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Long Ideas

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Lucid Group: The Stock Has Run Hot, Wait For A Drop

Nov. 16, 2021 6:17 AM ET | **Lucid Group, Inc. (LCID)** | 36 Comments | 7 Likes

Summary

Lucid made impressive progress in the third-quarter. Reservations for the Lucid Air are surging due to widening coverage and good initial reviews.

The Lucid Air was just named the 2022 MotorTrend Car of the Year.

Lucid's liquidity is sufficient to finance a massive production ramp.

Shares of Lucid are selling for a high sales multiplier factor.



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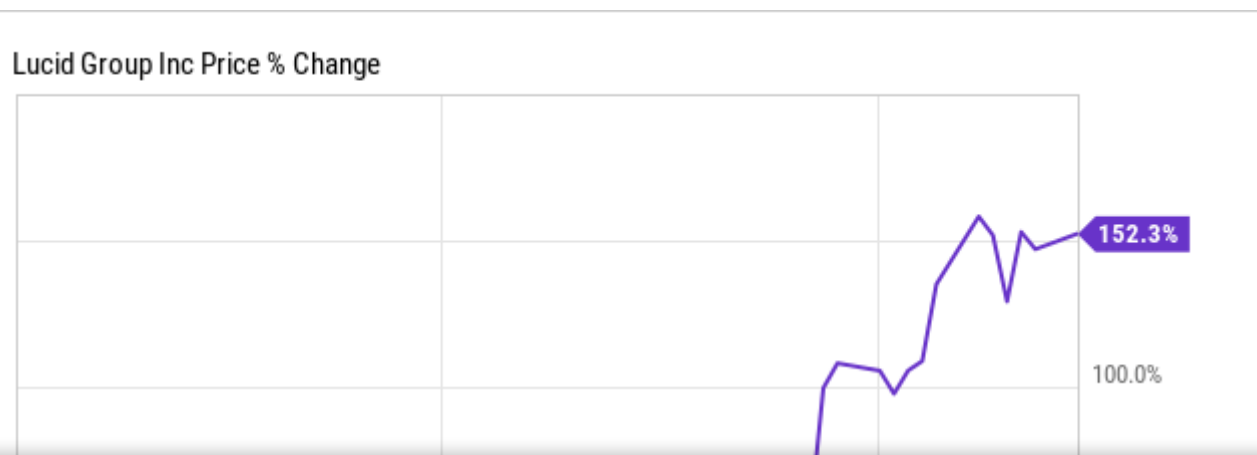

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Lucid Group ([LCID](#))'s Q3'21 earnings card showed record liquidity and a jump in Lucid Air reservations. With production and customer deliveries ramping up, Lucid is one of the most promising EV stocks in the market. However, I'd buy only after a drop since shares are very highly valued!

Why shares of Lucid Group soared

The EV maker received an [official 520-mile rating](#) for the Lucid Air Dream Edition Range from the Environmental Protection Agency in September. The EPA rating made waves because it beat the range of Lucid Air's closest rival -- the popular Tesla ([TSLA](#)) Model S Long Range Plus -- by more than 100 miles. The Model S Long Range Plus can go as far as 412 miles on a single charge.

The 520-mile EPA-rating for the Lucid Air Dream Edition Range was the main catalyst behind Lucid's breakout which started in September and continues to this day. Lucid also started to make first customer deliveries at the end of the last quarter. Because of these two factors, shares of Lucid have soared.



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Data by YCharts

Production and reservation update

In September, the EV startup announced that its reservations for the Lucid Air had [surpassed 13,000](#). Based off of Lucid's third-quarter update, the reservation number now exceeds 17,000. This calculates to a 30% increase in reservations since Lucid received the EPA rating for the Lucid Air Dream Edition, and growth in reservations is likely the result of wider coverage of the EV firm's first-ever production car. Coverage surrounding the marketing event that celebrated the start of customer deliveries was overwhelmingly positive and the Lucid Air received rave initial reviews ([Source 1](#), [Source 2](#)). The Lucid Air also just won the [2022 MotorTrend car of the year](#).



2022 Lucid Air: At Last, a Worthy Tesla Opponent
THE WALL STREET JOURNAL



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Lucid Air Specs Revealed: 118 kWh Dream Pack, 112 kWh Grand Touring
INSIDE EVS



Behind the Wheel, Under the Hood of World's First 500-Mile EV > How does Lucid Air do it?
SPECTRUM



Lucid Air: Supercar performance, innovative interior
The Air EV's materials are rich-looking and handsomely designed.
Automotive News



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(Source: [Lucid Group](#))

Commercially, Lucid made significant progress in the execution of its business plan in the third-quarter. Lucid expanded its manufacturing site AMP-1 in Casa Grande, Arizona and expects to add 2.85 million square feet of additional space to its facilities. AMP-1

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increase the average selling price significantly because the listing price for these models (\$169,000) is significantly higher than the price for the Lucid Air base model. Based off of \$2.4B in projected sales and a \$73B market capitalization, shares of Lucid sell for a very high P-S ratio of 31 X.



Data by YCharts

Turning to Lucid's balance sheet

Lucid secured \$4.4B in investments in the third-quarter, resulting in a cash balance of \$4.8B by quarter-end. This gives the EV maker a long liquidity runway and all but ensures that Lucid can finance the expansion of its production facilities and the manufacturing ramp. Lucid has no debt on the balance sheet.

(Source: Lucid)

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negative free cash flows without raising additional capital until FY 2023.

(Source: Lucid)

Risks with Lucid

Lucid is still very much at the beginning of its journey. The EV has just started to make its first customer deliveries, but significant risks remain. Lucid has no manufacturing experience and competes in a market that will see the launch of more EV models, in different categories, in the coming quarters. Lucid competes with EV firms that are significantly larger and that have experience ramping up production for new car models, like Tesla. The biggest risk for Lucid, as I see it, is for the EV maker to run into production challenges which could increase timeline risks. The supply chain crisis also poses a challenge for Lucid if it **lasts longer** and car parts become scarce. A more potent challenge for Lucid, long term, is the entry of new EV firms in the luxury sedan segment. Tesla may be interested in debuting an all-electric passenger vehicle in the premium segment which would be a direct attack on Lucid's market segment.

Final thoughts

Lucid Group made significant progress in the third-quarter. The EV maker got a warm response from the market, initially, before some profit-taking set in.

The start of customer deliveries in September is the firm's biggest accomplishment so far. The next challenge for Lucid is to ramp up production for the Lucid Air, manufacture its EV products at scale and make timely deliveries.

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Shares of Lucid have run a little too hot lately. Wait for a drop before buying LCID, a pre-revenue EV startup, at 31 X expected sales.

This article was written by



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