

CLUB

How Ford can challenge a powerful Chinese EV maker’s potential entrance in the U.S.

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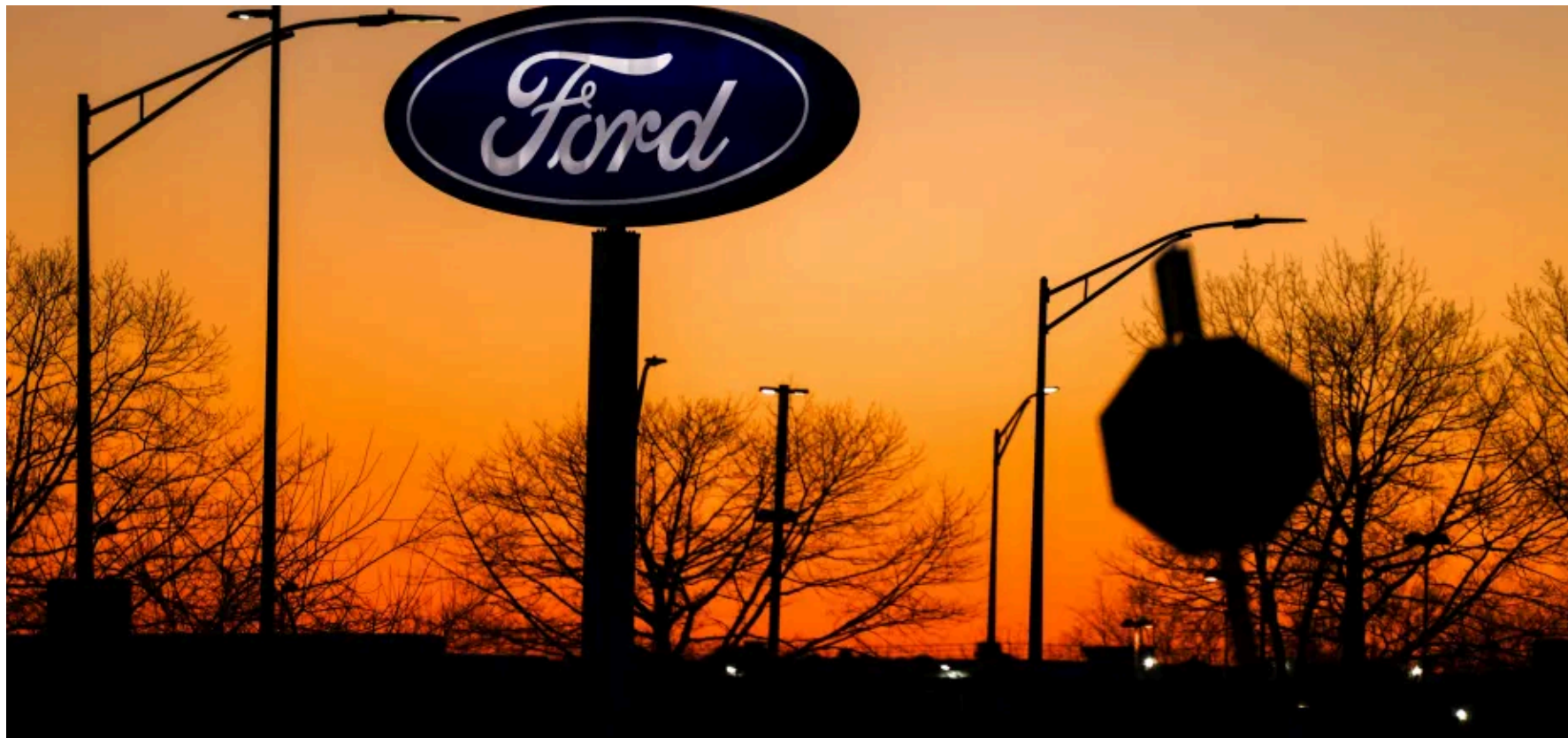


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The logo of car manufacturer Ford is pictured in Inwood, New York, on February 5, 2024.

Charly Triballeau | AFP | Getty Images

Forget [Tesla](#) , the real competition in electric vehicles is low-cost Chinese automakers. That's what [Ford](#) CEO Jim Farley recently told Wall Street. He said he has a plan as one such EV maker looks to break into America.



the plant could be used as an export hub to penetrate the U.S. market and help evade the high import tariffs of shipping vehicles from China.

Farley [commented last year](#) about the threat posed by Chinese automakers — specifically praising BYD, a holding that Warren Buffett's [Berkshire Hathaway](#) has been winding down. "I like BYD," Farley said at a Morgan Stanley summit. "Vertically integrated, aggressive ... very, very impressive company. And, they were always committed to electric."

At a Wolfe Research investor conference [earlier this month](#), Farley said success in the EV market is being able to compete with Chinese companies whose vehicles have already saturated auto markets in China and Europe. "If you cannot compete fair and square with the Chinese around the world, then 20% or 30% of your revenue is at risk," the CEO said.

Farley wants to be prepared even if the U.S. government were to step in to curtail Chinese automakers' access. He said that creating a "skunkworks team" of new talent at Ford to work on creating affordable EVs was the "biggest, smartest decision we made as a team." He refused to make any predictions on when the team, which was formed some two years ago, might have something viable. "I've been in the prediction business in the EV business. It hasn't really been a great journey," he explained.



competitors, their presence isn't going to be "gobbling tons of market share" from the Detroit Three which includes Ford, [General Motors](#) and Chrysler-owner [Stellantis](#), Narayan explained.

