IJGlobal
A Green Street Company

Batteries not included – a northerly volt face

Angus Leslie Melville

11/10/2024

A kick in the teeth was resoundingly delivered this week to the European electric vehicle supply chain with news that the Northvolt-owned Swedish battery maker was on skid row.

IJGlobal reported on Tuesday that Northvolt Ett Expansion – the SPV managing the EV battery project in Skellefteå – had filed for bankruptcy "due to its financial situation" with the parent company (Northvolt) insisting (fairly) that "the bankruptcy does not relate to any of the other legal entities".

The Norse saga hit a high point – as far as IJGlobal's concerned – in November 2021 when it won an ESG award for developing the world's greenest battery cell and establishing a foothold for the European supply chain to the (then) burgeoning EV market.

And there's a bit of a hairy bugbear in the finance package... but first of all, let's take a look at the project itself. It's not fared so tastily in recent times as the laurel wreath slipped and, as one veteran banker, puts it: "They wanted to create European batteries... but nobody seems to want them."

That hurt. But about sums it up. The bubble has burst on electric vehicles – for now – and Northvolt would appear to be the first significant victim.

As one infra lender puts it: "I don't think it's market termination, but business plans are going to be really stress tested going forwards. The automatic assumption that EVs are the future and hence everything in the EV supply chain is bankable – no matter where located or how complex – is now no longer axiomatic."

Another infra luminary who is clearly not buying into the whole electric vehicle thing was rather damning in saying "nobody wants EV cars. Simple."

The luminary illuminates: "These are not infrastructure plays or even project finance for that matter. This is pure merchant investment and should be for hedge funds or PE. If it was a power project, you'd have a 10 to 20-year power offtake agreement or a CfD.

"Investment decisions on these things are based on a market hypothesis. The hypothesis that governments would ban petrol cars by 2030 and we'd all be driving EVs. That hasn't played out and at best the timeline is moving to the right."

The worm – having turned – is alarming the market with the revelation it has teeth. One of them says: "My views on Net Zero and the various grifters seeking to profit from it aren't printable."

And it's not going to get any better until there's an intervention. As one legal adviser says: "Isn't it bloody obvious that if there isn’t political support – real financial support – then the market won’t buy EVs. Unless, of course, it’s from state-aided suppliers… AKA China Inc… and the EVs are cheap, and good!”

And when this source says this, it goes beyond the EC’s stance from earlier this month when it proposed imposing “definitive countervailing duties on imports of battery electric vehicles (BEVs) from China”.

The proposed 45% tariff – 35.3% on top of the existing 10% penalty – will hurt the Chinese imports, but it doesn’t do anything to drive adoption of home-grown EVs.

As one old chum notes sagely: “It shows how hard it is for European companies to compete head on with Chinese and Asian tech manufacturers.”

All this with the backdrop of Stellantis and Mercedes pausing their EV battery plants in Italy and Germany… while France and Germany forge ahead (slowly, granted) with EV charging infrastructure PPPs.

Meanwhile, BMW is reportedly unwilling to cough up any more for Northvolt ad the Swedish government is understood to be unwilling to go down the bailout route.

Northvolt – second lien debt

Now this is what has the lenders twitchy – the “innovative” second lien debt tranche – and, funnily enough, nobody wants to talk about it.

Bankers are curiously unavailable for off-record comment and – by the sound of it – they’re percolating in their own sweat.

To be fair, they’re pretty concerned about the whole shooting match and the $5 billion of debt associated with this transaction that will put the ECA wraps to the test.

Taking a moment to draw from the IJGlobal database, the debt tranches from the 20 December 2023 financial close are:

- $1.025 billion – Euler Hermes covered facility
- $1 billion – Riksgalden wrapped facility
- $795 million – term loan (uncovered)
- $500 million – EIB debt
- $400 million – revolving credit facility (uncovered)
- $400 million – EIB loan
- $200 million – ECA covered facility
- $200 million – KEXIM facility
- $200 million – standby facility (uncovered)
- $150 million – NEXI covered facility
- $100 million – KEXIM wrapped facility
- $80 million – SURE covered facility

Now – one of those is a second lien debt tranche. Anyone involved should feel free to tell us exactly which one it is! If it’s the $795 million uncovered facility, you can entirely understand why the lenders are quite so angst-ridden.

It could be the $400 million RCF or the $200 million standby facility – either of which are cause enough for running a finger round your collar, but not as palpitation inducing as the $795 million slug.

The second lien may not be in any of these tranches, it could be part of the structured finance that involved beleaguered investors – that include Scottish Mortgage – that has written off part of the $440 million exposure to Northvolt.

As to the lenders on it… there are a bunch. The “usual suspects” we would be told knowingly by deal participants who can't be bothered to look at their last email. But this time it's our turn and if you want to know who they are, you will need a subscription to make this link work.

Let's leave the final word to a source who has lent more to infra than you can shake a stick at and didn't fill boots with this Northvolt goodness: "Sounds like it is one subsidiary that is being abandoned to save the rest of it. If a regulated utility can lose half its enterprise value in less than a year – if bond prices are to be believed – then I'm sure being a second lien creditor of a defunct subsidiary of an experimental industry startup is not a happy place to be."

And there you have it. It's all fun and games until the batteries run out. And it's bigger than just this debt package as there's $13 billion in equity and debt against Northvolt and that's a lot of folk losing their shirts right about now.

That should keep their financial adviser – BNP Paribas – busy for the foreseeable future.