September 30, 2024

Zacks Small-Cap Research

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Lobo EV Technologies Ltd (LOBO-NASDAQ)

1H24 Earnings: EPS Miss on Higher Expenses; Setting the Table for Accelerating Growth

LOBO EV reported a net loss of $0.3 million for 1H24, or $(0.04) per share, well below our net income forecast of $0.7 million, or EPS of $0.10. The miss primarily reflected higher expenses and less favorable non-operating income. Lowering our 2024 and 2025 EPS estimates from $0.17/$0.26 to $0.03/$0.20. Our target moves down $1 to $4.00.

Current Price (9/30/24)	$1.89
Valuation	**$4.00**

OUTLOOK

Key 1H24 takeaways include: 1) beyond rising demand for EVs more broadly, lead indicators for sustainable revenue growth remain favorable around the company's broader distribution footprint and ongoing product development; 2) recent factory upgrades enable more efficient operations as well as more diverse assembly capabilities, while expanded manufacturing capacity translates into stepped up production volumes; and 3) despite meaningfully higher-than-expected operating expenses in 1H24, we forecast a return to profitability in 2H24 and rising operating margins driven by accelerating production volumes, a more potent sales mix, continued supply chain optimization, and an ongoing focus on expenses.

From a stock perspective, despite the 1H24 EPS miss, we continue to view LOBO's current price as an attractive entry point for the stock. Catalysts include rising awareness and appreciation of the company's growth prospects, competitive positioning, and valuation disconnect.

SUMMARY DATA

52-Week High	**$4.70**
52-Week Low	**$1.35**
One-Year Return (%)	**-53%**
Beta	**N/A**
Average Daily Volume (sh)	**12,730**
Shares Outstanding (mil)	**8**
Market Capitalization ($mil)	**$15**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**61**
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	**NM**
P/E using 2024 Estimate	**63.0**
P/E using 2025 Estimate	**9.5**

Risk Level	**Above Average**
Type of Stock	**Small Growth**
Industry	**Automotive**

ZACKS ESTIMATES

Revenue
(in thousands of $)

	Q1 (Mar)	H1 (Jun)	Q3 (Sep)	H2 (Dec)	Year (Dec)
2022		5,489 A		12,809 A	18,299 A
2023		8,138 A		7,337 A	15,475 A
2024		12,133 A		13,988 E	26,120 E
2025					36,838 E

Earnings/Share

	Q1 (Mar)	H1 (Jun)	Q3 (Sep)	H2 (Dec)	Year (Dec)
2022		$0.02 A		$0.15 A	$0.17 A
2023		$0.11 A		$0.05 A	$0.15 A
2024		-$0.04 A		$0.07 E	$0.03 E
2025					$0.20 E

Semi-annual revenues/EPS may not equal annual revenues/EPS due to FX rates/rounding.

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1H24 EARNINGS: ACCELERATING SALES/REVENUES, BUT EPS MISS ON HIGHER EXPENSES

Pre-market open on 9/30/24, LOBO EV reported 1H24 earnings results. For the first six months of 2024, LOBO reported a net loss of $0.3 million, or $(0.04) per share, or well below our $0.10 EPS estimate. Relative to our model, while revenues came in meaningfully ahead of expectations, the EPS miss was mostly a function of higher expenses, particularly General & Administrative, as well as less favorable other income (Exhibit 1).

Focusing on the top line, total revenues grew 49% year-over-year from $8.1 million in 1H23 to $12.1 million in 1H24, and came in well above our $8.1 million estimate. Much of the upside reflecting accelerating EV sales, with the company selling 56,000 units in the first half of 2024, up 45% from 38,600 units sold in 1H23, reflecting rising demand for LOBO's EVs and broader distribution. By product, much of the growth can be linked to accelerating sales of three-wheeled EVs (at higher average prices). LOBO EV's gross margin came in at 11.2% for 1H24, down 330 basis points year-over-year skewed by higher costs of goods sold and overhead expenses.

Total expenses of $1.5 million in 1H24 were up 97% from the year-ago period, and were meaningfully above our $0.7 million forecast. Operating expenses were higher than anticipated across the board, with most of the variance centered in General & Administrative costs. Much of the step up in expenses can be tied to IPO/public-company costs and growth initiatives, particularly as it relates to market expansion.

