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Zacks Small-Cap Research

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Kandi Technologies, Inc. (KNDI-NASDAQ)

KNDI: Stronger Balance Sheet, Battery & Ride-Share Partnerships Support Optimistic Long-Term Outlook

Kandi is strengthening its balance sheet and its position in several areas of the EV space, including EV production, battery innovation and exchange to facilitate long-distance trips and ride-sharing programs leveraging its EVs and battery swap technology. KNDI has formed several agreements to advance its growth in these spaces.

Current Price (11/9/20)	$7.78
Valuation	**$12.00**

OUTLOOK

With pro forma cash & equivalents of about $84M, KNDI is well-capitalized to support its growth plans. Kandi America held a virtual launch event to introduce new EV models in August. Last month, Kandi established a subsidiary focused on China's ride-sharing service leveraging KNDI's battery swapping technology and EVs. KNDI also formed a strategic agreement with China's largest state-owned public service entity to cooperate on the development of batteries for EVs and is preparing for a planned IPO of its battery subsidiary.

SUMMARY DATA

52-Week High	**$10.19**
52-Week Low	**$2.17**
One-Year Return (%)	**61.08**
Beta	**2.09**
Average Daily Volume (sh)	**3,931,569**
Shares Outstanding (mil)	**55**
Market Capitalization ($mil)	**$428**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**3**
Insider Ownership (%)	**29**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2018 Estimate	**N/A**
P/E using 2019 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High**
Type of Stock	**Small-cap**
Industry	**Automotive**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2019	$18.1	$24.1	$31.7	$61.8	$135.7
2020	$6.4A	$19.4A	$18.7A	$33.1E	$77.6E
2021					$137.1E

Per Share Earnings

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2019	($0.09)	($0.14)	$0.23	($0.14)	($0.14)
2020	($0.03)	$0.08A	($0.03)A	($0.08)E	($0.06)E
2021					($0.15)E

Quarters might not sum to annual reflecting rounding.

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KEY POINTS

- Kandi Technologies is strengthening its position in several areas of the green automotive space, including production of electric vehicles (EVs), battery innovation, battery exchange to facilitate long-distance driving and ride-sharing programs leveraging its EVs. The company has formed several recent partnerships and agreements to advance its goal to remain a key player in these spaces.

- KNDI has entered into an agreement with institutional investors for a registered direct equity placement of $60 million. With cash and equivalents of about $24 million at the end of 3Q20, up from $5.5 million plus $11.0 million of restricted cash at year-end 2019, this implies pro forma cash of about $84 million for KNDI to use to advance its growth strategy. WIth warrants, the transaction also implies another roughly $31 million from potential exercise of warrants beginning in six months.

- Kandi America held a virtual launch event to introduce the K23 and K27 EV models to potential buyers in August. The K23 and K27 are among the most affordable EVs in the U.S., intended to retail for $22,499 and $12,499, respectively, after federal tax credits.

- Last month, Kandi established of a subsidiary focused on operating a ride-sharing service across China. Ride-share programs are a growing part of the overall global mobility space and important in China where regulators view ride-share as among the solutions to expand affordable *green* transportation options. With partners, the ridesharing service could ultimately utilize a fleet of 300,000 EVs, with an initial focus on pilot operating programs in China's Hainan and Zhejiang provinces that leverage KNDI's battery technology. If the pilots are successful, as KNDI management anticipates, similar ride-share programs are planned for other cities across China.

- The ride-share program also designed to leverage KNDI's battery swapping technology that enables drivers to swap a charge-depleted battery for a fresh one and eliminate downtime. Kandi has established a wholly owned subsidiary, China Battery Exchange Technology Company, to focus on R&D for battery technology innovation.

- Kandi also formed a strategic agreement with the Zhejiang State Grid Electric Vehicle Service Company, China's largest state-owned public service entity, to cooperate on the development of batteries for EVs to support expansion of the EV industry and the growth of exchangeable battery technology.

