

# Vmoto Limited

## (VMT \$0.44) Buy - Initiation of Coverage

EUROZ

<b>Analyst</b> Harry Stevenson	<b>Date</b> 30 <sup>th</sup> July 2020	<b>Price Target</b> \$0.70/sh
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### Re-Initiation of Coverage

#### Investment case

We re-initiate on Vmoto Ltd (VMT) after a long hiatus; in that period VMT shifted its focus from the low margin Chinese market; to higher margin European markets. We have also seen the evolution of ride sharing technology, growing consumer acceptance and improvement of electric vehicle technology; and consequently, the development of the company's prospects.

#### Valuation and Price Target

Our target price for VMT is \$0.70/sh.

We value the company using a DCF methodology. This valuation is supported by trading metrics, provided growth that we have forecast occurring. The investment question is centred around whether VMT can continue to grow its European market share; along with the overall market growth for electric two-wheel vehicles.

#### The Business and the Business Model

VMT is a global e-mobility manufacturing and distribution group. The Company specialises in high quality electric powered two-wheel vehicles and manufactures a range of western designed electric two-wheel vehicles from its wholly owned 30,000sqm state of the art manufacturing facility in Nanjing, China. Vmoto combines low cost Chinese manufacturing capabilities and sophisticated supply chain with European design, offering high performance and competitive products to international markets.

We like the EV growth thematic and outlook in Europe which is supported by Government incentives and changing consumer preferences. The market for electric two-wheel vehicles in Europe is growing YoY at circa 25% with growth set to accelerate post 2025 as petrol vehicles are progressively phased out with the Euro6 Regulations.

Covid-19 appears to be presenting a significant opportunity; as consumers shy away from mass public transport seeking out ride share alternatives or purchasing for personal use. We also expect the market for delivery vehicles to receive a significant boost on the back of the growth in parcel and food deliveries given the Covid-19 social distancing restrictions.

#### Earnings and Forecasts

We see the market for VMT's offering to grow substantially over the coming period as the demand for the electric vehicles and alternative forms of transport continues to gain traction.

Our forecasts for FY20 reflect a conservative view on the growth in unit sales through to May. We look for steady continued growth into FY21 and FY22 on the back of growing consumer acceptance and growth in the global ride sharing markets.

We look for improvement in both GP and EBITDA margins with production to scale at VMT's Nanjing Facility.

Our forecasts in our mind are somewhat conservative given the relative size of the global opportunity

#### Other Matters

We also examine a number of other matters including, balance sheet position, key risks, the relevant experience of the board and management and top shareholders.

Vmoto Limited	Year End 30 June	
Share Price	0.44	A\$/sh
<b>Price Target</b>	<b>0.70</b>	<b>A\$/sh</b>
Valuation (DCF)	0.70	A\$/sh
WACC	9.0%	
Terminal Growth	2.5%	
Shares on issue	251	m
Market Capitalisation	110.6	A\$m
Enterprise Value	106.0	A\$m
Debt (December 19)	2.0	A\$m
Cash (December 19)	6.6	A\$m

Key Financials	2019a	2020f	2021f
Revenue (A\$m)	45.7	59.9	77.9
EBITDA (A\$m)	1.3	3.9	7.2
EBIT (A\$m)	1.3	4.0	6.5
Reported NPAT (A\$m)	1.2	3.9	5.6
Normalised (A\$m)	1.3	3.9	5.6
Gross Cashflow (A\$m)	3.5	4.6	6.3
Capex (A\$m)	-0.2	-0.5	-0.5
Op. Free Cashflow (A\$m)	3.3	4.1	5.8
Revenue Growth (%)	133%	31%	30%
EBITDA Growth (%)	-1099%	34%	55%
Norm. NPAT Growth (%)	-242%	200%	45%
Normalised EPS (Ac)	0.58	1.55	2.25
Norm. EPS growth (%)	-239%	168%	45%
PER (x)	49.3	28.4	19.6
EV:EBITDA (x)	30.8	23.0	14.9
EV:EBIT (x)	84.6	27.0	16.3
DPS (Ac)	NA	NA	NA
Dividend Yield (%)	NA	NA	NA
Net Cash (A\$m)	4.6	5.1	8.7
Net debt to equity	net cash	net cash	net cash