Putting it all together, LOBO reported a net loss of $0.3 million for 1H24 compared to net income of $0.7 million for the first half of 2023. Much of the year-over-year decline can be attributed to a sharp step up in expenses combined with less favorable non-operating income. For the first six months of 2024, the company generated a net loss of $0.04 per share versus EPS of $0.11 for 1H23.

Exhibit 1: 1H24 Actual vs. Estimates
($ thousands)

	1H24		Change	
	Actual	**Estimate**	**$**	**%**
Revenues	12,132.7	8,117.5	4,015.2	49.5%
Cost of Revenues	10,768.7	6,881.4	3,887.3	56.5%
Gross Profit	**1,364.0**	**1,236.0**	**127.9**	**10.4%**
Operating Expenses				
Selling and Marketing	329.5	304.8	24.7	8.1%
General and Administrative	878.5	267.9	610.7	228.0%
Research and Development	245.6	144.0	101.6	70.5%
Total Operating Expenses	**1,453.7**	**716.7**	**736.9**	**102.8%**
Operating Income/(Loss)	**(89.7)**	**519.3**	**(609.0)**	**-117.3%**
Other Expenses/(Income)				
Interest Expense	(20)	6	(25.9)	-437.5%
Other (Income)	(46)	(395)	349.2	-88.5%
Total Other Expenses/(Income), Net	**(65.5)**	**(388.8)**	**323.3**	**-83.2%**
Pre-Tax Income/(Loss)	**(24.2)**	**908.1**	**(932.3)**	**-102.7%**
Income tax	289.0	227.0	62.0	27.3%
Net Income/(Loss)	**(313.2)**	**681.1**	**(994.3)**	**-146.0%**
Earnings per share, diluted	**($0.04)**	**$0.10**	**($0.14)**	**-145.7%**
Weighted avg shares outstanding, diluted	7,143	7,090	53	0.7%

Source: Company Reports and Zacks Small Cap Research estimates and calculations.

KEY TAKEAWAYS

Following our review of 1H24 results, we highlight the following key takeaways:

1. **Building revenue profile:** Beyond rising demand for EVs more broadly, lead indicators for sustainable revenue growth for LOBO remain favorable around the company's broadening distribution footprint, ongoing product development, and expanded manufacturing capacity (discussed next).

   Focusing on distribution, senior executives remain committed to expanding LOBO's global reach by increasingly penetrating target markets outside of China (including Eastern Europe, Southeast Asia, and Latin America) to capitalize on accelerating demand trends. Indeed, LOBO continues to win new (and larger) orders from distributors, as the company's competitive advantages increasingly resonate with international distributors. More recent business updates include the opening of a new office in Suriname to expand the company's presence in high-growth Latin American markets, a strategic collaboration with a key distributor in Serbia, and a potential strategic partnership with a leading distributor in Brazil that would consolidate the sourcing of electric vehicles with LOBO.

   Turning to product development, management remains proactive, with plans to rollout new models in the back half of this year leveraging LOBO's user-centric product design approach and ongoing R&D efforts. More recent product introductions include new e-moped models featuring innovative frame designs offering enhanced structural stability, new three-wheeled EVs equipped with solar panels to facilitate battery charging, and high-speed motorcycles, which carry average prices around 3x higher compared to lower-speed e-Bikes and mopeds.

2. **Expanding manufacturing output:** A key differentiating factor for LOBO remains the company's in-house manufacturing facilities located in Beijing, Tianjin, and Wuxi. Importantly, the company recently opened a new manufacturing facility that more than doubles LOBO EV's existing production capacity in Wuxi, and upgraded operations at LOBO's factory in Tianjin. Recent upgrades enable more efficient operations as well as more diverse assembly capabilities, while expanded manufacturing capacity translates into stepped up production volumes over time – both boding well for sustainable revenue growth in 2H24 and beyond.

3. **Setting the stage for margin expansion:** As mentioned earlier, 1H24 operating expenses were up meaningfully on a year-over-year basis primarily reflecting stepped up selling and marketing (headcount increases), R&D (ongoing software/product development), and G&A (higher professional fees) costs. Looking ahead, we forecast a return to profitability in 2H24 and rising operating margins in 2025 driven by building manufacturing output, continued supply chain optimization, and an ongoing focus on expense management. Furthermore, we expect margins to increasingly benefit from a more potent sales mix – both from a product standpoint (mix shift in favor of newer higher-priced/higher-margin vehicle models), as well as from a distribution perspective (contributions from higher-margin international outlets continue to outpace domestic sales).

