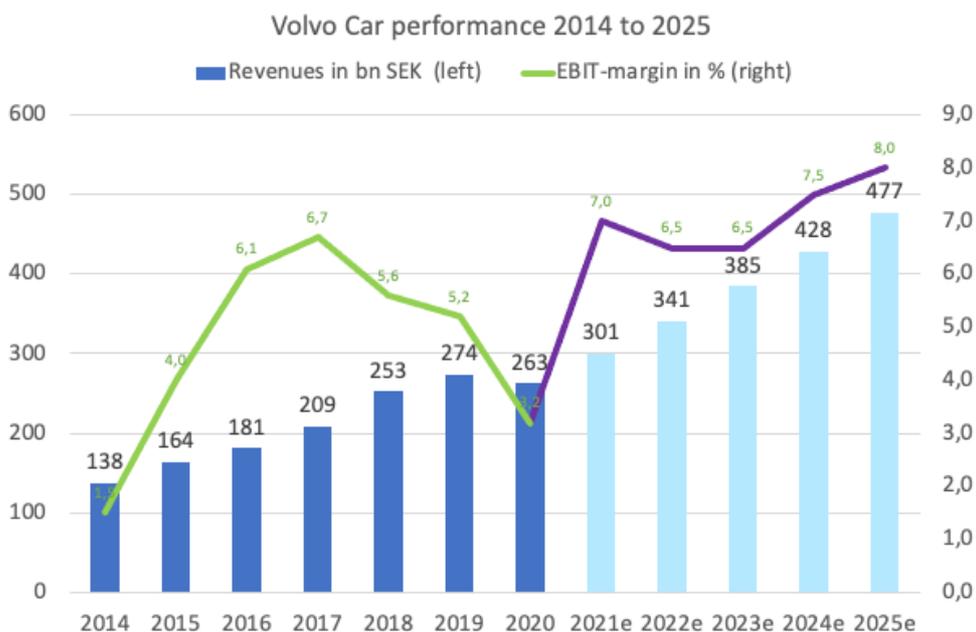
Operational performance going forward

Volvo Car has set straight forward targets and ambitions for the future. The financial targets are 1.2 million units manufactured and sold in 2025 and with an EBIT-margin of 8-10%.

The average price per car is assumed to increase a few percentage points per year as a mix between more expensive models (EV is so far more expensive than ICE, but that should change in 2023 or 2024) as well as general inflation.

The subscription model revenue recognition is only a few billion SEK per year in 2020 and 2021 and the cars going into that pool is accounted as sold. Revenue from subscription, leasing and rental business is recognized as revenue on a straight-line basis over the contract period. The asset is held by Volvo Car and depreciated over the useful lifetime. When the car is no longer on subscription or lease contract it's sold by Volvo Car. The use vehicle revenue stream was approximately 5% of group revenues in 2020.

Changes in the revenue mix going forward is hence less easy to forecast than the simple volume times ASP.



In more detail.

	2017	2018	2019	2020	2021	2022	2023	2024	2025
Units sold	517	642	705	662	761	853	938	1.032	1.135
growth		24%	10%	39%	15%	12%	10%	10%	10%
ASP in '000 SEK	408	394	389	397	395	400	410	415	420
Sales	211	253	274	263	301	341	385	428	477
growth	15%	20%	8%	-4%	14%	13%	13%	11%	11%
Gross profit	44,0	49,3	52,1	46,0	64,7	72,6	80,8	89,9	100,1
margin	20,9%	19,5%	19,0%	17,5%	21,5%	21,3%	21,0%	21,0%	21,0%
EBITDA	26,0	28,6	29,9	23,0	36,1	39,2	42,3	47,1	52,4
margin	12,3%	11,3%	10,9%	8,7%	12,0%	11,5%	11,0%	11,0%	11,0%
EBIT	14,0	14,2	14,3	8,5	21,0	22,2	25,0	30,0	38,1
margin	6,6%	5,6%	5,2%	3,2%	7,0%	6,5%	6,5%	7,0%	8,0%
Capex	(17,0)	(20,9)	(21,0)	(18,6)	(21,0)	(23,9)	(26,9)	(30,0)	(33,4)
% of sales	8,1%	8,3%	7,7%	7,1%	7,0%	7,0%	7,0%	7,0%	7,0%
Gross cash flow	8,9	7,7	8,9	4,4	15,0	15,3	15,4	17,1	19,1
margin	4,2%	3,1%	3,2%	1,7%	5,0%	4,5%	4,0%	4,0%	4,0%
Net income	9,0	9,8	9,6	7,8	6,9	12,8	15,4	19,3	23,8
margin	4,3%	3,9%	3,5%	3,0%	2,3%	3,8%	4,0%	4,5%	5,0%
# shs	50	51	51	2.545	2.980	2.980	2.980	2.980	2.980
EPS	NM	NM	NM	3,06	2,32	4,29	5,16	6,47	8,00
Dividend				-	-	1,07	1,29	1,62	2,00
Ratio	0%	0%	0%	0%	0%	25%	25%	25%	25%
Net cash	6,1	9,6	12,6	19,9	26,8	36,4	47,9	62,4	80,3

Conclusion: assuming Volvo Car deliver on key targets (1.2 million units produced and sold in 2025 and with an EBIT-margin of 8-10%) then the stock price do not reflect it very well.