- KNDI is also working towards an IPO of its battery subsidiary, Zhejiang Kandi Smart Battery Swap Technology Co., on the Shanghai Stock Exchange's STAR market as a way of both raising capital to support growth initiatives and unleashing value for KNDI shareholders.

- In 3Q20, KNDI generated revenue of $18.7 million, which represents a 41% year-over-year decline compared to 3Q19 revenue of $31.7 million and largely reflects the economic impact of COVID-19. While the uncertain economic outlook could continue to constrain results, we anticipate improvements in 4Q20 and as we move into 2021 and beyond, particularly given how the company is positioning its U.S. subsidiary to benefit from sales of the newly introduced K23 and K27 EV models.

RECENT OPERATIONAL AND FINANCIAL HIGHLIGHTS

China's Kandi Technologies (NASDAQ: KNDI) is strengthening its position in several areas of the green automotive space, including production of electric vehicles (EVs), battery innovation, battery exchange to facilitate long-distance driving and ride-sharing programs leveraging its EVs. The company has formed several recent partnerships and agreements to advance its goal to remain a key player in these spaces. China and other governments continue to encourage consumer adoption of green automotive solutions to

reduce growing roadway congestion and pollution. At the same time, as the economics and logistics of EVs improve, consumer sales are growing. KNDI also intends to focus on the development of its ride-share program and battery swap service (see below).

KNDI distributes in the U.S. through its Dallas-based wholly-owned subsidiary, SC Autosports, which Kandi acquired in 2018. SC Autosports has a national sales presence in the U.S. and recently began accepting dealer applications to sell Kandi EVs in the U.S. KNDI is optimistic that its sales in the U.S. can grow over time. The U.S. federal government subsidy of up to $7,500 towards the purchase of an EV could have a positive impact on sales, we believe. In addition, the company has indicated that it is looking to open manufacturing in North America and is engaged in early discussions with potential manufacturing partners. North American manufacturing would help KNDI gain cost efficiencies for U.S. sales, in our opinion.

The recently introduced EV models, the K23 and K27, are among the most affordable in the U.S. Kandi is optimistic about its prospects. The K27 will retail for $12,499 after federal tax credits and features a driving range of up to 100 miles on a single charge. The Kandi K23 retails for $22,499 after federal tax credits and features a driving range that exceeds 180 miles. Other EVs retail at considerably higher prices. For instance, the Nissan Leaf retails for over $30,000 by comparison.

In the U.S. market, Kandi America held a virtual launch event to introduce the K23 and K27 EV models to potential buyers on August 18, 2020.

Ride-Share: An Important Growth Market; Pilot Programs Underway

Ride-share programs are a growing part of the overall global mobility space. Chinese regulators also look to ride-share as one solution to expand affordable transportation options. In fact, China is the world's largest ride share market.

Last month, Kandi established of a subsidiary focused on operating a ride-sharing service across China. The subsidiary will operate as *Zhejiang Ruiheng Technology Company*. *Ruiheng* represents a collaboration among Zhejiang Ruibo New Energy Vehicle Service Company (Ruibo), Jiangsu Jinpeng Group and Kandi, which respectively hold 80%, 10%, and 10% shares.

The collaboration has launched pilot programs that include KNDI's battery swap feature with the delivery of 1,000 EVs to the Hainan province and 2,500 EVs to the Zhejiang province. Ultimately, Ruiheng potentially could offer a ride-sharing service utilizing a fleet of 300,000 EVs, with an initial focus on the pilots that leverage KNDI's vehicle battery technology.

KNDI is focused on this high growth sector, with its ride-share program also designed to leverage its battery swapping technology that enables drivers to swap a charge-depleted battery for a fresh one and eliminate downtime. In the U.S., the absence of common standards across different automotive and EV battery manufacturers has been a challenge to battery swapping, but China's interest in promoting ride sharing and battery swapping technology implies government support and creation of uniform standards that are expected to facilitate the roll-out of battery swapping technology.

