



Vmoto Limited | VMT

BUY

Danny Younis
(612) 8336 7487
Danny.Younis@stonebridgegroup.com.au

Last Price | \$0.195
Market cap | \$87.2m
Fully diluted shares | 447.3m
12 mth price target | \$0.31

Summary Financials

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Revenue (\$m)	35.3	48.4	78.3	132.1
EBITDA (\$m)	-2.2	-3.9	5.3	16.9
NPAT (\$m)	-8.6	-4.3	4.9	11.9
EPS (cents)	-1.1	-1.3	1.1	2.7
DPS (cents)	0.0	0.0	0.0	1.3
PE Ratio (x)			17.9	7.3
EV / EBITDA (x)			16.9	5.3
Yield (%)		0.0%	0.0%	6.8%

Riding the Growth

KEY POINTS

- Global vertically integrated scooter manufacturer and distributor, focused on a "Western image" but selling into the high volume Asian markets
- Recent completion and commissioning of Chinese manufacturing site will see Vmoto complete the final stage in the transition from a third part distributor, to a distributor and manufacturer of scooters
- Contracted sales into Vietnam (30,000 units pa) and additional production capacity available. Initial Vietnam contract expected to contribute \$6m in gross profit pa.
- Forecast for a profit (NPAT) of \$4.9m in FY2010, with significant growth as manufacturing volumes increase

COMMENT

Vmoto is currently at an important inflexion point in transitioning the business to a vertically integrated manufacturer, developer and distributor of mid range scooters.

Following the completion and commissioning of the company owned manufacturing site in Nanjing, China, manufacture of Vmoto scooters is imminent, which will significantly add to the company's revenue for FY2010 and future years.

Over the next 12 months it is essential that Vmoto capitalises on the momentum that is growing within the company. In the short term management needs to continue to meet customer requirements, delivering on the current Vietnam order, and generating additional sales in Asian markets.

INVESTMENT VIEW

In the short term we believe there may be a share price rally as delivery from the Nanjing factory commences. In the longer term, Investors are able to capitalise on strong growth prospects, with the company turning the corner to become profitable in FY2010.

- Short term: potential for short term trade, with shipping of first units from Nanjing factory imminent. Key catalyst is likely to be half year results, or announcement from the company detailing initial shipments of Vmoto products.
- Longer term: Company transitioning to profit making, with strong growth prospects over the next few years. Investors should seek to acquire stock in any market weakness, looking for a 12 to 18 month holding period. Our price target is predicated on FY2011 earnings, at a 10.8x PE Ratio.

Snapshot is a quick comment on a company or companies reflecting initial thoughts on an event or situation that is either time sensitive or that may only warrant a short comment. It can be opportunistic (that is where we feel risk is either over-priced or under-priced or where the market fails to price in certain events – either positive or negative). It may also include companies that Research does not maintain full coverage although the analyst has a solid understanding of the company and or sector and is making an informed judgment (in this case, it will not include recommendations, forecasts, price target and/or a valuation).



COMPANY HISTORY

The current Vmoto business is the culmination of managements' long term strategy of developing a global vertically integrated scooter manufacturing business.

The company initially acquired an existing distribution business, and subsequently built the Vmoto manufacturing site in Nanjing, China. The key steps in developing the existing business are as follows:

Accessing the International Distribution Network

The steps to create the current Vmoto business started with the acquisition of Freedomotor Corporation Limited ("FCL") in 2007.

FCL operates a scooter distribution business, selling third party machines worldwide through a network of distributors. The business operates on low margins, however the acquisition has provided Vmoto with immediate access to an international distribution network.

The immediate access to distribution means that Vmoto branded machines can be distributed directly through existing FCL channels, significantly reducing time to market.

FCL sold \$48m of third party scooters worldwide in FY2009, generating commission of \$2.5m. This \$2.5m in commission provides a strong base to build in subsequent years, as Vmoto manufactured scooters are sold.