Capital discipline and the Polestar stake

During the Ford stewardship period Volvo Car performance did not stand out. It did so under Geely Automotive. The capital discipline seems good in terms of adding new capacity, investing in new and more effective production platform.

The capital needed for further EV ramp-up, facelifts and potentially new models should be covered by the 7% capex to sales ratio.

The 50% stake in Polestar is carried at 3 billion SEK. The US listing via Gores Guggenheim SPAC is expected to happen in 1H 2022, which will potentially crystalize a much higher value for Volvo Car. The valuation of pure EV companies in 4Q 2021 can give fundamental investors high anxiety such as Rivian priced at 100 billion \$ and expected sales of 50.000 units in 2025.

After the transformation from Geely took over Volvo Car has had 15-18% return on capital employed. In 2020 slump it was 8.5% and the levels towards 2025 are 15-18% again.

Conclusion: Volvo capital discipline is good and the 50% ownership of Polestar is poorly reflected in the current value of Volvo Car

Risk to keep in mind

Volvo Car with less than 1% market share of the global car market is obviously exposed to volatility factors all other car makers face. Total demand will impact Volvo Car performance, supply chain, cost of goods sold, end-user prices and not least regulation in the countries where the cars are sold or subscribed.

The direct-to-consumer interaction is a newer business approach and the dealerships that used to assist no longer have the same motivation to support the car makers going towards 'direct to consumer'.

For the EV and hybrid space the number of public chargers is relatively low compared to the many more EV's on the roads. The lines of Tecla's and other EV's coming from North this summer at the loading stations in Autostrada filling stations in Italy tells you the need for a rapid rollout of EV infrastructure

Geely hold 82% of the shares. The interest between Volvo Car and Geely is currently aligned, but it could change over the coming years

EVs and hybrid are to some extent 'computers on wheels' and the cyberattack risk should be considered. Once we are in the self-driving world and a story break that a cyber-attack caused traffic accidents then consumer acceptance and tolerance could take a big dive. And the stock price of all self-drive vehicle stocks would probably take a hit.

Valuation risk seems modest as the cash flows and value creation given Volvo Car deliver on the 2025 roadmap

Financial risk is also modest. The net cash position and the hidden reserve in the Polestar holding gives comfort. The subscription and leasing exposures held in assets can in a recession period give cause of concern as subscribers might not be able to pay the monthly fee and Volvo Car have to sell the used car at a less opportunistic time

[Conclusion: the key risk is how Volvo Car execute on the roadmap and the EV/subscription transition.](#)

Leadership

Volvo Car CEO Håkan Samuelson is 70 years old and has been CEO since 2012. His contract expires in 2022 and Volvo Car will see a change of baton next year. The internal bench seems to be good, and the roadmap forward is clear so investors should not be overly concerned about this change.

Shareholder structure and IR

As mentioned Geely hold 82% of the shares. The IR is relatively new as listed company, and the main interaction has been the IPO roadshow. It's too early to give assessment of the IR quality. The materials produced by Volvo Car are good enough to give investors good understanding of the journey the company is on.

Valuation

All the moving parts put together in a relatively simple business and performance model miss a lot of details.

But even given the short coming of financial models they provide at least some kind of direction and useful navigation tool for investors.

Assuming 1.2 million units sold in 2025 and with an EBIT margin of 8-10% one gets to a company with EPS of 8.00 SEK ref the model in 'operational performance going forward' section above.

With 2.98 billion shares the market cap at 72 SEK is 215 billion SEK and the enterprise value is 187 billion SEK.

Volvo Car valuation matrix

		EPS growth rate					
		0%	3%	6%	9%	12%	15%
Discounting rate	2%	123	147	178	220	276	349
	3%	110	131	158	193	240	301
	4%	99	117	140	170	210	262
	5%	90	105	125	150	184	228
	6%	82	95	112	134	162	200
	7%	75	86	100	119	144	175

Using EPS for 2021-25 and then annual EPS growth to 2041. No terminal value

Measured vs core peers Volvo Car valuation is more expensive. This reflects a mix of higher growth rate and probably also a reflection of Polestar holding. But then again, Tesla valuation, which is subject for a lot of discussions among fundamental investors, would leave quite a lot of upside. Not just for the traditional high-end brands but also for Volvo Car.

