Rivian Stock Downgraded. Its Bond Sale Is a Canary in the Coal Mine.

By Al Root

Rivian Automotive stock plummeted earlier this week after announcing plans to raise more capital and one analyst understands why. It was one of the reasons he downgraded the stock.

Battle Road Research analyst Ben Rose on Friday downgraded Rivian (ticker: RIVN) shares to Sell from Hold. He doesn't have a price target. His Sell rating means he expects shares to underperform the broader stock market.

Rivian released third-quarter delivery figures that were a little better than Wall Street expected. The electric truck maker delivered 15,564 units, compared with the consensus call aggregated by FactSet of about 14,000 units. Still, the delivery number was a little lower than Rose modeled.

Then Rivian reported preliminary third-quarter numbers. It expects revenue of about $1.31 billion, about $70 million less than Wall Street expected. It also reported a quarter-end cash balance of $9.1 billion, down about $1.1 billion compared with the second quarter.

Rivian has been using about $1.7 billion in cash each quarter and is expected by Wall Street to use about $1.1 billion in the third quarter, but the preliminary numbers were weaker than Rose expected and he wrote investors weren't expecting a capital raise.

"Beyond this rapid cash depletion and debt offering," wrote Rose. "Rivian continues to face challenges with engineering and production, has a questionable capacity and utilization strategy, operates in a sector that is competitive and challenging in the near-term, and its cost-cutting efforts are a bigger obstacle than we had known."

Rivian, for its part, consistently has said it wants to maintain a conservative balance sheet as it prepares to develop its second vehicle platform that comes after the R1T and R1S electric pickup truck and electric SUV.

The downgrade didn't impact shares much on Friday. Rivian stock rose 3.6%, while the S&P 500 and Nasdaq Composite closed with gains of 1.2% and 1.6%, respectively. The damage came on Thursday. Shares fell almost 23%, essentially wiping out all of the stock's year-to-date gains.

Overall, about 58% of analysts covering the stock rate shares Buy. The average Buy-rating ratio for stocks in the S&P 500 is about 55%. A downgrade from Hold to Sell doesn't impact the Buy-rating ratio. It does impact the Sell-rating ratio. Now about 8% of analysts covering the stock rate shares Sell. The average Sell-rating ratio for S&P 500 stocks is about 7%.

The average analyst price target for Rivian shares is about $29, up roughly 55% from recent levels.

Rivian shares have fallen about 50% over the past 12 months. Rising interest rates and more EV competition have sapped some investor enthusiasm for shares of companies that don't produce positive free cash flow.

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