Battery Focus

Kandi has established a wholly owned subsidiary, China Battery Exchange Technology Company, to focus on and promote innovation and development in the battery exchange sector. The battery technology is proving to be a crucial component of the overall EV space, as it is critical in enabling long distance driving to match capabilities of traditional vehicles. Kandi also recently signed a cooperation agreement with financial, legal and accounting companies sectors, including CITIC Securities, to help it facilitate an IPO of its battery subsidiary, Zhejiang Kandi Smart Battery Swap Technology Co, Ltd on the Shanghai Stock Exchange's Sci-Tech Innovation Board (STAR) market. CITIC Securities intends to act as lead underwriter. The company anticipates that a planned listing on the STAR market will facilitate its

ability to raise capital in order to support the anticipated growth of the battery business and help provide shareholder value for the consolidated company.

Kandi also formed a strategic agreement with the Zhejiang State Grid Electric Vehicle Service Company to cooperate on the development of batteries for EVs. State Grid Corporation of China is the country's largest state-owned public service entity. Its mission is to facilitate national policy related to EV battery charging infrastructure to support expansion of the EV industry.

Kandi and Zhejiang State Grid Electric Vehicle Service Company will work together to promote and support the growth of the EV space. The agreement calls for both partners to cooperate across the entire EV supply chain, including:

- Centralized constant temperature battery charging
- Battery maintenance and recycling
- Construction and operation of power exchange networks
- Power exchange services to meet energy demand
- Grid auxiliary services
- Flexible control of power load exchange

Importantly, Kandi intends to provide 300,000 EVs to several ride-sharing programs under this partnership agreement, with the two partners planning to cooperate to offer battery exchange services for these cars over the next five years.

3Q20 Result Highlights

In 3Q20, KNDI generated revenue of $18.7 million, which represents a 41% year-over-year decline compared to 3Q19 revenue of $31.7 million and largely reflects the economic impact of COVID-19. Sales of EV parts fell 67.4% year-over-year to $8.4 million. This was partially offset by a 51.6% year-over-year increase in sales of off-road vehicles to $8.9 million.

Despite the lower revenue base, the company's gross margin widened to 20.9% compared to 16.7% recorded in 3Q19. Partially reflecting the costs of investing in its U.S. operations and the marketing to support the August virtual launch of the K23 and K27, operating expenses increased 27% compared to 3Q19. On the lower revenue and higher OpEx, the company reported an operating loss of ($2.4) million versus a $0.3 million operating profit registered in 3Q19.

While the uncertain economic outlook could continue to constrain results in 2020, we anticipate that results will improve somewhat in 4Q20 and as we move into 2021 and beyond, particularly given how the company is positioning its U.S. subsidiary to benefit from sales of the newly introduced K23 and K27 EV models.

Balance Sheet

KNDI had cash and equivalents of about $24 million at the end of 3Q20, up from $5.5 million plus $11.0 million of restricted cash at year-end 2019.

Moreover, KNDI also announced today that it has entered into an agreement with certain institutional investors for a registered direct equity placement of $60 million, for pro forma cash of about $84 million. Specifically, the company intends to issue 9.4 million shares at $6.38 per share, for gross proceeds of roughly $60 million. The agreement also calls for the issuance of warrants for these investors to purchase of up to 3.8 million shares at $8.18 per share, exercisable beginning in about six months. This implies another roughly $31 million from the potential exercise of warrants, depending on market conditions and KNDI share price.

VALUATION

We believe KNDI shares represent an option on management's ability to execute its strategy and benefit from the anticipated growth of these key mobility niches. At this early stage of the company's move into the battery swapping model, ride-share service and increased focus on U.S. EV sales, it is difficult to compare KNDI to traditional automobile or more established companies, in our view. Specifically, we would expect KNDI to have a higher growth rate as these programs and products gain traction, while still benefiting from its established legacy businesses.

Similar to others involved in the automotive industry, revenue has come under pressure to-date in 2020 due to the economic slowdown. We anticipate that sales could remain constrained in the 2H20, with growth resuming in 2021. Based on our 2021E revenue forecast of $137.1 million, KNDI shares command a roughly 2.5x. multiple of forward revenue. This compares to an average of nearly 8x for peers, which trade in a range of under 1x for established automotive manufacturers to over 10x for faster growing competitors in the EV space.