#### Share Price Chart



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Financial Statements	2019a	2020f	2021f	2022f	Performance Ratios	2019a	2020f	2021f	2022f
<b>Income Statement</b>					<b>Growth &amp; Margins</b>				
Revenue	45.67	59.91	75.39	93.95	Revenue Growth	133%	30%	25%	24%
Other Revenue	1.54	1.53	1.53	1.43	EBITDA Growth	-1099%	34%	48%	47%
<b>Revenue</b>	<b>47.2</b>	<b>61.4</b>	<b>76.9</b>	<b>95.4</b>	EBIT Growth	-208%	213%	57%	53%
COGS	-36.0	-47.3	-58.8	-72.3	Normalized Net Profit Growth	-593%	228%	39%	27%
OPEX	-7.7	-9.6	-11.2	-12.9	EBITDA margin	7%	8%	9%	11%
<b>EBITDA</b>	<b>3.5</b>	<b>4.6</b>	<b>6.9</b>	<b>10.1</b>	EBIT margin	3%	6%	8%	10%
Depreciation & amortisation	-1.6	-0.7	-0.6	-0.6	Normalized net profit margin	3%	6%	7%	7%
Impairment	-0.6	0.0	0.0	0.0	Effective tax rate	28%	28%	28%	28%
<b>EBIT</b>	<b>1.3</b>	<b>4.0</b>	<b>6.2</b>	<b>9.5</b>	<b>Liquidity</b>				
Borrowing Costs	0.0	-0.1	-0.1	-0.1	Capex/depreciation (x)	0.1	0.8	0.8	0.8
Interest Income	0.0	0.0	0.1	0.1	Current ratio (x)	2.2	1.8	2.0	2.2
FX	0.0	0.0	0.0	0.0	Quick ratio (x)	1.6	1.2	1.3	1.5
Other income/(expense)	0.0	0.0	0.0	0.0	Receivable days	16	36	36	36
<b>EBT</b>	<b>1.3</b>	<b>3.9</b>	<b>6.3</b>	<b>9.5</b>	Payable days	47	73	73	73
Tax expense	0.0	0.0	-0.8	-2.6	<b>Risk Measures</b>				
<b>Reported Earnings</b>	<b>1.3</b>	<b>3.9</b>	<b>5.4</b>	<b>6.9</b>	Dividend Cover (x)	NA	NA	NA	NA
Other Comprehensive Income	-0.1	0.0	0.0	0.0	Payout ratio (%)	NA	NA	NA	NA
<b>Total Comprehensive Income</b>	<b>1.2</b>	<b>3.9</b>	<b>5.4</b>	<b>6.9</b>	Net debt/equity (%)	41%	30%	37%	43%
<b>Cash flow (A\$m)</b>					<b>Returns</b>				
<b>Profit before Tax</b>	<b>1.3</b>	<b>3.9</b>	<b>6.3</b>	<b>9.5</b>	ROIC(%)	6.7%	15.3%	17.6%	18.3%
(+) D&A	1.6	0.7	0.6	0.6	Return on assets (%)	6.9%	15.9%	16.6%	16.2%
(+/-) Other	0.0	0.0	0.0	0.0	Return equity (%)	7.0%	15.7%	17.9%	18.6%
(+/-) write-downs/revsals	0.6	0.0	0.0	0.0	<b>Share Data/Valuation</b>				
(-) Tax Paid	0.0	0.0	-0.8	-2.6	<b>Share Data</b>				
<b>Gross Cashflow</b>	<b>3.5</b>	<b>4.6</b>	<b>6.1</b>	<b>7.5</b>	Issued shares (m)	225	251	251	251
(-) Capital Expenditure	-0.2	-0.5	-0.5	-0.5	Weighted ave shares (m)	223	238	251	251
(-) Change in WC	-1.6	-1.1	-1.9	-2.3	Fully diluted shares (m)	225	251	251	251
<b>Operating Free cashflow</b>	<b>1.7</b>	<b>2.9</b>	<b>3.7</b>	<b>4.7</b>	Basic EPS (c)	0.6	1.6	2.2	2.7
(+) Equity issued	0.5	4.0	0.0	0.0	YoY change (%)	-239%	168%	39%	27%
(+) investment in JV	0.0	-6.4	0.0	0.0	Fully diluted EPS (c)	0.6	1.6	2.2	2.7
(+) Other	-0.6	0.0	0.0	0.0	YoY change (%)	-239%	168%	39%	27%
<b>Net Cashflow</b>	<b>1.6</b>	<b>0.5</b>	<b>3.7</b>	<b>4.7</b>	Fully diluted normalised EPS (c)	0.6	1.6	2.2	2.7
Bop Net Cash*	3.0	4.6	5.1	8.8	YoY change (%)	-239%	168%	39%	27%
(+/-) Net Cashflow	1.6	0.5	3.7	4.7	Dividend/share (c)	na	0.0	0.0	0.0
<b>EOp Net Cash</b>	<b>4.6</b>	<b>5.1</b>	<b>8.8</b>	<b>13.5</b>	Franking (%)	na	na	na	na
<b>Balance Sheet (\$m)</b>					<b>Valuation</b>				
Cash	6.6	7.1	10.8	15.5	PER (Basic) (x)	49.3	29.0	20.8	16.4
Receivables	2.1	6.0	7.5	9.4	PER (Fully diluted) (x)	49.3	29.0	20.8	16.4
Inventory	4.4	6.0	7.5	9.4	PER (Fully diluted, normalized) (x)	49.3	29.0	20.8	16.4
Other assets	4.0	5.4	6.8	8.5	P/CFPS (x)	18.3	24.7	18.6	15.0
<b>Total Current Assets</b>	<b>17.2</b>	<b>24.5</b>	<b>32.7</b>	<b>42.8</b>	Price/NBV (x)	3.8	4.5	3.7	3.0
Property/plant/equipment	7.8	7.8	7.7	7.6	Price/NTA (x)	3.8	4.6	3.8	3.0
Other non-current assets	0.3	6.6	6.5	6.5	Dividend Yield (%)	0%	0%	0%	0%
<b>Total Non-Current Assets</b>	<b>8.1</b>	<b>14.4</b>	<b>14.2</b>	<b>14.1</b>	na	na	na	na	na
<b>Total Assets</b>	<b>25.3</b>	<b>38.9</b>	<b>46.9</b>	<b>56.9</b>	market Cap	64.1	113.1	113.1	113.1
Payables	5.6	11.4	14.0	17.1	EV	109.1	109.1	109.1	109.1
Loans and borrowings	2.0	2.0	2.0	2.0	EV/EBITDA (x)	31.6	23.5	15.9	10.8
Lease Liabilities	0.1	0.1	0.1	0.1	EV/EBIT (x)	86.6	27.6	17.6	11.5
<b>Total Current Liabilities</b>	<b>7.8</b>	<b>13.5</b>	<b>16.1</b>	<b>19.2</b>	EV/Revenue (x)	2.3	1.8	1.4	1.1
Lease Liabilities	0.5	0.5	0.5	0.5	<b>Other Information</b>				
<b>Total Non-Current Liabilities</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	12-mth High/Low (A\$/sh)				0.48/0.09
<b>Total Liabilities</b>	<b>8.3</b>	<b>14.0</b>	<b>16.6</b>	<b>19.7</b>	Average daily volume (A\$'000s)				0.16
<b>Net Assets</b>	<b>17.0</b>	<b>24.9</b>	<b>30.3</b>	<b>37.2</b>	ASX Code				VMT
Issued capital	75.4	79.3	79.3	79.3	Next result				Aug-2020
Reserves	-0.7	-0.7	-0.7	-0.7	<b>Company Description</b>				
Retained profits	-57.7	-53.8	-48.3	-41.4	VMT a global e-mobility manufacturing and distribution group. The Company specialises in high quality electric powered two-wheel vehicles and manufactures a range of western designed electric scooters from its wholly owned 30,000sqm state of the art manufacturing facility in Nanjing, China. V-moto combines low cost Chinese manufacturing capabilities and sophisticated supply chains with European design and offers high performance and competitive products to international markets.				
<b>Total Equity</b>	<b>17.0</b>	<b>24.8</b>	<b>30.2</b>	<b>37.2</b>					

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# Vmoto Limited

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### Valuation and Price Target

On our forecasts, VMT trades on a FY20 PE of 28x and FY21 PE of 20x. This is not unreasonable given the growth we are forecasting, and the scope of the opportunity available to VMT.

Clearly the market is looking for a period of solid sustained growth; a concept we are comfortable with.

There are no direct Australian listed peer comparisons available; and naturally comparisons to overseas competitors is problematic. We look to the NIU (Listed on the NASDAQ) (VMT's closest competitor on a number of fronts) trading on a circa 45x FY20 and 25x FY 21. These multiples reflect the market perception of "NIU" as a technology stock, and its association in some investor's minds with Tesla Motors. VMT and NIU compete for market share in the higher margin European Markets; while NIU also has a significant presence in the Chinese Market; which some investors will pay a premium for.

The point is these type of stocks can and sometimes do trade on multiples that reflect tech stocks, rather than more traditional manufacturers.

Our DCF based valuation is coming out at \$0.70.