Manufacturing the Vmoto machines:

Key to manufacturing the Vmoto Scooters is a low cost manufacture site in China (Nanjing.) The first Vmoto products are expected to roll off the production line in November 2009. These units will be shipped to Vietnam, under the company's first significant contract to supply 30,000 units pa.

The current Vmoto manufacturing site in Nanjing is capable of producing up to 300,000 units a year, depending on the type of product being manufactured. The company expects to construct an additional manufacturing site as demand increases, lifting capacity to around 1m units per year.

Vmoto acquires components from specialist suppliers, and assembles Vmoto scooters in their Chinese factory, ready for shipping to external customers. This assembly process covers all components, including assembly of scooter engines.

Vmoto engines offer a fuel injected, water cooled motor (versus a lot of competitors use older carburetor and air cooled technology.) There is the potential Vmoto can leverage their engine capabilities by selling engines to other scooter manufacturers, increasing company revenue.

Vmoto scooters are manufactured around 4 basic chassis formats, with different engine, panel and lighting combinations providing an extensive range of customisation options.

The Vmoto Products – The Brand

The financial performance of the Vmoto business requires access to Asian markets to deliver volume. Rather than competing on price, Vmoto is establishing a "Western" brand which will deliver a premium price when sold into these markets. Vmoto see a developing middle class in Asian economies, who are seeking motorised transport, and who are prepared to pay a premium for a Western brand.

In establishing the Brand, Vmoto is focusing on the Australian and European markets. These markets are integral to developing the Vmoto brand and image, through targeted and focused marketing efforts. A strong brand in these markets will see demand increase in Asia, and allow Vmoto to charge a premium price for their product.

Vmoto will manage their own brand in all markets, rather than relying on distributors.



Vmoto has acquired a distribution network, contributing approximately \$2.5m in gross profit. A Chinese manufacturing site is now complete, and ready to commence production (November 2009.) A key distribution agreement has been signed, representing 30,000 units pa.

Vmoto is at an inflexion point, with high margin Vmoto product currently under manufacture, with sales agreements for short term volume already signed. These key points translate to a significant growth in Revenue and Profit over the next few years.

GEOGRAPHIC FOCUS

Asia is the key:

Vmoto recently signed an agreement to provide 30,000 units pa into Vietnam, generating approximately \$200 per unit, Vmoto management note that this customer requested a quantity of 100,000 units pa, however Vmoto was reluctant to sign a supply contract of this size initially. Given this strong initial demand, from only one market, we view our financial forecasts as conservative, with potential to surprise on the upside as manufacture accelerates.

Vmoto target markets initially include:

- Vietnam
- Philippines
- Malaysia
- Indonesia

Product Development:

Given the initial development and design work is complete on Vmoto products, we do not see any significant product changes in the short term. In the longer term the company has expressed an interest in entering the electric scooter market, although we note this is currently dependent on technological advances in battery and power storage. In transitioning to an electric scooter model, Vmoto is likely to acquire battery and motor products from key suppliers, limiting the capital expenditure required by the company.

FINANCIAL FORECASTS

FCL Business:

The FCL Distribution business generated \$48.4m in Revenue in FY2009, with Vmoto earning a commission of approximately \$2.5m. We see this commission as stable, recurring income. We have applied a 5% growth rate pa.

Vmoto Scooters:

Vmoto scooters earn approximately 25% gross margin. The average margin per scooter unit is expected to be \$250 per scooter (\$200 per scooter on the initial Vietnam contract due to sharing of development costs.)

The higher end Scart four wheeled unit is expected to generate a much higher margin, but with lower volumes, given the niche nature of the product. We initially estimate \$1750 margin on the Scart product, with a small decline through FY2012 and FY2013.

We forecast scooter sales of:

	FY2010	FY2011	FY2012	FY2012
Scooters:	20,000	60,000	100,000	130,000
Scart:	1,500	3,000	4,500	6,000

We note that these forecast numbers are conservative, with the potential for Vmoto to significantly outperform these sales numbers through FY2011 and beyond.