We believe the company's current price and multiple do not fully reflect the fundamental value of the company's products and prospects. As the company continues to advance its strategy, we would anticipate multiple expansion. Even at $12, the shares would only command a multiple slightly below 4.7x forward revenue. We also believe our 2021E revenue forecast does not fully reflect KNDI's medium-term potential, in our view, reflecting the economic uncertainty and that the company is only just ramping up its efforts in the U.S. market. Moreover, expected deliveries of K23 and K27 units beginning in 4Q20 could imply upside to our current forecast. We believe there could be upside to our forecast if the economy, and company's sales, rebound more quickly than we currently expect.

We also believe interest by established players demonstrates the expected opportunities in the market. GM recently took an 11% stake in Nikola Motors, valuing the largely pre-revenue Nikola at about $18 billion.

We believe the risk / reward ratio could be attractive for investors who want exposure to the sector and have a higher than average risk tolerance and longer time horizon. Moreover, there are only a few ways for investors to gain exposure to the green automotive space and we believe KNDI represents one of the few.

RECENT NEWS

- Kandi announced that it has entered into an agreement with qualified institutional investors for the registered direct placement of $60 million of stock.
- Kandi reported 3Q20 results on November 9, 2020.
- On November 2, 2020, Kandi announced that it had started the process of listing shares of its battery swap subsidiary on the Shanghai Stock Exchange's STAR board
- Kandi announced on October 30, 2020, that it had signed a cooperation agreement each with C
- Kandi established a ride-share company on October 26, 2020.
- Kandi Enters Strategic Cooperation Agreement with Zhejiang State Grid Electric Vehicle Service Company 09/24/2020

- On September 14, 2020, KNDI announced that it had established China Battery Exchange Technology Co., as a wholly-owned subsidiary.

- On August 20, 2020, Kandi announced that it was exploring opportunities to install a manufacturing facility in North America as the company expects significant growth from the U.S. market with the recent introduction of the K23 and K27.

- Kandi released 2Q20 results on August 10, 2020.

- Kandi delivered its battery exchange equipment to rideshare operators in China's Hainan Province on August 3, 2020.

- Kandi introduced one of the most affordable pure EVs in the U.S. on July 30, 2020.

- Kandi announced that its affiliate company, Fengsheng, had received approval for subsidies for its new Maple edition EV on July 22, 2020.

- Fengsheng released its new Maple 30X "City SUV" EV edition on July 13, 2020.

RISKS

We believe risks include those outlined below, among others.

- The biggest risk, in our view, is that the KNDI's EV sales, ride share and/or battery swap services achieve traction more slowly than expected, which leads to lower than anticipated revenue.

- The company might need to raise additional capital to finance its strategy.

- The economy might not rebound as quickly as we anticipate.

- The company's costs associated with marketing new products and services could exceed expectations.

PROJECTED INCOME STATEMENT

Kandi Technologies Income Statement & Projections ($M)