FY	Units	2020	2021	2022	2023	2024	2025	2026
EBIT	A\$m	4.0	6.2	9.5	12.9	17.6	23.2	23.2
(-) Tax (Ungeared)	A\$m	-1.2	-1.9	-2.8	-3.9	-5.3	-7.0	-7.0
(+) D&A	A\$m	0.7	0.6	0.6	0.6	0.6	0.5	0.5
(-) Capex	A\$m	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
(-) ΔNWC	A\$m	-1.1	-1.9	-2.3	-2.8	-3.6	-4.7	0.0
FCFF	A\$m	1.8	2.6	4.4	6.3	8.8	11.7	16.3
Period	x	0.5	1.5	2.5	3.5	4.5	5.5	6.5
Disc. Factor	x	0.96	0.88	0.81	0.74	0.68	0.62	0.57
Disc FCFF	A\$m	1.7	2.3	3.6	4.7	6.0	7.3	9.4
NPV forecasted FCFF	A\$m	25.6						
						CoE	11%	
Terminal FCFF	16.3					CoD	4%	
TGR	2.5%					Market	6%	
TV	259.4					Beta*	1.5	
PV of TV	148.5					Rf	2%	
EV	174.1							
(-) Debt*	-2.7							
(+) Cash*	6.6					(/) SOI	251.4	
Equity Value	178.1							
WACC	9.0%							
SOI	251.4							
A\$/sh.	0.70							

\*as at December 2019

Our key assumptions:

- Beta 1.5
- WACC 9%
- Terminal growth rate 2.5%
- Risk free rate 1.5%

Earnings and growth assumptions are discussed in detail in the Earnings and Forecasts sections.

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## Vmoto Limited

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### The Business

Vmoto Limited is a global e-mobility manufacturer and distribution group (Refer to Appendix 3 for Global Distribution Network). VMT specialises in high quality electric mopeds and motorcycles; manufactured in its 30,000sqm Chinese Facility. VMT also maintains an exclusive manufacturing and distribution agreement with Super Soco Intelligent Technology Co Ltd (Super Soco) outside of the Chinese market.

Since ceasing coverage in 2016; The Board of VMT has undertaken a strategic review positioning VMT to benefit from growing European Markets; while battery technology has improved significantly allowing wider penetration of electric vehicles more generally.

We provide a brief summary of significant announcements since 2016 at Appendix 1.

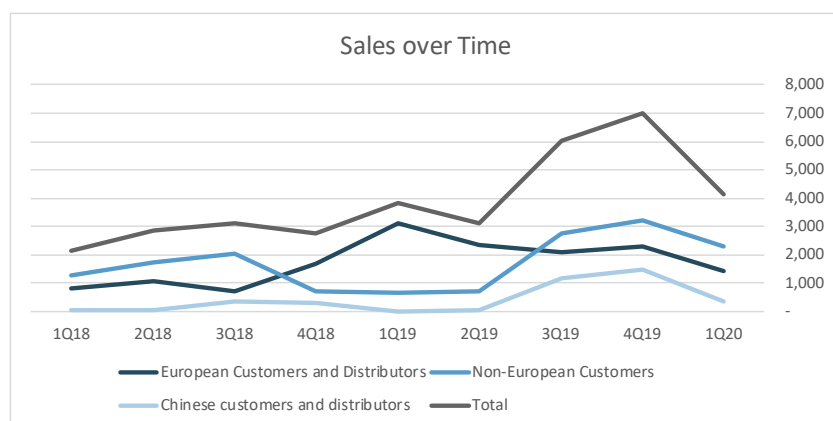
### 2017 Strategic Review

Following a 2017 Strategic review The Board made the decision to exit the Chinese domestic market; through the sale of VMT's 51% stake in the Shanghai Jiye (PowerEagle) business. While the number of the units sold in China at the time was significantly higher than the international market, margins in the Chinese market were low in comparison to the international markets. At the time the company sighted the management time required to oversee the JV; the impact of increasing Chinese Government Regulations over the two wheel-EV industry and falling unit sales.

The Board took the view that focusing on the international consumer and delivery market would in the long run provide shareholders with the greatest return.

This decision appears justified with the European unit sales up 130% from FY18 to FY19 and continued growth into FY20. Consequently, our investment decision is predicated on the continuing growth of the European market segment.

The following shows sales over time to Q1 2020.



Source: Euroz

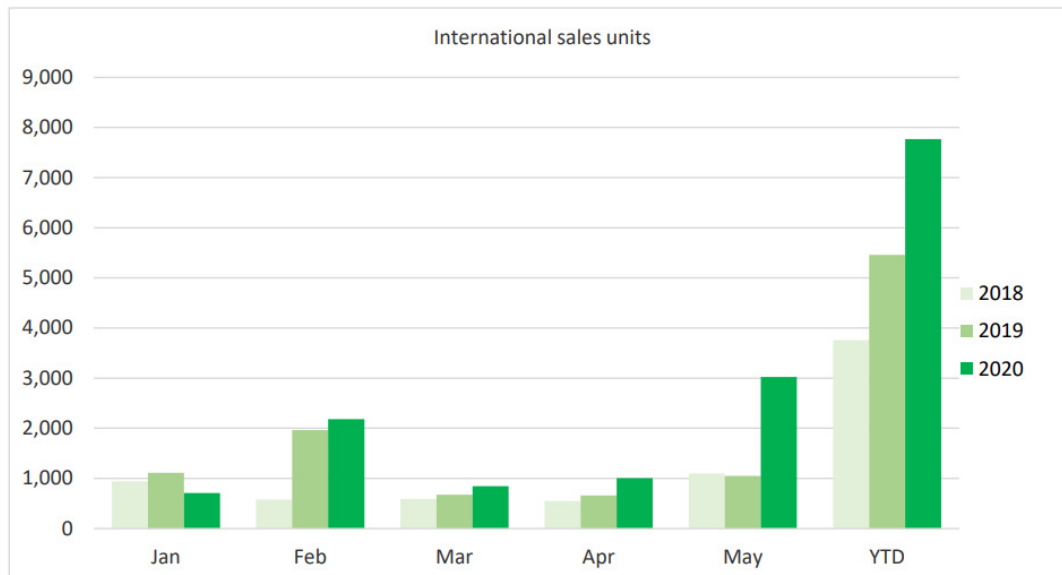
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Per the June investor update unit sales were up 42% on Pcp January to May.



Source: Vmoto Limited

As part of the same strategic review, The Board also signed a manufacturing and distribution agreement with Super Soco. Super Soco is an industrial design and innovative EV company founded in 2015. As part of the agreement, Super Soco agreed to move its manufacturing operations to VMT's manufacturing facility in Nanjing. Further to the agreement VMT obtained international distribution rights to Super Soco products outside of China. Super Soco's products are predominately consumer focused; and are considered high quality and technologically advanced in European Markets; complementing VMT's existing line-up.