LOWERING EPS ESTIMATES & PRICE TARGET

After updating our model for 1H24 actuals, we are lowering our 2024 and 2025 EPS estimates from $0.17/$0.26 to $0.03/$0.20. Despite a more favorable revenue outlook, our lower earnings estimates primarily reflect the 1H24 EPS miss, combined with higher expenses (mostly G&A).

Given LOBO's unique e-Bike focused business model and long-term growth potential, the current stage in the company's lifecycle, and the lack of truly comparable stocks, we are leaning on our DCF model to value LOBO, which points to a fair value of $4.00 per share (down from our prior $5.00 price target due to our lower earnings outlook). At a high level, our valuation work suggests a disconnect between LOBO's fundamentals and the stock's current price. The discrepancy seemingly offers investors an attractive entry point as awareness and appreciation of the company's business model, competitive positioning, and growth prospects increasingly emerge.

As a crosscheck, most peer stocks continue to trade at meaningfully higher Price-to-Earnings multiples versus LOBO. Applying a peer group average forward P/E multiple of ~20x to our 2025 EPS estimate of $0.20 translates into a fair value of about $4.00 for the stock.

INVESTMENT THESIS

LOBO EV designs, develops, and manufactures micro mobility electric vehicles and sells products through a broad-based dealership network. The company's product lineup includes e-Bicycles, e-Mopeds, e-Tricycles, and electric off-highway four-wheeled shuttles.

Our investment thesis revolves around LOBO's:

1. **Unique Positioning:** In our minds, LOBO EV maintains three key differentiating factors/competitive advantages. First, the company offers a full suite of environmentally-friendly electric vehicles designed to meet a diverse set of customer needs. Second, in-house manufacturing and an established supply chain facilitate quality control, flexible production, operating efficiencies, and capacity optimization. Third, LOBO EV utilizes a wholesale distribution model in which the company sells EVs to a network of 200+ dealers that retail products to end customers across China, Southeast Asia, Eastern Europe, Latin America, and the U.S.

2. **Multi-Layered Growth Story:** The global e-Bike Total Addressable Market (TAM) is large (valued at $41 billion in 2022) and growing (projected to reach $78 billion by the end of 2028 – translating into a 12% CAGR). Looking ahead, we expect demand for e-Bikes to remain high reflecting a number of powerful tailwinds including rising ESG adoption, ongoing government/regulatory support, technological advancements driving product innovation, and improving accessibility and affordability reflecting building economies of scales as volumes across the industry trend higher and more efficient/streamlined manufacturing processes.

   From a company-specific perspective, we see four key drivers underpinning accelerating growth, particularly outside of China. First, the company continues to expand manufacturing capacity to ramp up production in response to accelerating global demand. Second, management remains committed to increasingly penetrating foreign markets by establishing factories in Asia, Eastern Europe, Latin America, and the U.S., and forming partnerships with local manufacturers and distributors to better serve rising demand across these regions. Third, the company remains focused on ongoing product development, leveraging its competitive advantages in technology, R&D, and design processes. Finally, LOBO EV is enhancing the company's marketing strategies, focusing on continued participation in industry exhibitions, utilizing Alibaba's platform more effectively, launching new e-commerce capabilities, and expanding its presence on social media channels.

3. **Reaccelerating Financials:** Our revised 2024 and 2025 EPS estimates of $0.03 and $0.20, respectively, imply strong growth in 2025. Key modeling inputs include accelerating revenue growth reflecting increasingly penetrating higher-growth markets, a ramp up in production as manufacturing capacity expands, ongoing product development, broadening distribution reach, and accelerating export volumes. Furthermore, our model incorporates improving profitability given more favorable gross margins, as manufacturing and distribution continues to scale, combined with an ongoing focus on expense management.

4. **Strong Capital Position:** As of 6/30/24, the company maintained $1+ million of cash and cash equivalents, with minimal debt on the balance sheet. As such, LOBO maintains a strong capital base to continue to fund growth. Beyond a strong balance sheet, we forecast LOBO to generate accelerating free cash flows, as the business continues to scale. Furthermore, LOBO maintains an asset-light business model. The company's manufacturing process leverages a just-in-time production model to align supply and demand trends, streamline practices, optimize efficiencies, and minimize inventories.