SUMMARY

We believe Vmoto represents an investment opportunity for short term trading, driven by positive news flow on production from the Nanjing factory. We also note Vmoto represents a compelling investment case in the long term, with strong revenue and profit growth as sales ramp up.

We note that over the next 12 months there are likely to be share price fluctuations as early stage investors seek to lock in profits, and see any share price weakness as a buying opportunity for long term investors.

Price Target:

We set our 12 month price target as \$0.31 cents, representing a forward PE of 10.8x on FY2011 earnings (20% discount to current small industrials forward PE of 14.4x.)



Vmoto - Summary Financials:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<u>Vehicle Sales:</u>				
Scooters:	20,000	60,000	100,000	130,000
Scart:	1,500	3,000	4,500	6,000

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<u>Summary Profit and Loss:</u>							
Revenue:	24.8	35.3	48.4	78.3	132.1	191.1	240.5
<i>Revenue Growth:</i>		42.3%	37.0%	61.8%	68.7%	44.6%	25.9%
Gross Profit:	3.0	2.9	2.5	9.4	22.2	35.6	46.0
<i>Gross Margin:</i>	12.2%	8.1%	5.3%	11.9%	16.8%	18.6%	19.1%
EBITDA	0.1	-2.2	-3.9	5.3	16.9	29.2	39.1
<i>EBITDA Margin</i>	0.4%	-6.2%	-8.0%	6.8%	12.8%	15.3%	16.2%
NPAT: (normalised)	-0.2	-8.6	-4.3	4.9	11.9	19.9	26.8
<i>NPAT Margin</i>	-0.8%	-7.2%	-8.8%	6.2%	9.0%	10.4%	11.1%

Summary Balance Sheet:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Cash	0.6	1.1	1.3	5.6	9.0	17.5	30.0
Receivables	4.2	2.0	1.0	1.6	2.6	3.8	4.8
Inventory	0.6	0.4	0.4	0.8	1.3	1.9	2.3
Other:	0.6	0.2	0.2	0.2	0.2	0.2	0.2
Total Current Assets	6.0	3.7	2.9	8.1	13.1	23.4	37.4
PP&E	0.4	2.4	4.0	7.8	10.4	11.8	12.7
Other NCA	11.9	4.8	5.9	7.9	7.9	7.9	7.9
Total Non - Current Assets	12.3	7.2	9.9	15.7	18.3	19.7	20.6
Total Assets	18.3	10.9	12.8	23.8	31.4	43.1	58.0
Payables	6.3	2.7	1.6	2.3	4.0	5.7	7.2
Current Borrowings:	1.7	3.5	2.3	2.3	2.3	2.3	2.3
Other CL	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	8.0	6.2	4.0	4.7	6.3	8.1	9.6
Non Current Borrowings:	1.2	0.9	0.9	0.0	0.0	0.0	0.0
Other NCL	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Total Non-Current Liabilities	1.2	0.9	1.0	0.1	0.1	0.1	0.1
Total Liabilities	9.1	7.2	5.0	4.9	6.5	8.2	9.7
Net Assets:	9.1	3.8	7.8	19.0	24.9	34.9	48.3

Summary Cash Flow:

Cash Flow from Operations	-2.3	0.1	-3.3	4.9	12.3	20.5	27.4
Cash Flow from Investing	-2.4	-1.4	-3.5	-6.0	-3.0	-2.0	-1.5
Cash Flow from Financing	5.0	1.9	7.5	5.4	-6.0	-10.0	-13.4
Net Movement in Cash:	0.4	0.6	0.8	4.3	3.4	8.5	12.5

Market Summary:

Share Price:	0.20 (19/10/2009)						
Shares on issue:	447.3 mil						
Market Cap:	87.2 (\$m)						
Net Debt (June 09)	2.0 (\$m)						
EV:	89.2 (\$m)						
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	
EPS: (cpu)	-1.1	-1.3	1.1	2.7	4.5	6.0	
DPS: (cpu)	0.0	0.0	0.0	1.3	2.2	3.0	
PE Ratio:	-10.1	-20.4	17.9	7.3	4.4	3.3	
EV / EBITDA:	-41.0	-23.0	16.9	5.3	3.1	2.3	
Dividend Yield:	0.0%	0.0%	0.0%	6.8%	11.4%	15.4%	



Important Notice

Analyst Certification

As at the time of writing this report, the author did not hold shares in Vmoto Limited (VMT).