At the beginning of 2020 this partnership was extended with the establishment of a jointly owned manufacturing company "Nanjing Vmoto Soco Intelligent Company"(Vmoto Soco). The key strategic objectives behind the establishment of the Vmoto Soco are

- To strengthen Vmoto's commercial relationship with Super Soco
- Streamlining of supply chain processes, with Vmoto Soco the sole and exclusive manufacturer for both companies.
- Establishment of solid credit and trading terms with suppliers through economies of scale, providing increased purchasing power for components and in turn freeing up capital to enable Vmoto to aggressively pursue its expansion plans.
- Ongoing expansion of Vmoto Soco's research and development capabilities, and VMT's immediate access to Super Soco's research development capability.

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## Vmoto Limited

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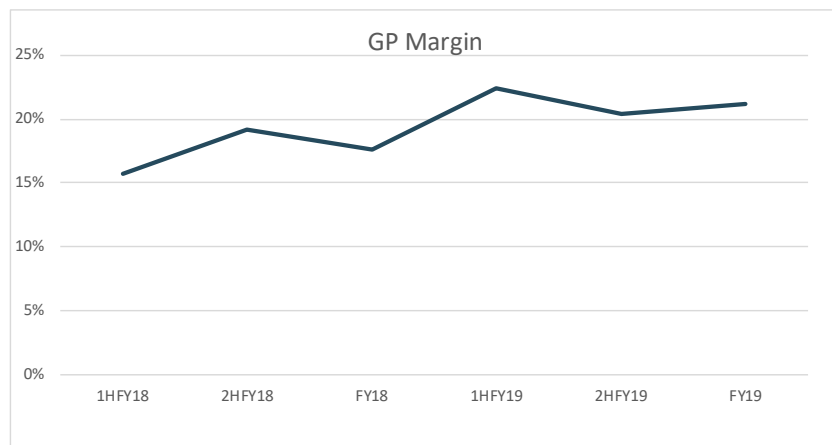
As part of the agreement, VMT will contribute \$6.4m in cash / and or assets by end of June 2020 to provide the initial working capital for Vmoto Soco; with the majority expected to be in cash.

While Super Soco will contribute ~\$6.4m in cash and/or assets progressively no later than June 2025.

VMT indicated at the AGM that the natural progression of this relationship is the potential for a future transaction with Super Soco in one form or another, which will further align their interests.

Under this strengthened relationship, VMT would benefit from the shared technology and design (Super Soco is an industry leader on this front); continued returns to scale and exposure to the rapidly growing Chinese market where Super Soco currently sells over 32,000 units per year.

On this front, VMT's GP margins have continued to improve with growth in unit sales. We will explore our margin and growth assumptions as part of the earnings forecast below.



Source: Euroz

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## Vmoto Limited

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#### Business Model

VMT's revenue generating segments can be broken out into B2B and B2C markets.

1. B2C markets (Business to consumer) – Consumer Markets
2. B2B Markets (business to business) – Ride Sharing and Delivery Markets.

We will explore these markets; and the growth opportunities in detail below.

For reference VMT along with Super Soco manufacture a variety of models with varying specifications aimed across all market segments.

Electric Moped and motorcycles are generally equivalent to 50-125cc engine sizes. VMT have signalled the launch of its new TS Pro which will be better placed to compete with larger engine Motorcycles.



Super Soco TC

Price: \$5,490

Range: 60-80km



Super Soco TS

Price: \$3,990

Range: 60-80km



Super Soco Cux

Price \$4,740

Range: 75-80km



Vmoto - Emax

Price: \$6,400

Range: 150km



Vmoto - City

Price: \$2,240

Range: 70km



Vmoto E-Max VT 120 LD+

Price: \$6,400

Range: 150km



TC Max

Price: \$8,290

Range: 110km



CPX

Price: \$5,800

Range: 140km



Super Soco VS 1

Price: \$7,820

Range: 160km

**(Not all available models, all prices in AUD as best we could find - to be used as a guide only)**

*Feedback from a number of dealerships we have contacted in Europe generally consider the VMT offering to be superior to competition on value for money and product quality.*

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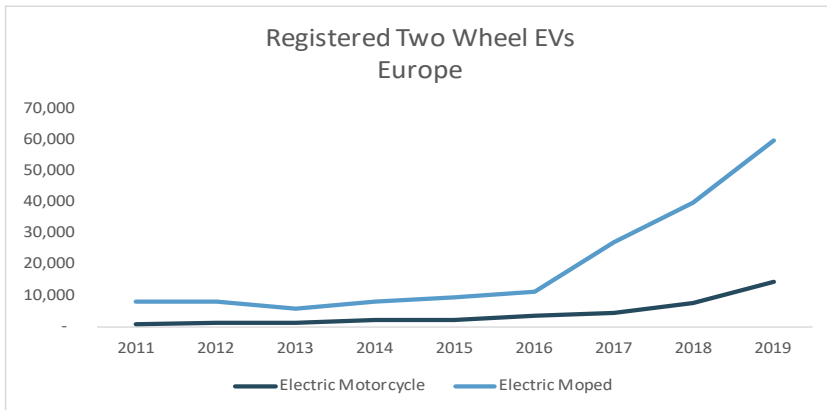
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### Consumer Markets

The consumer segment has seen significant growth as a result of improvement in ride share and battery technology, increased consumer acceptance of electric vehicles and government intervention. Covid-19 appears to be a catalyst for change as consumers seek alternatives to public transport.

Anecdotally we have spoken to a number distributors in the UK, France and Australia that have experienced an unprecedented number of enquiries from consumers looking for alternatives to public transport.

The following registration data from ACEM (European Motorcycle industry in Europe) indicates growing penetration and acceptance of two-wheel electric vehicles prior to Covid-19. Registrations of electric mopeds are growing at CAGR 25% since 2011. Growth accelerants significantly from 2016, with YOY growth 2018-2019 ~50%.

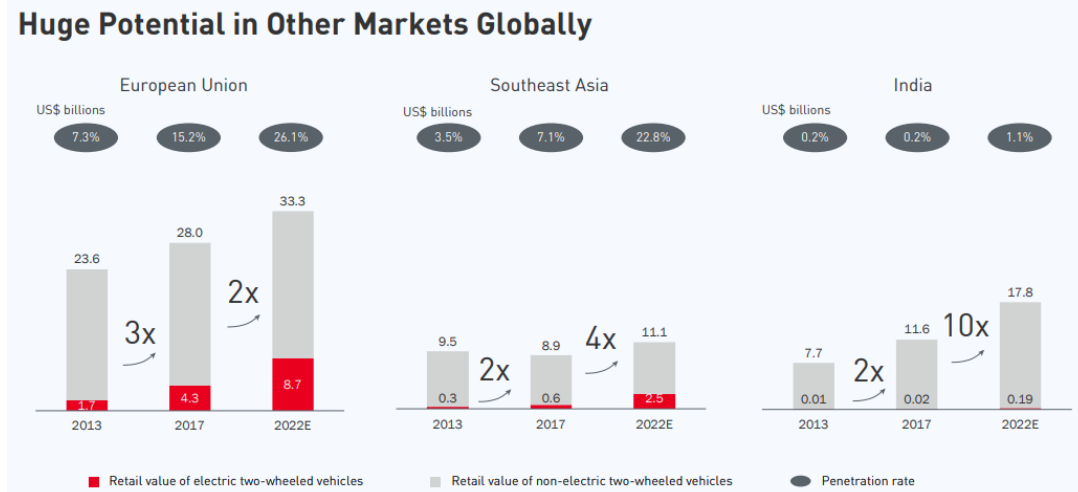


Source: ACEM

Actual registered vehicles are likely higher as a number of European countries do not require registration of Mopeds.