	2018	1Q19	2Q19	3Q19	4Q19	2019	1Q20	2Q20	3Q20A	4Q20E	2020E	2021E
Revenues - 3rd parties	$63.7	$16.3	$20.1	$27.0	$56.5	$119.9	$6.4	$19.4	$18.7	$31.1	$75.6	$121.1
Revenues - to affiliates	48.7	1.7	4.1	4.7	5.3	15.9	-	0.0	0.0	2.0	2.0	16.0
Total revenues	112.4	18.1	24.1	31.7	61.8	135.7	6.4	19.4	18.7	33.1	77.6	137.1
COGs	(92.2)	(14.9)	(19.9)	(26.4)	(49.0)	(110.3)	(5.2)	(15.9)	(14.8)	(27.1)	(63.0)	(112.4)
Gross profit	20.2	3.1	4.2	5.3	12.8	25.4	1.2	3.5	3.9	6.0	14.6	24.7
Gross margin	18.0%	17.4%	17.4%	16.7%	20.7%	18.7%	18.3%	18.2%	20.9%	18.0%	18.8%	18.0%
R&D	(10.1)	(0.5)	(0.6)	(0.6)	(4.4)	(6.2)	(0.6)	(1.1)	(1.0)	(1.4)	(4.2)	(4.7)
Selling and marketing	(3.2)	(0.6)	(0.9)	(0.9)	(1.6)	(4.1)	(0.9)	(0.8)	(2.2)	(0.9)	(4.7)	(3.6)
General and administrative	(8.6)	(2.0)	(5.6)	(3.4)	(3.1)	(14.2)	(3.1)	(3.9)	(3.2)	(4.7)	(14.9)	(17.0)
Gain on asset disposal	-	-	-	-	-	-	-	13.9	0.1	-	14.0	-
Total Operating Expenses	(21.9)	(3.2)	(7.2)	(5.0)	(9.2)	(24.5)	(4.6)	8.1	(6.3)	(7.0)	(9.8)	(25.3)
Operating income / (loss)	(1.6)	(0.1)	(3.0)	0.3	3.6	0.9	(3.4)	11.6	(2.4)	(1.1)	4.8	(0.6)
Interest income	1.3	0.3	0.1	0.2	0.2	0.8	0.3	0.2	0.6	0.3	1.4	1.1
Interest expense	(1.9)	(0.4)	(0.4)	(0.4)	(3.5)	(4.8)	(1.0)	(1.1)	(0.8)	(1.4)	(4.3)	(5.0)
Chg - fair value	3.4	0.1	0.5	0.1	(1.8)	(1.1)	3.8	(0.9)	(1.1)	(1.1)	0.7	0.8
Government grants	17.8	0.0	0.2	0.5	0.1	0.8	0.0	0.1	0.0	0.1	0.2	0.3
Affiliate dilution	-	4.4	(0.0)	(0.0)	(0.0)	4.3	-	-	-	-	-	-
Gain - equity sale in affiliate	-	-	-	20.6	(0.1)	20.4	-	-	-	-	-	-
Equity pickup	(17.9)	(9.9)	(4.5)	(8.4)	(7.8)	(30.7)	(1.1)	(3.0)	(1.6)	(3.6)	(9.2)	(11.6)
Other	1.0	0.5	(0.2)	0.1	1.2	1.6	0.0	1.0	1.0	1.3	3.3	3.7
Total other	3.7	(5.2)	(4.3)	12.5	(11.8)	(8.8)	2.1	(3.7)	(1.8)	(4.5)	(7.9)	(10.7)
Pretax income / (loss)	2.1	(5.2)	(7.3)	12.8	(8.2)	(7.9)	(1.3)	7.9	(4.2)	(5.5)	(3.1)	(11.3)
Taxes	(7.8)	0.8	(0.1)	(0.7)	0.7	0.7	(0.2)	(3.9)	2.8	0.6	(0.8)	(1.1)
Net income / (loss)	(5.7)	(4.4)	(7.3)	12.1	(7.6)	(7.2)	(1.6)	4.1	(1.5)	(5.0)	(3.9)	(10.2)
Foreign currency translation	(13.6)	5.4	(4.9)	(8.5)	5.2	(2.8)	(3.5)	0.5	8.2	0.5	5.7	0.5
Comprehensive income/(loss)	(19.3)	1.0	(12.2)	3.6	(2.3)	(10.0)	(5.1)	4.5	6.8	(4.5)	1.7	(9.7)
Per share data												
Loss per share (FD)	($0.11)	($0.09)	($0.14)	$0.23	($0.14)	($0.14)	($0.03)	$0.08	($0.03)	($0.08)	($0.06)	($0.15)
Avg shares out (FD)	51.2	51.6	52.8	52.6	52.4	52.3	52.4	53.4	54.1	58.8	54.7	68.2

Source: Company reports, Zacks estimates

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