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Zacks Small-Cap Research

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Kandi Technologies, Inc. (KNDI-NASDAQ)

KNDI: Positive Implications of New Administration's Sustainability Focus

Kandi is poised to benefit from the new administration's goal to increase the fleet of green energy vehicles, we believe. KNDI is one of the few EV manufacturers producing economical cars that are capable of obtaining a relatively long range on a single battery charge.

OUTLOOK

To further its growth initiatives, KNDI has strengthened its cash position with recent capital raises. Moreover, KNDI's ride-share alliance in China has forged an agreement with the Agricultural Bank of China Hangzhou Branch that will give Kandi access to a roughly $76.5M line of credit to support the first phase of a program to sell 300k EVs to rideshare services in the country. Last month, KNDI announced a new contract to sell 3,000 model K23s to the ride-sharing alliance.

Current Price (2/17/21)	$8.55
Valuation	**$12.00**

SUMMARY DATA

52-Week High	**$13.70**
52-Week Low	**$2.17**
One-Year Return (%)	**103.57**
Beta	**2.18**
Average Daily Volume (sh)	**12,320,275**
Shares Outstanding (mil)	**72**
Market Capitalization ($mil)	**$616**
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 poised to benefit from the new U.S. administration's goal to increase the government's fleet of green energy vehicles, we believe. KNDI is one of the few EV manufacturers producing economical cars that are capable of obtaining relatively long driving ranges on a single battery charge.

- KNDI distributes in the U.S. through its Dallas-based wholly-owned subsidiary, SC Autosports. SC Autosports has a national U.S. sales presence and recently began accepting dealer applications to sell Kandi EVs domestically. KNDI is optimistic that its sales in the U.S. can grow over time.

- In China, KNDI also intends to focus on the development of its ride-share program and battery swap service. Kandi recently established a subsidiary focused on operating a ride-sharing service across China, entered into a collaborative alliance in the market and launched several ride-share pilots that also include KNDI's battery swap feature.

- Moreover, the ride-share alliance has forged an agreement with the Agricultural Bank of China Hangzhou Branch that will give Kandi access to a line of credit to support the first phase of a program to sell 300k EVs to rideshare services. Last month, KNDI announced a new contract to sell 3,000 model K23s to the ride-sharing alliance. The company has also strengthened its cash position to further its growth initiatives, following recent capital raises.

ADMINISTRATION PLANS TO INCREASE GREEN FLEET

China's Kandi Technologies (NASDAQ: KNDI) is poised to benefit from the new U.S. administration's goal to increase the government's fleet of green energy vehicles, we believe. The administration has 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. The company also is strengthening its position in several areas of the green automotive space, in addition to EV production, including battery innovation, battery exchange to facilitate long-distance driving and ride-sharing programs leveraging its EVs and technologies.

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.

Ride-Share Efforts Moving Forward

In addition to the prospects in North America, China and other governments also 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.

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*. *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.

The group also established an agreement with the Agricultural Bank of China Hangzhou Branch that will give Kandi access to an RMB 500 million (about US$76.5 million) line of credit to support the first phase of the 300k program, which KNDI expects can help accelerate the 300k EV rideshare 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.

Last month, KNDI announced a new contract to sell 3,000 model K23s to a ride-sharing alliance. The contract is a component of Kandi's rideshare development program targeting 300,000 pure EVs within 5 years. The sale followed a successful trial in Shaoxing. The battery swap model 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.

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.

RECENT NEWS

- 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.

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	62.0	55.5	68.2

Source: Company reports, Zacks estimates

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