

# Zacks Small-Cap Research

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## Kandi Technologies, Inc. (KNDI-NASDAQ)

### KNDI: 2020 - Positive Takeaways Despite COVID-19 Related Revenue Pressure

Positive initiatives regarding EVs include the potential extension of tax subsidiaries & government fleets going green. Economics and logistics of EVs are also improving, which we believe increases their consumer appeal. KNDI is one of the few EV manufacturers producing economical cars capable of obtaining relatively long ranges on a single battery charge.

### OUTLOOK

To further its growth initiatives, KNDI has strengthened its cash position with recent capital raises. KNDI had cash and equivalents of about \$142.5 million at the end of 2020, including cash from a real estate repurchase agreement and a 4Q20 equity offering. KNDI believes it has sufficient capital to support R&D to develop EVs and other vehicles, battery swapping technology, and the ride-sharing program.

Current Price (4/7/21) \$6.22  
Valuation \$12.00

### SUMMARY DATA

52-Week High \$17.45  
52-Week Low \$2.63  
One-Year Return (%) 129.52  
Beta 2.18  
Average Daily Volume (sh) 4,878,901

Shares Outstanding (mil) 75  
Market Capitalization (\$mil) \$474  
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 2021 Estimate N/A  
P/E using 2022 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	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2019	\$18.1	\$24.1	\$31.7	\$61.8	\$135.7
2020	\$6.4A	\$19.4A	\$18.7A	\$32.4A	\$76.9A
2021					\$137.1E

#### Per Share Earnings

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2019	-\$0.09	-\$0.14	\$0.23	-\$0.14	-\$0.14A
2020	-\$0.03A	\$0.08A	-\$0.03A	-\$0.18A	-\$0.19A
2021	-\$0.02E	-\$0.04E	-\$0.03E	-\$0.09E	-\$0.18E

Quarters might not sum to annual reflecting rounding.

Disclosures begin on page 9.

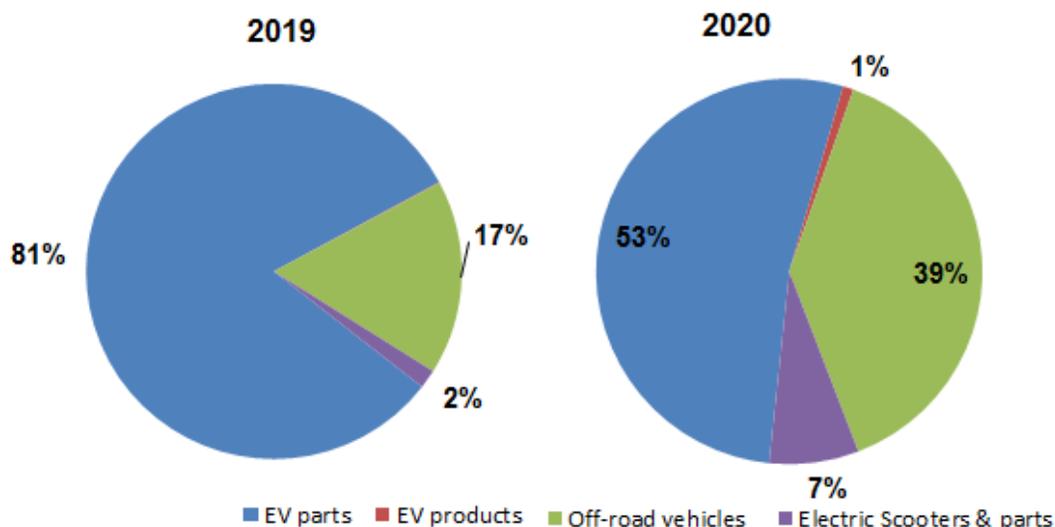
## KEY POINTS

- Last week, KNDI reported 2020 results, with revenue coming in at \$76.9 million compared to \$135.7 million in 2019. As we have indicated in previous notes, revenue pressure largely reflects the economic impact of COVID-19.
- KNDI had cash and equivalents of about \$142.5 million at the end of 2020, including cash from a real estate repurchase agreement and a 4Q20 equity offering. KNDI believes it has sufficient capital to support R&D to develop EVs and other vehicles, battery swapping technology, and the ride-sharing program.
- The battery exchange and ride-sharing programs leveraging its EVs are important components of the company's growth strategy. KNDI has formed several partnerships and agreements to advance its growth objectives in these spaces, as China and other governments encourage consumer adoption of green automotive solutions to reduce growing roadway congestion and pollution.
- The new U.S. administration has also indicated several positive initiatives to spur EV adoption, including extending tax subsidies and adding only green vehicles to government fleets. Simultaneously, the economics and logistics of EVs are also improving, which we believe increases the consumer appeal of EVs.