In 2019 EV mopeds accounted for ~20% of all mopeds sold while EV motorcycles account for ~1.5%.

Clearly there is a significant opportunity for VMT to grab a larger share of the whole two wheeled market. Some reports estimate that the total market for electric two wheeled (including electric standing scooters and bicycles); is set to reach \$8.7bn by 2022.



Source: NIU Investor Presentation - Figures include electric motorbikes, scooters and bicycles

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#### Incentives / Regulations

There are also a number of government incentives and regulations that encourage the purchase of electric two wheeled vehicles.

The following is an indication of value of the incentives on offer to consumers:

#### *UK*

Government will pay 20% of the purchase price up to a maximum of €1,500.

#### *Austria / Germany*

Government will pay 25% of the purchase price up to a maximum of €1,000.

#### *Belgium*

Offers a tax offset of 15% of the value of the purchase; to a maximum of €3,140.

With France; Italy and Spain also offering similar incentives for the purchase of two wheeled EVs.

In addition to incentives; there are a number of Government regulations that encourage consumers to make the switch to electric. For instance, London, Paris, Lyon and Amsterdam have banned or will ban two wheeled vehicles that do not meet Euro3 Standards from entering city centres.

While multiple European countries have indicated that they will seek to completely ban the sale of combustion and hybrid vehicles from 2030.

There is clearly desire from Governments to encourage the shift to EV's and VMT is well positioned to benefit.

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## Vmoto Limited

### (VMT \$0.44) Buy - Initiation of Coverage

#### Ducati Agreement

In 2019 VMT entered into a licencing agreement with Ducati Motor Holdings (Ducati) for the distribution of a limited-edition Ducati CUX Scooter.

Sales of the special edition product have been strong with the number of units sold exceeding the minimal contracted units by 80%.

VMT announced at the AGM that it is in discussions with Ducati for wider corporation.

Given that in the past Ducati have indicated the desire to release a performance electric motorcycle to Ducati's global distribution network we speculate the possibility of additional "Special Edition" product lines or the possibility of an entirely rebadged VMT product sold through the Ducati network.

An expansion of the agreement with Ducati will be a telling validation of VMT product from an established and respected brand.



#### New Product Launches

VMT launched a number of new products at the end of the CY 2019.

Of note is the Super Soco CPx; this product is a significant improvement on range and performance of the existing CUX model (almost double the range and top speed) at a similar price point.

Early indications are the product is selling very well; we note early market data from French sources that indicate it was the second highest selling electric scooter for the 6 months to June 2020; especially impressive since it only became available in May.

We look for additional new and upgraded product launches in 2020 to provide further growth in new and established markets.

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## Vmoto Limited

### (VMT \$0.44) Buy - Initiation of Coverage

#### Business to Business Markets

The outbreak of Covid-19 has seen growth in the ride share users in cities that have returned from lock downs, as consumers look for an alternative to mass public transport. We note a number of news reports indicating user numbers up by over 200% in some cities since the outbreak.

The electric scooter riding sharing market first gained prominence with the emergence of Bird and Lime Scooters in 2017. A number of companies offering ride sharing to consumers subsequently emerged; with the scooters becoming ubiquitous with urban populations. Some estimates place suggest that this market alone could be worth upwards of the US\$30 billion by 2025.

VMT's offering to the ride sharing market is an electric moped. Mopeds offer greater range and capacity than the electric scooter alternative and are aimed at consumers making trips longer than last mile; with this market already serviced by electric scooters.

For clarity an example VMT's Moped offering and Bird's Scooter offering below:

**VMT**



**Bird**



The Company has a number of existing agreements with established rideshare providers; which we provide further details on in *Appendix 2*.

Of particular note is GoSharing Netherlands; which maintains a fleet of 3,890 VMT scooters.

In January 2020 GoSharing Netherlands raised €10m to fund expansion to over 20 Cities across the Netherlands and has further ambitions to expand to the rest of Europe.

Per the June Market update GoSharing Netherlands has ordered an additional 1,200 units for delivery between July and September 2020.

Currently GoSharing is available across 9 cities in the Netherlands; expansion to over 20 cities will clearly require a further investment in the fleet.

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## Vmoto Limited

### (VMT \$0.44) Buy - Initiation of Coverage

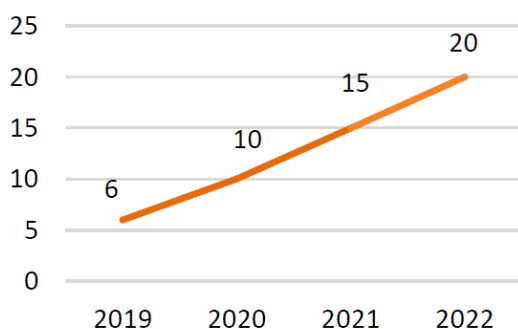
We provide the breakdown of delivered units per ride share partner as follows:

	Total
Go Sharing Netherland	3,870
GoKube Taiwan	600
Zig Zag	470
Loop Share	329
Antik Motorsharing	90
Re.volt	60
eMoped Motosharing	50
Total	5,469

We look to continued growth in these providers, new rideshare partners and continued replacement of stock given relatively shorter lifespan of ridesharing products.

VMT aims to add 5 new rideshare partners through to 2022 and is currently in advanced discussions with 12 ride sharing operators across Brazil, Bulgaria, Columbia, France, Greece, India, Mexico, Portugal, Slovakia, Spain, Switzerland and Turkey.

Number of sharing customers



Source: Vmoto Limited

VMT has established a number of relationships with delivery partners; using a specialised version of its E-Max model.

Per VMT's latest presentation the company expects growth in demand for its food and parcel delivery electric scooter products as communities embrace food and parcel home delivery services driven by Covid-19 lockdowns.

VMT currently have ten delivery partners and are in advanced discussions with an additional ten partners across Europe and South America.

The E-Max's range is sufficient to meet the demands of the average delivery shift of 60 miles; with battery technology now enabling VMT to compete with petrol alternatives.