INVESTMENT RISKS

1. **Macroeconomic headwinds in China:** Considering recent data, forecasts, and governmental targets, China's economic outlook appears relatively subdued for the coming years due to softer consumer and business confidence, slowing retail sales, restrained investment spending, and ongoing issues in the property sector. Such economic challenges could potentially dampen broader market demand, impacting sales of e-Bikes and, consequently, pressuring LOBO's revenues and earnings.

2. **Regulatory environment:** As with all companies operating in China, LOBO remains exposed to the country's political, social, and regulatory dynamics, with any unexpected changes potentially impacting business operations and financial results.

3. **Rising competition:** LOBO remains a niche player in the micro mobility market in China, with limited market share. To be sure, bigger players including Giant Manufacturing, Honda, and Toyota can leverage greater manufacturing capacity, more comprehensive marketing initiatives, broader distribution, more effective talent recruitment, and considerable financial resources to capture market share at the expense of smaller, undifferentiated companies.

4. **Dealer network:** LOBO relies on a network of third-party dealers to sell the company's products and provide services to end consumers. In most cases, dealers also sell other products from competing brands, with varying economics potentially triggering conflicts of interests. Furthermore, dealer inconsistencies in terms of sales practices and/or messaging could negatively impact demand for LOBO's products, as well as perceptions of the company's brand and value proposition.

5. **e-Bike affordability:** While retail prices for LOBO's e-Bikes and e-Mopeds start at around $200 to $300, costs for three- and four-wheeled electric vehicles can reach upwards of $10,000. While we recognize the more specialized nature of LOBO's tricycles, shuttles, golf carts, and e-Scooters for the elderly, affordability remains a key gating factor for e-Bike sales, particularly amongst the working class in China given more modest disposable incomes.

PROJECTED INCOME STATEMENT

LOBO EV Technologies Ltd.
($ thousands)

	Semi-Annually						Annual				Y/Y Growth		
	1H22	2H22	1H23	2H23	1H24	2H24E	2022	2023	2024E	2025E	2023	2024E	2025E
							Dec-22	Dec-23	Dec-24	Dec-25	Dec-23	Dec-24	Dec-25
Revenues	5,489	12,809	8,138	7,337	12,133	13,988	18,299	15,475	26,120	36,838	-15%	69%	41%
Cost of Revenues	4,719	10,554	6,954	6,312	10,769	12,345	15,273	13,267	23,114	32,144	-13%	74%	39%
Gross Profit	**770**	**2,255**	**1,183**	**1,025**	**1,364**	**1,642**	**3,025**	**2,208**	**3,006**	**4,694**	**-27%**	**36%**	**56%**
Operating Expenses													
Selling and Marketing	216	369	326	285	329	380	586	610	709	927	4%	16%	31%
General and Administrative	283	408	284	232	879	699	691	516	1,578	1,474	-25%	206%	-7%
Research and Development	28	199	132	130	246	283	228	262	529	672	15%	102%	27%
Total Operating Expenses	**528**	**976**	**742**	**647**	**1,454**	**1,362**	**1,504**	**1,389**	**2,816**	**3,072**	**-8%**	**103%**	**9%**
Operating Income/(Loss)	**242**	**1,279**	**441**	**378**	**(90)**	**280**	**1,521**	**819**	**190**	**1,622**	**-46%**	**-77%**	**752%**
Other Expenses/(Income)													
Interest Expense	9	8	5	3	(20)	6	17	8	(14)	12	-55%	-289%	NM
Other (Income)	(21)	(7)	(485)	(35)	(46)	(427)	(28)	(520)	(473)	(427)	NM	NM	NM
Total Other Expenses/(Income), Net	**(12)**	**1**	**(480)**	**(32)**	**(66)**	**(422)**	**(11)**	**(512)**	**(487)**	**(416)**	**NM**	**NM**	**NM**
Pre-Tax Income/(Loss)	**254**	**1,278**	**921**	**410**	**(24)**	**702**	**1,533**	**1,331**	**677**	**2,037**	**-13%**	**-49%**	**201%**
Income tax	118	299	249	96	289	175	417	345	464	509	-17%	35%	10%
Net Income/(Loss)	**136**	**979**	**672**	**314**	**(313)**	**526**	**1,115**	**986**	**213**	**1,528**	**-12%**	**-78%**	**617%**
Net Income Attributable to Non-Controlling Interest	4	39	14	3	(11)	18	43	17	7	52			
Net Income Attributable to LOBO EV	**132**	**940**	**658**	**312**	**(303)**	**508**	**1,072**	**970**	**206**	**1,475**	**-10%**	**-79%**	**617%**
Foreign Currency Translation Adjustments	234	115	338	(155)	(169)	0	349	183	(169)	0	-48%	-192%	NM
Foreign Currency Translation Adjustments for NCI	6	4	8	0	0	0	11	8	0	0	-21%	-100%	NM
Comprehensive Income Attributable to LOBO EV	376	1,099	1,018	160	(482)	526	1,475	1,178	44	1,528	-20%	-96%	3354%
Earnings per share, diluted	**$0.02**	**$0.15**	**$0.11**	**$0.05**	**($0.04)**	**$0.07**	**$0.17**	**$0.15**	**$0.03**	**$0.20**	**-12%**	**-81%**	**588%**
Weighted average shares outstanding, basic & dilutec	6,400	6,400	6,400	6,400	7,143	7,780	6,400	6,400	7,462	7,780	0%	17%	4%