## RECENT OPERATIONAL AND FINANCIAL HIGHLIGHTS

Last week, Kandi Technologies (NASDAQ: KNDI) reported 2020 results, with revenue coming in at \$76.9 million compared to \$135.7 million in 2019. As we have indicated in previous notes, revenue pressure largely reflects the economic impact of COVID-19, which contributed to a 63% year-over-year decline in sales of electric vehicles (EV) parts, the company's single largest product category, to \$40.6 million. This was partially offset by 31% and 161% year-over-year increases in sales of off-road vehicles and electric scooters / related parts to \$29.8 million and \$5.8 million, respectively.

Revenue Breakdown, 2019-20



Source: Company reports

Revenue from sales of electric scooters and related parts represented 7% of total revenue, up from only 2% in 2019. Although we would expect the percentage contribution to decline as sales of EV parts rebound, we believe the category represents a source of revenue growth for KNDI.

On the lower total revenue base, the company's gross margin narrowed slightly to 17.5% compared to 18.7% recorded in 2019. Operating expense came in at \$12.7 million compared with \$24.5 million in 2019. While general and administrative expenses were lower, primarily reflecting cost-cutting and control initiatives, the metric also reflected a \$14.2 million gain on disposal of long-lived assets related to the company's real estate repurchase agreement to transfer land use rights were to the government. The company's operating income was relatively flat year-over-year, at \$0.8 million versus \$0.9 million in 3Q19.

The company anticipates that results will improve somewhat in as we move ahead in 2021 and beyond, depending on the economic backdrop and the pandemic, and has positioned itself to benefit from sales of the newly introduced K23 and K27 EV models via its U.S. subsidiary. We have revised our 2021 forecast somewhat as a result of the 2020 results.

## 2020 Business and Operational Highlights

During 2020, KNDI:

- Initiated a real estate repurchase agreement whereby the local government agreed to pay roughly RMB525 million (US\$80 million). KNDI received the first two of three tranches and expects to receive final payment of RMB 162 million (US\$25 million) once the land has been cleared of buildings.
- Entered into a program for 300,000 government-accredited ride-sharing vehicles within five years, with plans to deliver over 3,000 governments compliant EVs in 2021 that will include KNDI's battery swapping technology. KNDI also formed an agreement with the Zhejiang State Grid Electric Vehicle Service Company to include its battery exchange.
- Held a virtual launch event to introduce the K23 and K27 EV models to potential buyers on August 18, 2020 after obtaining clearance from the EPA for both models.
- Exited the Fengsheng affiliation, thereby eliminating the non-compete restrictions so that KNDI could pursue the China EV market more aggressively.

## Balance Sheet

KNDI had cash and equivalents of about \$142.5 million at the end of 2020, including cash from the above-noted real estate repurchase agreement and a 4Q20 equity offering. KNDI believes it has sufficient capital to support R&D to develop sports cars, battery swapping technology, and the ride-sharing program.

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## RIDE SHARE OPPORTUNITY

### *Important Growth Market; Pilot Programs Underway With Potential for Strong Growth Over Time*

The battery exchange and ride-sharing programs leveraging its EVs are important components of the company's growth strategy. KNDI has formed several partnerships and agreements to advance its growth objectives in these spaces, as China and other governments encourage consumer adoption of green automotive solutions to reduce growing roadway congestion and pollution. Simultaneously, the economics and logistics of EVs are also improving, which increases the consumer appeal of EVs.

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, but KNDI management believes the ride-share market remains under-penetrated

Kandi recently established of a subsidiary focused on operating a ride-sharing service across China. The subsidiary will operate as Zhejiang Ruiheng Technology Company. Ruibo New Energy Vehicle Service Company, Jiangsu Jinpeng Group and Kandi respectively hold 80%, 10%, and 10% stakes in Ruiheng, which has launched pilot programs that include KNDI's battery swap feature. 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.

The group also established an agreement with the Agricultural Bank of China Hangzhou Branch that will provide access to an RMB 500 million (about US\$76.5 million) line of credit to support the first phase of the 300k EV program.

### **Battery Swapping Technology Extends Ride Range**

KNDI's ride-share program in China is 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.

The program is expected to incorporate KNDI's battery swap model, which enables drivers to swap batteries during their travel and thereby avoid the need to wait as the battery recharges and thus extend the driving range.