Company	Price	Market cap in €	Unit sales 2025	EV/EBIT 2022
Volvo Car	75 SEK	21 billion	1.2 mill	8.1x
Volkswagen (incl Audi)	182 €	119 billion	10.5 mill	3.8x
BMW	90 €	57 billion	3.0 mill	2.5x
Mercedes Benz	72 €	76 billion	3.2 mill	2.5x
Tesla	976 \$	867 billion	5-10 mill	83.1x

Take it one step further and compare the new EV start-ups and the upside for Polestar is not very well reflected in the current stock price.

In the Volvo Car IPO prospectus, they have made a Polestar comparison, which in a updated (December 2021) version looks like this;

Company	Market cap in \$	2020 unit sales	2025 unit sales	Geographic focus
Polestar	N/A	9.850	106.000	US; EU; china
Rivian	98 billion	0	43.000	US
Nio	49 billion	44.500	136.000	China
Li Auto	32 billion	32.600	84.000	China
Xpeng	37 billion	27.000	70.500	China

Assuming Polestar gets a valuation per unit that is close to the average of the peer group then the 50% stake Volvo Car hold in Polestar is worth anything between 10 and 25 billion \$. The upper end of the range would cover Volvo Car current market cap.

The valuation of these EV peers is mind boggling and investors should not be surprised if they fall 50% in value, so don't get carried away by the current comparisons.

Triggers

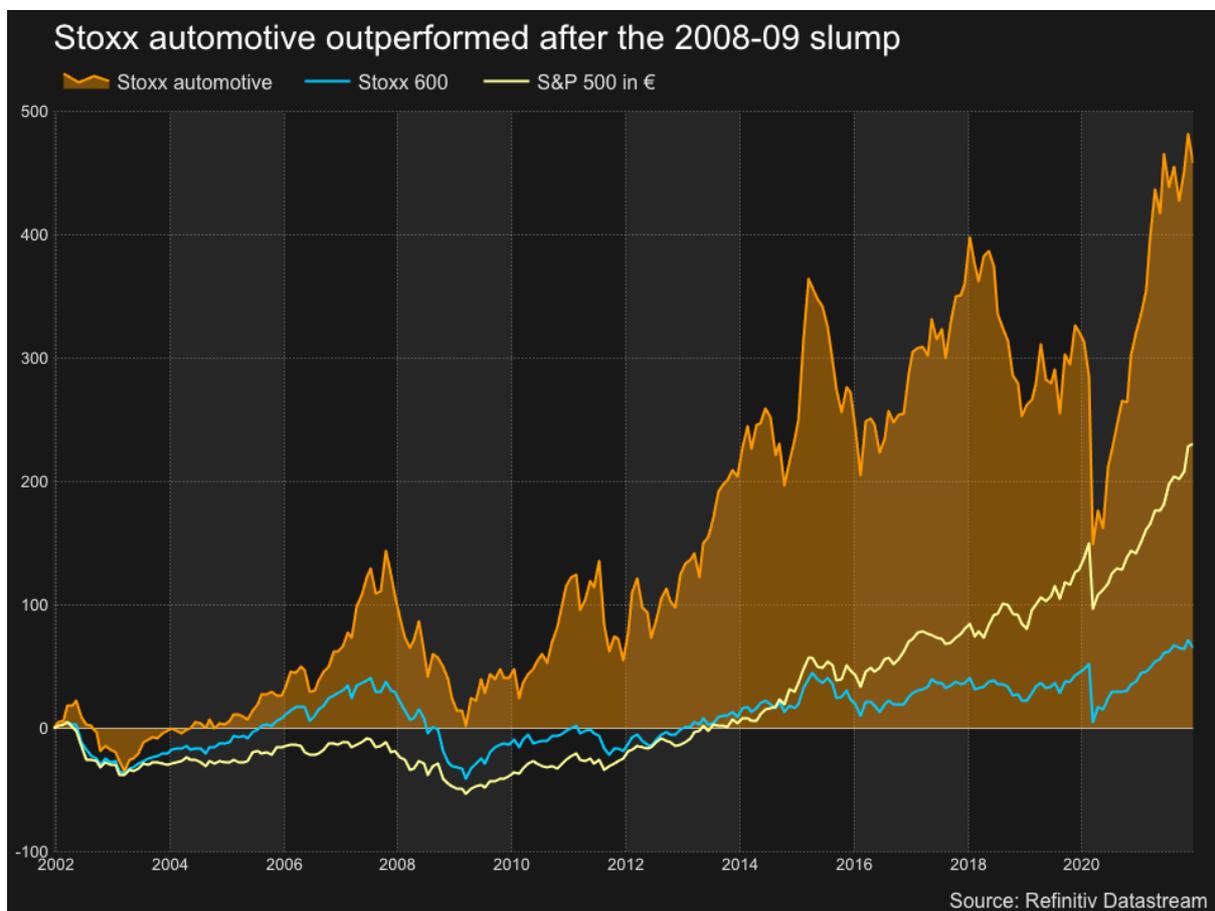
Polestar listing in 1H 2022 via SPAC Gores Guggenheim

Next normal performance update from Volvo Car is the full year 2021 report on 11 February 2022 and the 1Q 2022 performance update on 28 April 2022.