The Ford Blue division of internal combustion engine (ICE) and hybrid vehicles and the Ford Pro fleet business and software are carrying the unprofitable Ford Model e EVs unit. Many automakers, including Ford, are reporting slower EV sales as consumers hesitate to make the transition from gas to electric.

As a result, prices of EVs are being cut by everybody, including Tesla, to spur interest. Ford Model e lost \$4.7 billion in 2023. Last week, Ford [cut prices](#) on its electric Mustang Mach-E by up to \$8,100 after a drop in January sales. Ford also decided [last month](#) to reduce production of its F-150 Lightning all-electric pickup truck to achieve the "optimal balance of production, sales growth and profitability," according to the automaker. Last week, Ford [confirmed](#) some quality issues with the 2024 model Lightning pickups.

"Car companies sinking tens of billions of dollars into electric vehicles simultaneously have cut back on the construction of traditional carbon engines," Jim Cramer said at the CNBC Investing Club's second annual meeting Saturday. The big promise of the ICE to EV transition is taking longer and meeting with stiffer



About BYD

BYD has become the world's top EV maker by expanding its presence in international markets while dominating in its home country China, the world's second-largest economy.

In a bid for wider exposure, BYD unveiled a [new electric supercar](#) Sunday called the U9 that can reach up to speeds of more than 190 miles per hour. The supercar is part of BYD's luxury brand, Yangwang, and is valued at more than \$233,000 or 1.68 million Chinese yuan. It's been compared to other legacy supercar brands like Ferrari. Deliveries of the U9 are expected to start this summer. It remains to be seen if there will be a market for a BYD supercar, but it certainly raises the company's profile around the world.

In 2023, the Chinese automaker sold more than three million vehicles globally, according to its [annual sales report](#). BYD said exports grew by 334% last year across 70 countries on six continents. Like Ford, BYD sells hybrid vehicles, too. Out of the three million battery-powered cars it sold last year, about 1.4 million were hybrids. BYD's rapid success has helped it scale into various key global markets. The company recently announced its expansion into Indonesia with plans to build an electric vehicle plant there. The automaker already has agreements to invest in plants in Hungary, its first factory in Europe, and in Thailand.



top automakers are choosing to partner with companies in Mexico to take advantage of lower costs of production, labor, and energy. Since Mexico is a regional trade partner with the U.S., automakers have clear access to the North American market and easily expand exports to regional markets.

Ford advantages

While its EV strategy continues to evolve, Ford does have a strong foothold in ICE and hybrid vehicles and in the commercial market to lean on. RBC's Narayan called Ford Pro the "profit center" for the company.

Ford's Farley said at the Wolfe conference there's a lot of surprise upside in Pro. "If you're looking for the future of the automotive industry stop looking at FDS [full self-driving] and Tesla, look at Ford Pro," he said. "We haven't gotten to the top in Pro yet."

Still, as a hedge against the competition, Ford keeps innovating by expanding its F-series vehicles. The automaker is preparing to build the [second generation](#) of electric pickup trucks coming in 2025 and a three-row electric SUV expected in 2026.

Ford's emphasis on hybrids also gives it "additional leverage" to compensate for losses in Model e, said Jeff Windau, an analyst at Edward Jones. The company's



To be sure, the profitability potential of Ford's EV business continues to be pressured. Ford said it [expects losses to widen](#) in Model e to \$5 billion to \$5.5 billion in 2024 from \$4.7 billion last year — driven by pricing pressures and investments in next-generation vehicles. While refraining from providing updated guidance on EV losses, Farley said gross margins will improve during the year and will get close to breakeven.

Cheaper battery costs should also contribute to narrowing EV losses as Ford moves aggressively toward lithium iron phosphate (LFP) batteries for its EVs, according to the analysts. This is a more “cost competitive” option for EVs that can help improve the economics of Ford's EV manufacturing and production, Narayan said. Ford is still committed to delivering on its goal of a two million EV production run rate globally by the end of 2026.

Outlook

Ford investors shouldn't be concerned in the short term since Chinese EV competitors won't enter the market overnight. Narayan estimates BYD would pose more of a long-term threat to the U.S. electric vehicle market. “This takes time. They have to produce, create a plant in Mexico, and could face tariffs. There are a lot of offsetting things that can happen,” the analyst said.



To that end, a group of lawmakers [has urged](#) the White House to boost tariffs on Chinese vehicles and figure out a way to be “prepared to address the coming wave” of Chinese vehicles by way of U.S. other trading partners. The Biden administration, [according to a recent Bloomberg report](#), is considering restrictions beyond tariffs that would apply to Chinese vehicles no matter where they are assembled.

Narayan also suggested that by the time BYD becomes a competitive threat in the U.S., the financials at Ford Model e should get better. The cost of production will become more efficient, resulting in a more competitive and hopefully profitable Ford EV product.

Edward Jones’ Windau also highlighted the industry’s continued “long transition period from internal combustion engine vehicles to EVs.” The EV slowdown in the U.S. doesn’t bode well for EV companies and is certainly a negative for BYD if it wants to compete in the American EV market. Hybrids are “getting a lot more interest,” the analyst noted. But that’s an area where Ford has been able to gain traction.

(Jim Cramer’s Charitable Trust is long F. See [here](#) for a full list of the stocks.)



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