**Clearly the two-wheeled electric vehicle market is growing on the back of maturing technology, changing consuming preferences and growth in ride share and delivery markets.**

**While Government incentives and regulations are forcing consumers to reconsider combustion alternatives.**

**This all bodes well for VMT's growth prospects.**

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## Vmoto Limited

(VMT \$0.44) Buy - Initiation of Coverage

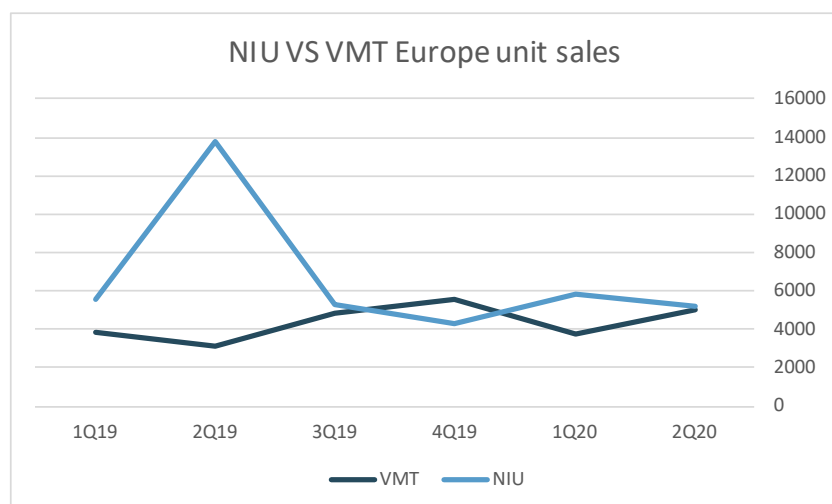
### Competitors

In much the same way that traditional car manufactures have been hesitant to embrace EV technology; traditional scooter manufactures (Vespa, Honda, Yamaha etc) have been slow to enter the market and do not compete on price or range with Chinese manufactures.

VMT competes directly on price and specification with electric two-wheel vehicle manufactures NIU, YADEA, Kymco, Fonzareli, Elettrica, Silence and Govecs.

As we discussed above we see NIU as VMT's closest competitor. The two companies compete on price, specification and market share. Since listing on the NASDAQ in 2018 NIU has invested heavily in marketing; while VMT has focused on technology and product development

The outcome of this is the NIU has outsold VMT in European markets; we estimate that NIU's overall market share is ~15% compared with VMT's ~10%. Recent results indicate that VMT is closing the sales gap.



Source: Euroz

We look to an increase VMT's marketing spend, wider recognition of brand quality and value for money to continue to drive sales in the coming periods.

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## Vmoto Limited

## (VMT \$0.44) Buy - Initiation of Coverage

## Earnings and forecasts

We model our forecasts as follows:

		FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Sales	\$m	19.6	45.7	59.9	75.4	94.0	117.4	146.8	186.4
COGS	\$m	-16.1	-36.0	-47.3	-58.8	-72.3	-90.4	-113.0	-143.6
GP	\$m	3.4	9.7	12.7	16.6	21.6	27.0	33.8	42.9
GP Margin	%	18%	21%	21%	22%	23%	23%	23%	23%
Units	#	10875	19971	23965	28998	34797	43497	54371	69051
YOY Sales Growth	%	30%	133%	31%	26%	25%	25%	25%	27%
<b>Expenses</b>									
(-) Operational Expense	\$m	-2.0	-3.5	-3.7	-4.1	-4.7	-5.9	-6.6	-8.4
(-) Marketing	\$m	-0.6	-1.4	-2.5	-3.2	-4.0	-4.7	-5.9	-7.5
(-) Other	\$m	-1.8	-2.8	-3.4	-3.8	-4.2	-4.4	-4.5	-4.6
EBITDA	\$m	-0.3	3.5	4.6	6.9	10.1	13.5	18.2	23.8
EBITDA Margin	%	-2%	8%	8%	9%	11%	11%	12%	13%
YOY EBITDA Growth	%	-86%	-1099%	34%	48%	47%	33%	35%	31%
EBIT	\$m	-1.2	1.3	4.0	6.2	9.5	12.9	17.6	23.2
YoY EBIT Growth %	%	-82%	-208%	213%	57%	53%	36%	37%	32%
EBIT Margin %	%	-6%	3%	7%	8%	10%	11%	12%	12%
Net profit after tax	\$m	-0.9	1.3	3.9	5.4	6.9	9.4	12.8	16.9
NPAT Growth %	%	-313%	203%	200%	39%	27%	36%	37%	32%
NPAT Growth %	%	-313%	203%	200%	38%	16%	50%	37%	32%

Source: VMT, Euroz

- For FY20 we are forecasting YOY growth in sales; in line with unit sales growth to May 2020.
- FY21/FY22 we look for steady growth with increasing units to circa 34,000 by FY22.
- We are still significantly below plant capacity of circa 300,000 units.
- We look for improving GP margins with scale and continued improvement driven by the Vmoto Soco joint manufacturing agreement signed in FY20.
- We look for growth in marketing costs as VMT looks to expand its unit sales into FY21 and FY22.
- We see other expenses as relatively fixed.
- Draw down on \$7.1m of unused tax losses at 27.5% through to FY21.

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## Vmoto Limited

## (VMT \$0.44) Buy - Initiation of Coverage

## Other Matters

We provide a summary of the balance sheet as it stood at Year End 2019 (note VMT reports on a calendar year end).

CURRENT ASSETS		2019	2018
Cash and cash equivalents	A\$m	6.65	4.19
Trade and other receivables	A\$m	2.13	2.10
Inventory	A\$m	4.37	5.64
Prepayments	A\$m	4.03	1.75
<b>Total Current Assets</b>	<b>A\$m</b>	<b>17.18</b>	<b>13.68</b>
NON-CURRENT ASSETS			
PPE	A\$m	7.24	8.56
Right of Use	A\$m	0.59	-
Intangible Assets	A\$m	0.30	0.45
<b>Total Non-Current Assets</b>	<b>A\$m</b>	<b>8.13</b>	<b>9.00</b>
<b>Total Assets</b>	<b>A\$m</b>	<b>25.31</b>	<b>22.68</b>
CURRENT LIABILITIES			
Trade and other payables	A\$m	5.63	6.15
Loans and Borrowings	A\$m	2.05	1.24
Lease Liabilities	A\$m	0.10	-
<b>Total Current Liabilities</b>	<b>A\$m</b>	<b>7.77</b>	<b>7.39</b>
NON-CURRENT LIABILITIES			
Lease liabilities	A\$m	0.51	0.00
<b>Total Non-Current Liabilities</b>	<b>A\$m</b>	<b>0.51</b>	<b>0.00</b>
<b>Total Liabilities</b>	<b>A\$m</b>	<b>8.28</b>	<b>7.39</b>
<b>Net Assets</b>	<b>A\$m</b>	<b>17.03</b>	<b>15.30</b>

As at December 2019:

- VMT net Cash \$4.6m.
- Drawn down \$2.05m on bank operating facilities; with an additional \$3.06m in credit available.
- No debt covenant associated with the bank facilities.
- Inventories included
  - \$1.7m in raw Materials
  - \$2.2m in finished goods
- Prepayments consisted of payments made in advance to suppliers for inventory.
- Land and buildings are held at cost
  - We note VMT's Nanjing Land and Stage 1 and Stage 2 buildings were independently valued at \$12.7m.

