

Meda (Banor): Never act irrationally. Look at the fundamentals to see if the rise is justified

HOW TO KNOW WHEN IT'S A REAL BOOM

The differences between GameStop and Volkswagen's exploits

BY ANNA MARIA CASTELLO

The ripples of the GameStop case are still being felt on the financial markets. Targeted trading by millions of small-scale investors on social media platforms such as Reddit or Stocktwits has sent a few stocks – initially worth a few cents – into orbit. This was the case with the US company GameStop which, having been on the brink of bankruptcy for some time, saw its share price go from a few cents to more than 300 dollars within a few days, only to then fall again. The case was so striking that it could be the start of a new narrative on the financial markets. “Now, every significant rally immediately gives rise to theories of new speculation”, remarks **Angelo Meda**, Head of Equities at Banor SIM. But now it has been taken up a notch. In fact, even major players in the economy could end up in the sights. The expert cites the example of the German automotive giant Volkswagen, which has surprised operators with booms of more than 40% on its ordinary shares in recent weeks, bringing the increase to around 100% since the start of the year. What has been most surprising is the clear outperformance compared to the company's preferred shares (the stock listed in the indices, ETFs and almost all institutional

portfolios): more than 30 percentage points in a few days mid-March.

What is going on? For the expert, the trend is reminiscent of the GameStop case, although there are very clear differences that should be pointed out. “On one hand, the rise in this stock, and especially the ordinary shares, is linked to speculative approaches that are very similar to what happened in the USA in January. On the other hand, the fundamentals partly justify this increase, something which could not be said of GameStop. In fact, using comparative and absolute valuation metrics, we can say that when Volkswagen stock was trading at € 150 at the start of the year, equivalent to a market capitalisation of around € 75 billion, it was an excellent opportunity to buy considering the profit and cash generation forecasts for 2021”.

After having presented an aggressive plan to open battery factories and a subsequent target of quadrupling electric vehicle sales in 2021, VW attracted the attention of American retail investors on social networks like Reddit and Stocktwits. This is because the 2021 sales target would overtake Tesla, in terms of quantity, bringing the Wolfsburg car manufacturer to a volume of around 1 million vehicles for the current year, compared to

850,000 for California's Tesla. (However, it must be stressed that around 50% of VW's target is made up of hybrid cars, while for Tesla we are talking about purely electric cars only). “Following this attention on social networks, American retail investors grouped together to buy Volkswagen stock by purchasing the American ADR. In fact, the volume of US shares rose by more than 20 times, reaching a peak of almost 12 million ADRs traded on Wednesday 17 March, compared with an average of 200,000”, explains Meda. “The resulting effect was to drive up the ordinary stock in Europe over the next few days due to arbitrage, with the new share price making VW the largest German company by market cap, overtaking SAP.

The lesson that we can draw from this episode is twofold: pay attention to what is going on with stock being targeted by members of networks like Reddit, because irrationality is just around the corner. But if the fundamentals justify the rise in share price, then we will not witness a true collapse as was the case with GameStop, which lost 85% within five trading sessions”, Meda concludes. (All rights reserved)