Source: Company reports and Zacks SCR estimates and calculations.

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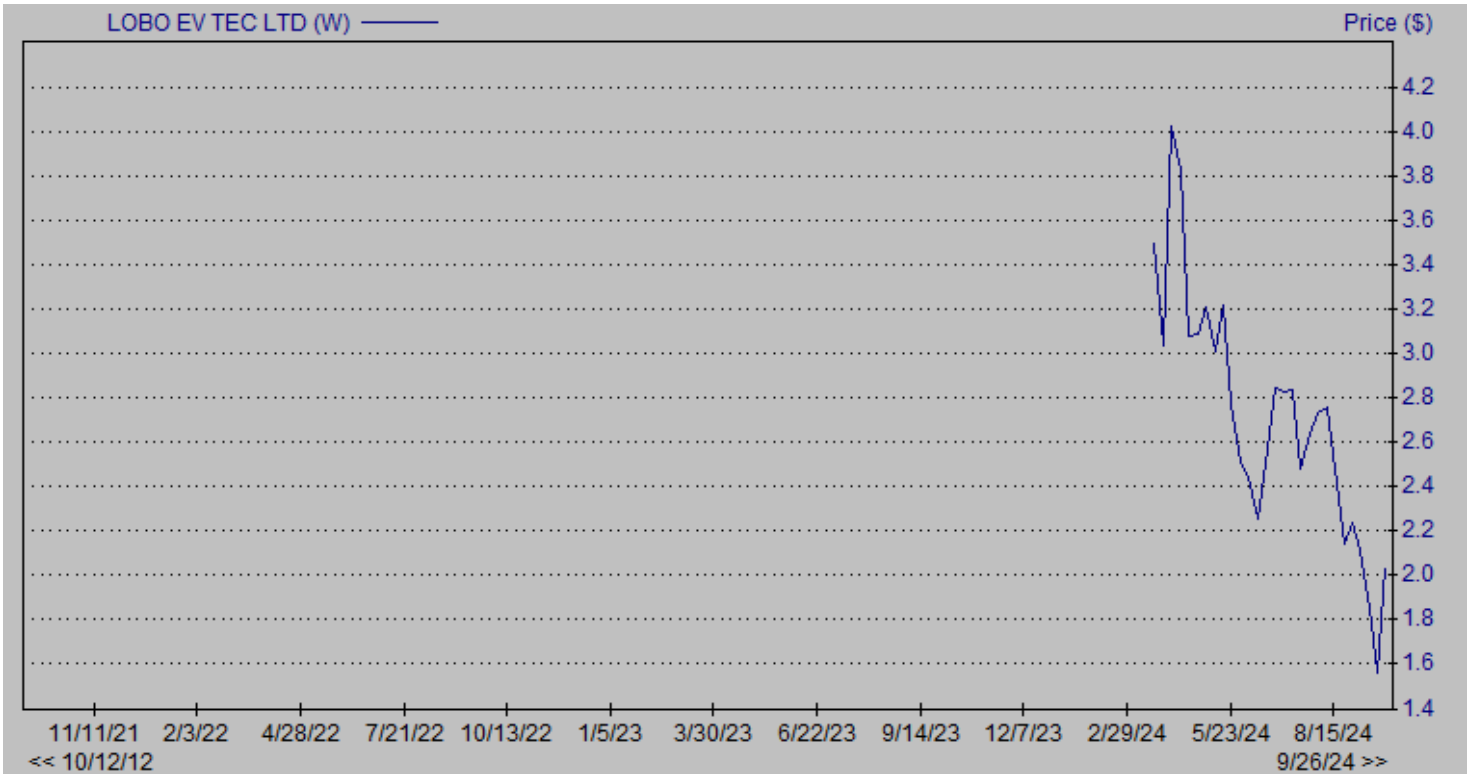
PROJECTED BALANCE SHEET