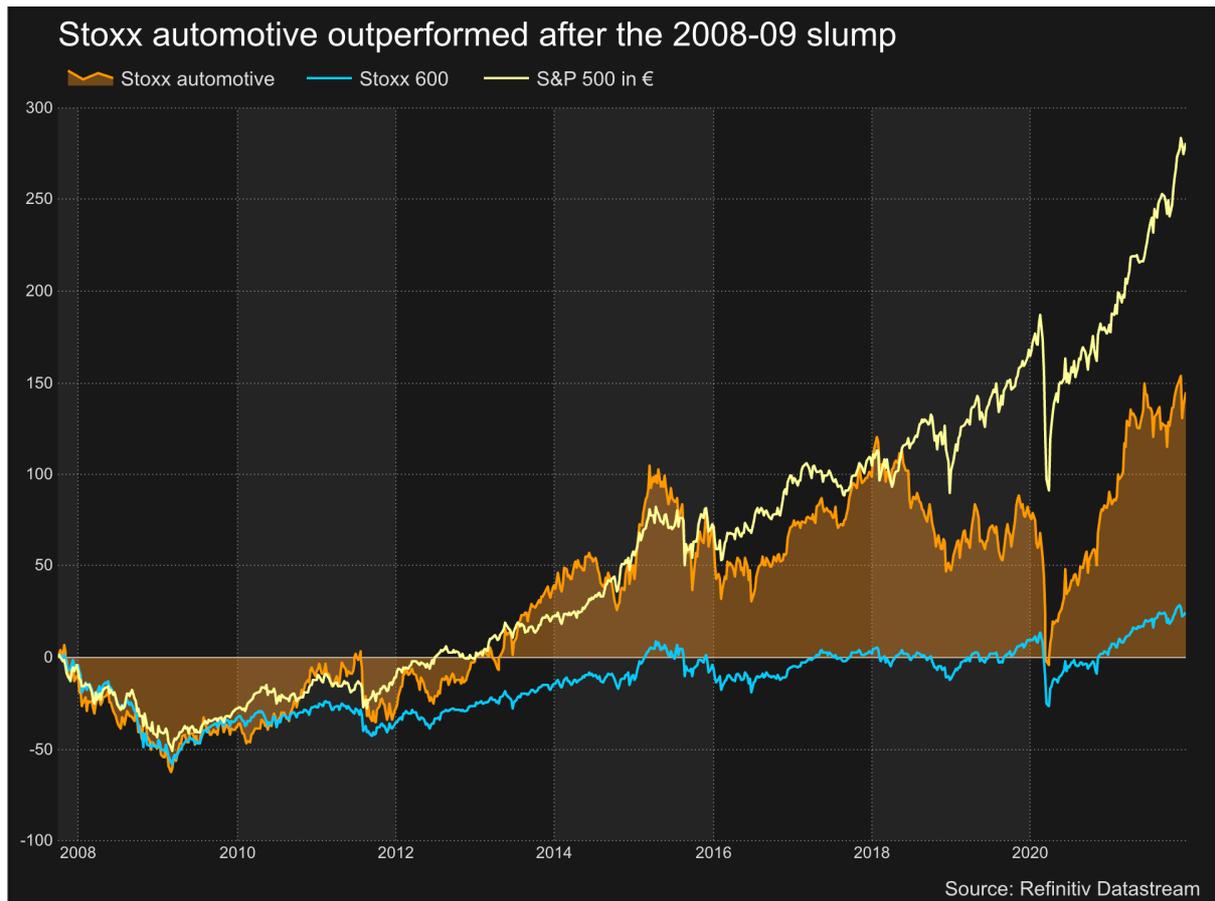
Monthly sales statistics do not change the long-term trend much, but it can provide data that create a bit of investor attention

Volvo Car stock price chart is only a few months old and do not make much sense. The European automotive industry long term charts paint an interesting picture.

After the 2001-02 global slowdown and after 2008-09 slump in global car sales the automotive sector in Europe performed well. The 2002 base was very low, and the subsequent performance has been so good that not even the tech-driven US bull market since 2010 has caught up yet



Using the market peak in late 2007, the European automotive sector has outperformed Europe, but not the US.



The next chapter is all about EV and new mobility service models, which could get a significant boost once consumers and businesses start to upgrade their 10–12-year-old car parks

Stay tuned