In May 2020, VMT raised \$3.95m in a heavily oversubscribed share purchase plan. For the purpose of:

- Working Capital
- Expansion of VMT's B2C international dealers' network and operations.
- Expansion of VMT's B2B operations
- Increasing marketing activities

As discussed above VMT has established a joint manufacturing company with Super Soco. VMT will contribute \$6.4m in Cash and/or assets by the end of June 2020 to provide the initial working capital for Vmoto Soco. VMT stated that they expect to provide the majority of its contribution in cash.

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## Vmoto Limited

### (VMT \$0.44) Buy - Initiation of Coverage

#### Risks

Our investment thesis is primarily built around growing sales and improving margins with scale. If VMT's growth in sales can be maintained at reasonable margins the investment case is clear.

To this end we see the risks as follows:

**Competition** - VMT faces competition on two fronts, from incumbent manufactures and the new (predominately Chinese) start-up companies.

**Consumer Preferences** - Consumers are not willing to adopt the electric alternative; particularly the electric motorcycle segment.

**Regulation Changes** - that inhibit the growth of scooter ride sharing operations; or regulations that will limit the sale of petrol vehicles in Europe are pushed back.

**Super Soco Agreement** - benefits envisioned from the Super Soco manufacturing JV fail to materialise or the planned acquisition of Super Soco does not eventuate.

**Incentives** - Incentives currently offered to consumers in Europe are withdrawn before EV's reach wide scale acceptance.

**Key Person Risk** - Management have a number of established relationships and a unique understanding of the market with considerable experience.

In our minds VMT has the experienced management and mature product offering to navigate these risks.

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## Vmoto Limited

### (VMT \$0.44) Buy - Initiation of Coverage

#### Board of Management

We provide a summary of the board of Management and KMPs.

##### **Philip Campbell - Non-Executive Chairman**

*(Appointed 31 May 2017)*

Mr Campbell's career spans 35 years and includes national and international postings across a range of industries including resources, construction, manufacturing, food, and engineering services. Phillip is currently Chairman of ASX listed Fleetwood Corporation (ASX: FWD) and has previously been a director of mining services company Pearl-Street Limited; energy and technical services business, HRL Limited; agricultural company, Fodder King Limited; and Chairman of FMCG business, Farm Pride Foods Limited. He is currently also a director and advisor to a number of unlisted publics, private and not-for-profit organisations across Australia including Chairman of the leading manufacturer of modular accommodation for government and industry, Fleetwood Corporation Limited.

##### **Charles Chen - Managing Director**

*(Appointed 5 January 2007)*

Mr Chen founded Freedomotor Corporation Limited in 2004, through a management buyout of key assets, which were subsequently acquired by Vmoto. He holds a Bachelor of Automobile Engineering from Wuhan University of Automobile Technology (China) and a postgraduate Diploma of Business Administration from South Wales University (UK). From 1993 to 2002, Mr Chen held senior executive roles with Hainan Sundiro Motorcycle Co, Ltd, the largest publicly listed industrial company in Hainan Province. Hainan Sundiro was acquired by Honda Japan in 2001. Mr Chen is based in Nanjing, China, and oversees all of the Company's operations and activities.

##### **Ivan Teo - Finance Director**

*(Appointed 29 January 2013)*

Mr Teo was appointed as Finance Director of the Company on 29 January 2013. Prior to this appointment, Mr Teo was employed as the Company's Chief Financial Officer from 17 June 2009. Mr Teo is a qualified Chartered Accountant and has over 17 years' experience in accounting, audit, corporate finance and international business serving private and public companies in a diverse range of industries including automobile, manufacturing, mining and retail.

##### **Kaijian Chen - Non-Executive Director**

*(Appointed 1 September 2011)*

Mr Chen has extensive experience in the motorcycle manufacturing industry in China. He was formerly vice president of Hainan Sundiro Motorcycle Co, Ltd, which was the second largest motorcycle manufacturer in China at the time, and which was subsequently acquired by Honda in 2001. Mr Chen also served as vice president for Xinri E-Vehicle Co. Ltd, which is one of the largest electric two-wheel vehicle manufacturers in China at present and the first electric two-wheel vehicle enterprise in China that listed on securities exchange. Currently, Mr Chen is vice president of Changzhou Supaiqi E-Vehicle Co, Ltd, which is one of the most renowned electric vehicle manufacturers in China at present. Mr Chen holds a degree from the Beijing Institute of Technology and is based in Changzhou, China.

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## Vmoto Limited

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#### Shannon Coates - Independent Non-Executive Director

(Appointed 23 May 2014)

Ms Coates completed a Bachelor of Laws through Murdoch University and has since gained over 20 years' in-house experience in corporate law and compliance for public companies. She is a Chartered Secretary and an Associate Member of both the Institute of Chartered Secretaries & Administrators and Governance Institute Australia. She is also a graduate of the Australian Institute of Company Directors. Ms Coates is a director of Evolution Corporate Services Pty Ltd, a company providing corporate advisory services and is also company secretary to a number of listed companies.

#### Top 20 Shareholders

VMT is well supported by a number of long term shareholders. We note that the top shareholder is Managing Director Charles Chen.

Shareholders	Outstanding	% Held
1 Mr Yiting Chen	21,107,383	9.4%
2 Munro Family Super Fund	18,640,000	8.3%
3 Ms Xiaona Zhao	12,433,909	5.5%
4 Mr Erchuan Zhou	9,250,000	4.1%
5 Outright International Business Group Limited	8,300,000	3.7%
6 Mr Yi Chen	4,800,803	2.1%
7 Ms Malaky Kazem	4,396,713	2.0%
8 Mr Liang Chen	3,917,787	1.7%
9 Mr Tu She	3,664,872	1.6%
10 Citicorp Nominees Pty Limited	3,281,731	1.5%
11 Gore Family	3,245,000	1.4%
12 Mr Tao Yu	2,798,185	1.2%
13 Mr Kaijian Chen	2,670,115	1.2%
14 Edlins Prosperity Plus Pty Ltd	2,500,000	1.1%
15 Mr Thomas Joseph Falvey	2,437,540	1.1%
16 Borrmann Holdings Pty Ltd	2,400,000	1.1%
17 Silverlight Holdings Pty Ltd	1,900,000	0.9%
18 J P Morgan Nominees Australia Pty Limited	1,881,648	0.8%
19 UBS Nominees Pty Ltd	1,872,715	0.8%
20 Lei Liu	1,782,531	0.8%
<b>Total</b>	<b>113,280,932</b>	<b>50.4%</b>

Source: Vmoto Limited

#### Summary

The VMT investment case is built on growing unit sales and increasing returns to scale at the Nanjing Facility. VMT had strong start to the 2020 FY and in our view will be able to continue this growth off a low base into FY21.