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## **U.S. ADMINISTRATION: POSITIVE INDUSTRY BACKDROP**

We also believe that KNDI is positioned to benefit from the new U.S. administration's goal to increase the government's fleet of green energy vehicles, we believe. 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 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.

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 fact, the new administration hopes to extend these incentives to stimulate EV adoption. The administration has also indicated that it intends to replace traditional internal combustion engine vehicles in the government's automotive fleet with electric vehicles (EVs), which we believe has positive implications for KNDI's North American prospects. The government plan envisions purchasing EVs that are produced locally; KNDI has a long-term strategy to obtain manufacturing capacity in North America. Moreover, KNDI is one of the few EV manufacturers that produce economical cars that are capable of obtaining a relatively long driving range on a single battery charge.

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## 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 came under pressure in the first three quarters of 2020 due to the economic slowdown fueled by the pandemic. We anticipate that growth could resume in the back half of 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.

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.

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## RECENT NEWS

- KNDI reported 2020 results on March 30, 2021.
- The company announced that it exited its position in the Fengsheng Automotive Technologies venture on March 15, 2021.
- KNDI announced a new contract to sell 3,000 EVs to a rideshare affiliate on January 28, 2021.
- Kandi announced the closing of a \$100 million registered direct offering on November 24, 2020.
- Kandi announced that it has entered into an agreement with qualified institutional investors for the registered direct placement of \$60 million of stock on November 12, 2020.
- 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
- On August 20, 2020, Kandi announced that it was exploring opportunities to install a manufacturing facility in North America.
- Kandi introduced one of the most affordable pure EVs in the U.S. on July 30, 2020.

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## **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.

