

## Week of 5<sup>th</sup> July 2021

What's on our mind this week?

### **Didi, the Chinese Uber, gets listed in the US and faces headwinds at home**

Didi, often dubbed the Chinese Uber, listed last week in the US. Didi is a ride-hailing app, which works exactly as Uber does. Established in 2012, the company was backed by Tencent and merged with its main competitor Kuaidi, backed by Alibaba, in 2015. In 2016, Apple became a shareholder of Didi, and, the same year, in a surprise move after years of fierce competition, Didi acquired Uber's operations in China in a share swap transaction. Didi then became the dominant player in China while Uber received a stake in the company (12% currently).

The valuation of Didi at IPO was around USD 68bn, representing a discount to Uber's USD 100bn market cap. The companies are still very comparable in size with Gross Transaction Values (GTV) for ride-hailing services of roughly USD 27bn in 2020 for both although Didi has a stronger revenue and profit profile. Didi's net loss was USD 1.3bn in 2020, whereas Uber booked USD 4.8bn of net losses.

So, why was Didi priced at a discount to Uber? We see two elements that can explain it. First is the regional diversification element. Within Uber's revenue only 60% is generated in the US while 98% of Didi's revenue is generated in China. Uber is the leader by market share not only in the US, but also in Europe, Latin America, Australia, and India while overseas expansion has so far been limited for Didi.

The second element is business diversification. Uber has successfully diversified in food delivery services "Uber Eats". In 2020, 35% of Uber's revenue was generated by the delivery business. Although the GTV from ride-hailing of both companies are at similar levels, the total GTV of Uber is about USD 58bn while Didi's is only USD 31bn. The food delivery opportunity in China is already dominated by Meituan and Alibaba's Ele.me, leaving limited space for Didi to expand in that space. Didi is now rather pursuing the grocery delivery market instead.

The listing of the Chinese ride-hailing company started well until, just two days after the IPO, news came out that Didi was under scrutiny from the Chinese government with regards to its data collection and security practices. Two days later the Cyberspace Administration of China (CAC) announced that Didi had committed serious violations in the collection and usage of personal information and ordered the app to be pulled from Chinese app stores until it is remedied (which means Didi cannot add more users or drivers, existing ones however can still use the app). No details were shared as to what precisely the investigation centres on, when or where the alleged violations occurred or whether there will be more penalties to come. This led to some share price weakness which will likely carry on in the near future. Many commentators were quick to theorise that this was all too conveniently scheduled, and that the Chinese administration deliberately waited for the listing to make an example of Didi for other companies to refrain their desires for a US listing. But it has since come out that warnings of the administration to Didi had already been published in May and people close to the matter revealed the Chinese cybersecurity watchdog suggested the Chinese ride-hailing giant delay its initial public offering and urged it to conduct a thorough self-examination of its network security. It appears that Didi chose to ignore the warning, perhaps under pressure from its shareholders to get the listing done.

This is an unfortunate hiccup, and we believe Didi will likely make the necessary amendments soon and resume full operations. What we think is more interesting in the long term is the question of who will take the leadership in the autonomous driving market? It is clear that this is the market both Didi and Uber want to get. With no drivers involved the GTV could easily translate fully into revenue (currently only 20% translates into revenue). More cars could provide Didi service during the idle time, there would be no bottleneck of ride supply. At this nascent stage, it is still unclear who, of the manufacturers or of the ride-hailing companies, will take the lead. Didi, Uber, Geely, Tesla, Baidu, Huawei, Google, Apple and many others are in the starting blocks. Whoever succeeds will likely determine the future of the ride hailing companies such as Didi.

## **Renault bets on a Chinese partner to secure its EV battery supplies as competition heats up**

During the past week, Renault SA announced two major partnerships for the production of lithium-ion batteries in France. The first one with Envision AESC for the design and the production of electric vehicles (EV) batteries and the second one with Verkor, a French startup specialised in the development of EV battery cells. Renault joins the bandwagon of other leading European automakers to map out its EV battery plan as car makers rush to ensure adequate battery supply for their electric cars given the rise in competition and the expanding market share of electric vehicles within the European car sector.

Automotive Energy Supply Corporation (AESC) was formerly a joint venture between Nissan, NEC Corporation, and NEC Tokin in which Nissan held a 51% stake, NEC Corporation 42% and NEC Tokin 7%. The joint venture was acquired by Envision Group in August 2018, with Nissan keeping however a 20% stake that Nissan still owns today. Nissan is 43.4% owned by Renault, hence the connection between Envision and Renault. Envision Group is a Chinese private company based in Shanghai.

With the current partnership, Renault and Envision AESC are planning to invest EUR2bn (USD2.4bn) to set up a Gigafactory in Douai, France which would supply 9GWH of EV batteries by 2024 and 24GWH of EV batteries by 2030. The proximity of the future Envision AESC's Gigafactory to Renault's production sites in Douai, Maubeuge and Ruitz, is expected to boost Renault's competitive edge and improve its EV production value chain efficiencies. Envision AESC's plans could also go beyond Renault as the building permit application is for a capacity of 43 GWH by the end of the decade, which according to the company can be achieved if deals are reached with other carmakers.

As part of its extended EV strategy, Renault also acquired a 20% stake in a one-year-old French startup, Verkor, whereby Renault and Verkor are planning to jointly develop high-performance batteries that will be suitable for Renault's larger and premium models. Renault which incurred record losses in 2020 is betting big on EV as part of its turnaround strategy wherein the company intends to raise the share of electric car sales in Europe to 90% of its volumes by 2030. As far as its partnership with Verkor goes, Renault and Verkor have signed a Memorandum of Understanding to co-develop and manufacture high-performance batteries and expect to manufacture 10 GWh by 2026 and 20 GWh by 2030. Renault is looking forward to raising its stake in Verkor beyond the initial 20%.

Verkor was established in 2020. It has a team of 40 employees with extensive experience in batteries. The company has filed more than 100 patents up to this day and is backed by shareholders such as EIT Inno Energy (an institution funded by the European Union that works towards decarbonising Europe by 2050 by supporting sustainable energy

innovations in the field of battery storage, green hydrogen and solar photovoltaics), Groupe IDEC (a real estate player focused on energy transition), Schneider Electric and Cap Gemini.

Renault's partnerships with Envision and Verkor comes at a time when the European Union is looking at increasing the region's battery output which should help the European Union reduce its dependence on China's Contemporary Amperex Technology Co. Ltd. (better known as CATL) and Korea's LG Energy Solution. As per public sources, the French government's aid to Envision and Renault for the EV projects are expected to be around EUR 200m.

The Chinese company Envision Group has three major business lines through Envision Energy, Envision AESC and Envision Digital. Through "Envision Energy", the group designs, sells and operates wind turbines. In 2020, the company sold 10.4 GW of wind turbines and ranked number 4 in the world with GE (13.5 GW), Goldwind (13 GW) and Vestas (12.4 GW) ahead of Envision. In 2014, AESC (which is now Envision AESC) was the second largest EV battery manufacturer in the world with an estimated 23% volume market share. In 2020, Envision AESC ranked 9<sup>th</sup> in terms of volume with a market share of 2.2% and 4<sup>th</sup> in terms of value with a value market share of 7.7%.

Envision Digital operates EnOS™ an artificial intelligence of things (AIOT) operating system based on open-source technology that helps manage 180GW of energy assets globally connecting over 63 million sensors and smart devices.

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