VMT is positioned to benefit from European incentives; changing consumer preferences; maturing battery technology and a growing ride share market. While an expansion of agreements with Ducati will provide the VMT with significant boost in brand recognition and further product validation.

The establishment of the Vmoto Soco manufacturing company continues to set the pathway for further collaboration between the two entities over time.

The electric two-wheel market is set for growth over the coming years and, in our opinion, VMT is well placed to benefit.

We initiate with a Buy recommendation and our Price target \$0.70/sh

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## Vmoto Limited

## (VMT \$0.44) Buy - Initiation of Coverage

## Appendix 1

Company timeline since 2015	
<b>2015</b>	
12 Jun	Raised \$8.9 million through a placement to institutional investors. To support the balance sheet and allow VMT to pursue attractive strategic initiatives to underpin future growth.
23 Sep	The company exits the Nanjing Haiyang Electric Vehicle joint venture via the sale of assets. VMT exit the JV to pursue higher returning opportunities.
23 Dec	Enters into JV with VMT's longstanding OEM customer PowerEagle.
<b>2016</b>	
24 Nov	Missed earnings guidance on the back of lower than anticipated international sales and disappointing low margins on PowerEagle JV in the Chinese markets.
<b>2017</b>	
27 Nov	Strategic decision to exit the Shanghai Jiye (PowerEagle) business via the sale of the 51% interest to JV partners, with Vmoto retaining the marketing rights.  While the number of units sold to Chinese distributors were significantly higher than the international units, margins on these EV's are low in the comparison to higher margins from units produced and sold into international markets. Vmoto has no ongoing financial obligations to Shanghai Jiye.  VMT signs an agreement with emerging industrial design and innovative technology EV company Super Soco. The deal sees Super Soco relocate to Vmoto's Nanjing factory; and the agreement helps both companies capture economies of scale.  As part of the agreement Vmoto provides international sales and marketing of Super Soco products.
<b>2018</b>	
2 Feb	Equity capital raising of up to \$2 million (before costs), to be used to facilitate the expansion of the Company's European distribution network and European warehouse to accelerate sales into European markets, and to expand its international B2B leasing business
<b>2019</b>	
1 May	Vmoto announces the launch of the CUX Special Ducati edition; sales 80% higher than minimum requirement under the deal.
11 Nov	VMT launches new Emax VS1 and Super Soco CPx Models to the International markets.
<b>2020</b>	
13 Feb	VMT provides an update on the impact Covid-19 noting that Nanjing Facility was not materially impacted by lockdowns.
24 Feb	VMT announces the establishment of the Vmoto Soco manufacturing company; strengthening the existing relationship with Super Soco.
15 May	Completes heavily oversubscribed SPP; raising \$3.95m.
29 June	Provides an update to the market; with sales up 42% on PCP; factory remained fully operational during Covid-19.

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## Vmoto Limited

## (VMT \$0.44) Buy - Initiation of Coverage

## Appendix 2

Current ride sharing partners	
Go Sharing, Netherlands.	<p>GoSharing Netherlands was founded by Greemo Rent BV and has been VMT's exclusive B2B partner in the Netherlands for 5 years.</p> <p>GoSharing has the second largest number of users in the Netherlands.</p> <p>In January 2020 Go Sharing Netherlands raised €10,000,000 to expand to over 20 Cities in the Netherlands with ambitions to expand to the rest of Europe.</p>
Re.Volt, Czech Republic	<p>Re.Volt is a Czech ride sharing provider with operations in Prague and. Per Re.Volt's January update the company plans to deploy 150 Super Soco electric motor bikes and additional Vmoto 450 electric scooters in 2020.</p>
LoopShare Canada	<p>Loop (Formerly Saturna Green Systems) is a North American company focused on developing state of the art wireless shared transportation and communication systems for electric two- and three-wheel vehicles.</p> <p>In Q1 2020 VMT delivered the initial 329 units of its ride sharing product to Loop. The company intends to provide ride sharing to various cities in British Columbia and internationally.</p>
Antik Motosharing, Slovakia	<p>In Q1 VMT delivered an additional 90 units of its ride-sharing products Antik Motosharing for use in Slovakia. Antik Motosharing was founded by Antik Telecom, which is the largest regional telco operator based in Slovakia. Antik has plans to grow the scooter sharing network with investment in a citywide charging network beginning in 2019.</p>
Zig Zag, Italy	<p>Vmoto delivered 300 units of its ride-share electric scooters to Zig Zag Italy for its expanding operations in Italy. Zig Zag is currently available in Rome and Milan.</p>
Gokube, Taiwan	<p>Vmoto has delivered 600 units to the Gokube Taiwan to support its expanding operations. GoKube was launched in March 2019 and as at September 2019 has grown to 20,000 Members. GoKube is looking to extend its bike coverage across Taiwan.</p>

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## Vmoto Limited

## (VMT \$0.44) Buy - Initiation of Coverage

## Appendix 3

VMOTO Country Distribution Networks	
Country	Location
Albania	Europe
Argentina	Europe
Armenia	Europe
Australia	International
Austria	Europe
Belgium	Europe
Bosnia	Europe
Brazil	International
Canada	International
Chile	International
China	China
Columbia	International
Croatia	Europe
Czech Republic	Europe
Dominican Republic	Europe
Ecuador	International
Estonia	Europe
Finland	Europe
France	Europe
Germany	Europe
Greece	Europe
Hungary	Europe
India	International
Indonesia	International
Italy	International
Japan	International
South Korea	International
Kosovo	Europe
Latvia	Europe
Lithuania	Europe
Luxembourg	Europe
Macedonia	Europe
Malta	International
Mauritius	International
Mexico	International
Mongolia	International
Montenegro	International
Nepal	International
Netherlands	Europe
New Zealand	International
Norway	Europe
Paraguay	Europe
Pakistan	International
Peru	International
Philippines	International
Portugal	Europe
Romania	Europe
Serbia	Europe
South Africa	International
Sweden	Europe
Taiwan	Europe
Turkey	International
Thailand	International
United Kingdom	Europe
United States	International
Vietnam	International
Uruguay	Europe

*\*Source Company Presentations / Announcements / Google*

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