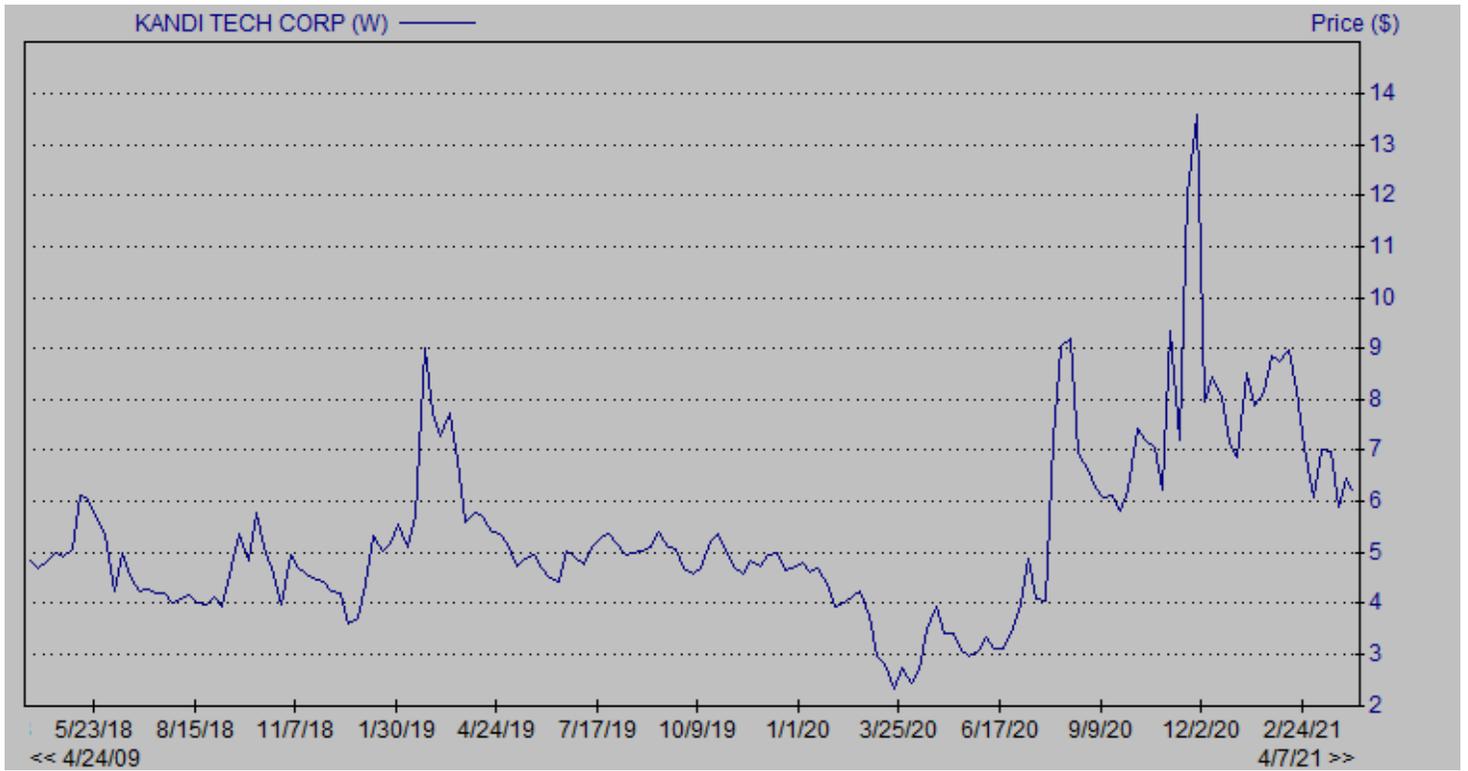
## PROJECTED INCOME STATEMENT

### Kandi Technologies Income Statement & Projections (\$M)

	2018	2019	1Q20	2Q20	3Q20A	4Q20A	2020A	1Q21E	2Q21E	3Q21E	4Q21E	2021E
Total revenues	112.4	135.7	6.4	19.4	18.7	32.4	76.9	28.0	27.2	38.8	43.0	137.1
COGs	(92.2)	(110.3)	(5.2)	(15.9)	(14.8)	(27.5)	(63.4)	(23.0)	(22.3)	(31.8)	(35.3)	(112.4)
Gross profit	20.2	25.4	1.2	3.5	3.9	4.9	13.5	5.0	4.9	7.0	7.7	24.7
Gross margin	18.0%	18.7%	18.3%	18.2%	20.9%	15.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
R&D	(10.1)	(6.2)	(0.6)	(1.1)	(1.0)	(4.5)	(7.2)	(1.0)	(1.0)	(1.1)	(1.7)	(4.7)
Selling and marketing	(3.2)	(4.1)	(0.9)	(0.8)	(2.2)	(2.8)	(6.6)	(1.8)	(1.8)	(1.8)	(1.6)	(7.0)
General and administrative	(8.6)	(14.2)	(3.1)	(3.9)	(3.2)	(2.9)	(13.0)	(2.6)	(3.3)	(3.7)	(7.4)	(17.0)
Gain on asset disposal	-	-	-	13.9	0.1	0.2	14.2	-	-	-	-	-
Total Operating Expenses	(21.9)	(24.5)	(4.6)	8.1	(6.3)	(9.9)	(12.7)	(5.4)	(6.1)	(6.5)	(10.6)	(28.7)
Operating income / (loss)	(1.6)	0.9	(3.4)	11.6	(2.4)	(5.1)	0.7	(0.4)	(1.2)	0.5	(2.9)	(4.0)
Interest income	1.3	0.8	0.3	0.2	0.6	1.1	2.2	0.3	0.2	0.2	0.5	1.1
Interest expense	(1.9)	(4.8)	(1.0)	(1.1)	(0.8)	(0.9)	(3.8)	(0.8)	(1.0)	(1.1)	(2.1)	(5.0)
Total other	3.7	(8.8)	2.1	(3.7)	(1.8)	(12.7)	(16.2)	(2.0)	(3.1)	(3.4)	(2.1)	(10.7)
Pretax income / (loss)	2.1	(7.9)	(1.3)	7.9	(4.2)	(17.8)	(15.5)	(2.4)	(4.3)	(3.0)	(5.0)	(14.7)
Taxes	(7.8)	0.7	(0.2)	(3.9)	2.8	6.4	5.0	0.7	1.3	0.9	(4.0)	(1.1)
Net income / (loss)	(5.7)	(7.2)	(1.6)	4.1	(1.5)	(11.4)	(10.4)	(1.7)	(3.0)	(2.1)	(6.8)	(13.6)
Foreign currency translation	(13.6)	(2.8)	(3.5)	0.5	8.2	8.8	13.9	(0.5)	0.4	0.4	0.2	0.5
Comprehensive income/(loss)	(19.3)	(10.0)	(5.1)	4.5	6.8	(2.6)	3.6	(2.0)	(3.0)	(3.0)	3.0	(5.0)
<i>Per share data</i>												
Loss per share (FD)	(\$0.11)	(\$0.14)	(\$0.03)	\$0.08	(\$0.03)	(\$0.18)	(\$0.19)	(\$0.02)	(\$0.04)	(\$0.03)	(\$0.09)	(\$0.18)
Avg shares out (FD)	51.2	52.3	52.4	53.4	54.1	64.0	56.0	75.4	75.5	75.6	75.7	75.6

Source: Company reports, Zacks estimates

# HISTORICAL STOCK PRICE



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