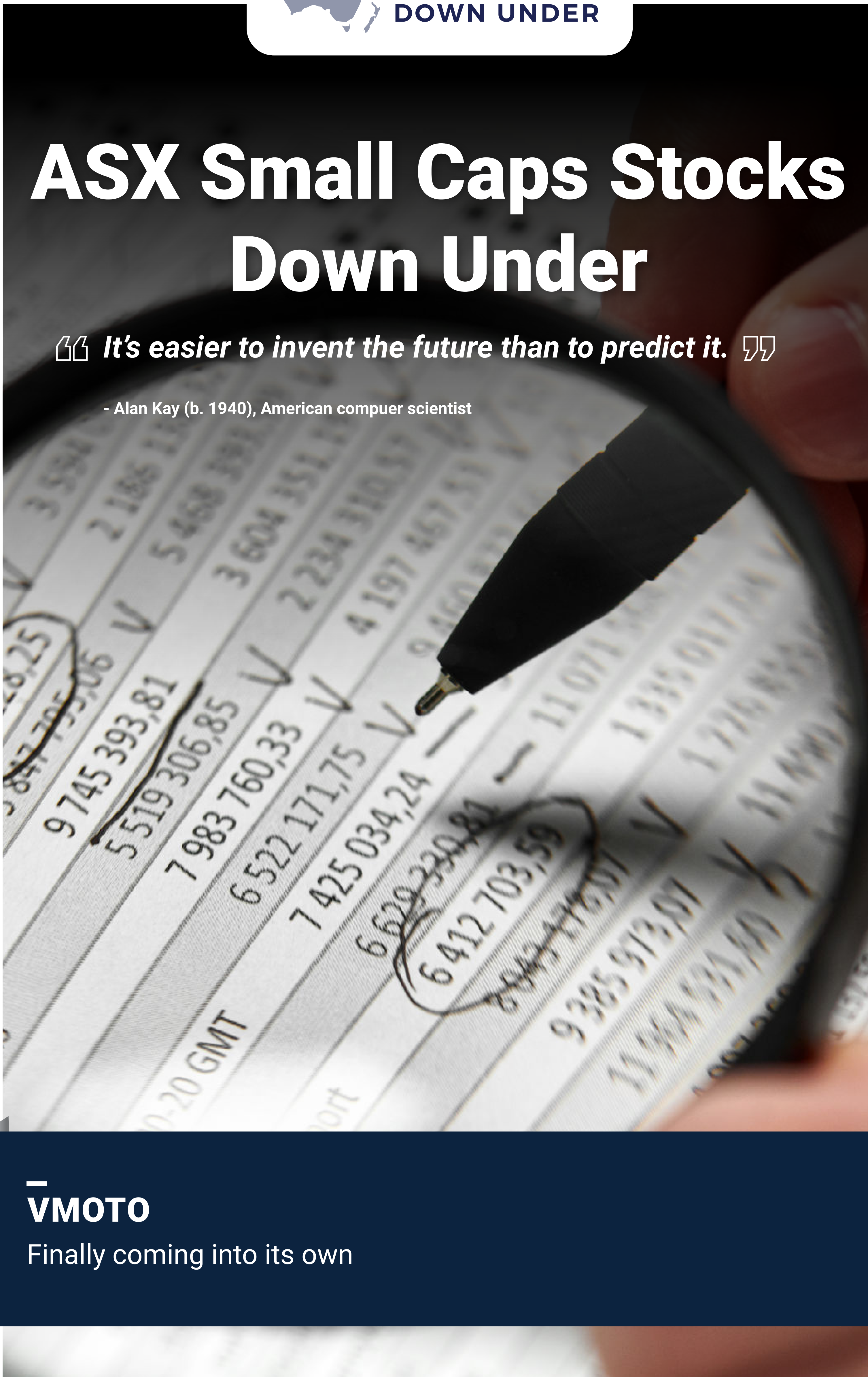
STOCKS DOWN UNDER

6 MAY 2022



ASX Small Caps Stocks Down Under

It's easier to invent the future than to predict it.

- Alan Kay (b. 1940), American compuer scientist

VMOTO

Finally coming into its own

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Stocks Down Under rating: ★ ★ ★ ★

ASX: VMT
Market cap: A$111.6M

52-week range: A$0.32 / A$0.49
Share price: A$0.395

We last wrote about Vmoto on 13 November 2020, giving the stock a two-star rating based on our concerns surrounding future margin pressure, concerns about impacts from Australia-China tensions and what we saw as an excessive valuation. Our two-star rating has proven to be rather accurate as the stock has dropped 13% since then. However, a lot has changed for the company, especially on its European front as COVID-19 caused an explosion in demand for its scooters. The question remains, is this a COVID-19 trend or a changing of the game?