LOBO EV Technologies Ltd.
($ thousands)

	Semi-Annually			Annual				Y/Y Growth		
	2H23	1H24	2H24E	2022	2023	2024E	2025E	2023	2024E	2025E
	Dec-23	Jun-24	Dec-24	Dec-22	Dec-23	Dec-24	Dec-25	Dec-23	Dec-24	Dec-25
Assets										
Current Assets:										
Cash and cash equivalents	470	1,115	1,138	183	470	1,138	1,183	157%	142%	4%
Amounts receivable	2,533	2,340	2,387	3,056	2,533	2,387	2,482	-17%	-6%	4%
Inventories	5,738	8,886	9,245	3,814	5,738	9,245	9,985	50%	61%	8%
Amounts due from related parties	0	0	0	3,516	0	0	0	-100%	NM	NM
Short-term investments	57	184	188	24	57	188	195	134%	231%	4%
Prepaid expenses and other current assets	7,307	7,828	7,986	3,353	7,307	7,986	8,305	118%	9%	4%
Total Current Assets	16,105	20,354	20,943	13,947	16,105	20,943	22,151	15%	30%	6%
Non-Current Assets:										
Property and equipment, net	1,081	986	1,026	1,049	1,081	1,026	1,108	3%	-5%	8%
Intangible assets, net	1,916	1,997	2,077	1,442	1,916	2,077	2,244	33%	8%	8%
Operating lease right-of-use assets, net	569	1,123	1,145	500	569	1,145	1,191	14%	101%	4%
Total Non-Current Assets	3,567	4,106	4,249	2,990	3,567	4,249	4,543	19%	19%	7%
Total Assets	**19,671**	**24,459**	**25,192**	**16,937**	**19,671**	**25,192**	**26,694**	**16%**	**28%**	**6%**
Liabilities										
Current Liabilities:										
Accounts payable	930	1,281	1,307	1,795	930	1,307	1,359	-48%	41%	4%
Advances from customers	1,555	2,613	2,666	160	1,555	2,666	2,772	873%	71%	4%
Other current payables	371	393	401	685	371	401	417	-46%	8%	4%
VAT payable	6,079	6,451	6,581	4,857	6,079	6,581	6,844	25%	8%	4%
Taxes payable	2,373	2,670	2,723	1,922	2,373	2,723	2,832	23%	15%	4%
Amounts due to related parties	1,671	1,486	1,516	1,656	1,671	1,516	1,577	1%	-9%	4%
Short-term loan	0	0	0	203	0	0	0	-100%	NM	NM
Operating lease liabilities, current	363	701	716	218	363	716	744	66%	97%	4%
Total Current Liabilities	13,342	15,595	15,909	11,495	13,342	15,909	16,545	16%	19%	4%
Non-Current Liabilities:										
Long-term loan	141	138	138	0	141	138	138			
Operating lease liabilities, non-current	299	633	618	314	299	618	589	-5%	107%	-5%
Other payables	11	0	0	48	11	0	0	-76%	-100%	NM
Total Non-Current Liabilities	451	771	756	362	451	756	727	24%	68%	-4%
Total Liabilities	**13,793**	**16,366**	**16,665**	**11,858**	**13,793**	**16,665**	**17,272**	**16%**	**21%**	**4%**
Total Shareholders' Equity	**5,879**	**8,093**	**8,527**	**5,080**	**5,879**	**8,527**	**9,422**	**16%**	**45%**	**10%**
Total Liabilities & Shareholders' Equity	**19,671**	**24,459**	**25,192**	**16,937**	**19,671**	**25,192**	**26,694**	**16%**	**28%**	**6%**

Source: Company reports and Zacks SCR estimates and calculations.

HISTORICAL STOCK PRICE



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