Share price chart

Source: Tradingview

The push to zero emissions

Vmoto is an electric vehicle company – not cars, but electric scooters, mopeds and motorcycles. The shift to electric vehicles of all kinds have been a fundamental part of the world's goal to reach net zero carbon emissions by 2050. Electric scooters may not be as obvious a solution as electric cars given the higher emissions from cars compared to scooters. But if adoption increases, they can play an important role in the transition, particularly if they can replace cars on shorter journeys.

The main geographical division for the company is China, specifically the city of Nanjing, where it is headquartered and has a 30,000sqm manufacturing base. We have been extremely concerned about any ASX companies with exposure to China considering the deterioration in political and economic relations.

But Vmoto has negligible sales in Australia and China. The company is focused on sales elsewhere, particularly Europe as the continent's governments implement a stick and carrot approach to increasing the usage of electric two-wheel vehicles. It also has a Singapore division, which has become the second largest revenue and profit generator in the company. But we believe Europe will be key to the company's success.

Europe is the key market

Compared to Australia, Europe has been far quicker to embrace electric vehicles. This is because European governments, more eager to reduce emissions, have offered strong incentives for consumers and companies to go electric. For companies, electric scooters have proven to be cheaper and faster to transport goods – particularly food and parcels. The lack of competition in this specific segment has also helped Vmoto's cause. Initially, the COVID-19 pandemic saw a slowing in sales due to movement restrictions. But 2021 was a better year for Vmoto.

Vmoto has also benefited from B2B sales as governments have introduced electric scooter rideshare services. Last year, it signed a deal with Dutch electric scooter lessor Greenmo for 6,000 bikes. And last month, the company entered into a strategic and investment agreement with Italian motorcycle figureheads Giovanni Castiglioni and Graziano Milone. The pair have bought 25% each of Vmoto's Italian distribution company. The Castiglioni family have owned some of the most successful and iconic motorcycle brands in the world including the MV Augusta, which the family designed. Vmoto told shareholders Castiglioni would help the company develop new motorcycle products and marketing strategies.

Other notable deals signed in recent months include a multi-year sponsorship and marketing agreement to supply electric mopeds and exhibit its brands at the electric motorcycle racing event, FIM ENEL MotoE World Cup – part of MotoGP – and a partnership with Nasdaq-listed Helbiz, to supply electric mopeds to Helbiz for deployment in the Italian market.

After a solid FY21, now the risk is worth it

Vmoto released its FY21 results on 28 February 2022 – its financial year is the same as the calendar year. It recorded revenue of $86.2m (up 41% from FY20), EBITDA of $10.2m (up 76%) and an NPAT of $8m (up 120%). The company sold 31,275 units, up 33% on FY20 and 57% on FY19. It has no debt and an $18.6m cash position. Vmoto told shareholders it would see "continued and similar success" in the year ahead in the absence of unforeseen events, but it has not given specific guidance.

Current analyst estimates are for $107.8m in revenue and $10.8m in EBITDA in FY22, followed by $143.3m revenue and $13.7m EBITDA in FY23. This places FY22 and FY23 EBITDA growth at 6% and 27% respectively and revenue growth for FY22 and FY23 of 25% and 33% respectively.

But the company's valuation has clearly not caught up to the company's new reality with FY22 and FY23's EV/EBITDA multiples at just 8.7x and 6.9x, respectively. And the company has started FY22 on a positive note. It sold 7,998 units in 1Q22, up 36% from a year ago and 94% from two years ago. It boosted its cash position to $24.7m with a positive operational cash flow of $6.1m.

We were highly negative on Vmoto the last time we wrote about the company. But the situation has changed, and we believe the company is set for another solid year. So, this time Vmoto gets four stars from us. However, considering this company manufactures in China, investors should still be wary of increasing tensions even though relations between Europe and China haven't deteriorated to the same extent as Australia's and America's relations with China have. And of course, there's the supply chain issues in China that keep coming up because of the countries stubborn Covid-zero policy. Vmoto may be impacted by that too, potentially limiting unit shipments to Europe this year and next.

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