Provider of this publication

This publication has been prepared on behalf of and issued by StoneBridge Securities Limited (ABN 92 067 161 755) (StoneBridge) (AFSL 238148). StoneBridge makes the statements in this Important Notice Section for itself and on behalf of each of its related bodies corporate and their respective officers, agents and employees from time to time (collectively, the StoneBridge Group). This publication is provided only on the terms set out in this Important Notice. If you retain and use this publication, each member of the StoneBridge Group relies on your acceptance of the terms set out in this Important Notice.

Information in this publication

References in this publication to data may rely on third parties over which StoneBridge has no control and for which StoneBridge accepts no responsibility. Whilst all of the information and statements contained in this publication have been prepared with all reasonable care, no responsibility or liability is accepted by any member of the StoneBridge Group for any errors or omissions or misstatements however caused or arising.

Any opinions, forecasts or recommendations reflect the judgment and assumptions of StoneBridge on the basis of information as at the date of publication and may later change without notice.

This publication is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. Any securities recommendation contained in this publication is unsolicited general information only. StoneBridge is not aware that any recipient intends to rely on this publication and StoneBridge is not aware of the manner in which a recipient intends to use it. In preparing this publication, it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual recipient. Investors must obtain specific individual financial advice from their investment, tax and legal advisers to determine whether recommendations contained in this publication are appropriate to their personal investment objectives, financial situation or particular needs before acting on any such recommendations.

Investment in securities involves risk. Past performance of securities is no assurance of future performance. Investors should take advice on the basis of current information relevant to their particular circumstances, and have regard to the risk that the future performance of investments will differ from past performance.

This publication is not for public circulation or reproduction whether in whole or in part and is not to be disclosed to any person other than the intended recipient, without obtaining the prior written consent of StoneBridge.

All intellectual property rights in this report are, and at all times remain, the property of the StoneBridge Group, unless otherwise attributed.

Liability for this publication

To the fullest extent permitted by law, each member of the StoneBridge Group excludes all liability of whatever kind, whether in negligence, tort, contract or under fiduciary duties strict liability or otherwise, for any loss or damage of any kind (including without limitation indirect, incidental or consequential loss or damage, whether reasonably foreseeable or not) however arising in relation to the publication of this document, including any reliance on it or making any transaction in respect of any securities or strategy mentioned in it.

StoneBridge's Interests

Other than the abovementioned, the StoneBridge Group has no other associations or relationships, and has received no other remuneration, commissions or fees in relation to the financial products mentioned in this report. Each member of the StoneBridge Group may, from time to time hold positions in any financial products included in this report (or derivatives of them) and may buy or sell such financial products or derivatives or engage in other transactions involving such financial products or derivatives, as principal or as agent for clients.

Each member of the StoneBridge Group may, from time to time hold positions in any securities included in this report (or derivatives of them) and may buy or sell such securities or derivatives or engage in other transactions involving such securities or derivatives, as principal or as agent for clients. A member of the StoneBridge Group from time to time may earn brokerage, fees or other benefits from securities mentioned in this publication or derivatives of them. These will be disclosed, as required, in the ordinary course of providing financial services.

No member of the StoneBridge Group has, or will receive, whether directly or indirectly, any commission, fee, benefit or advantage, whether pecuniary or otherwise in connection with making any recommendation contained in this report. A member of the StoneBridge Group or a consultant to it may, from time to time perform paid services for the companies whose securities are the subject of recommendations in this report. Under no circumstance, however, has any member of the StoneBridge Group been influenced, either directly or indirectly, in making any recommendation contained in this report.

Other important information

This Important Notice must be read in conjunction with the Legal Notice which can be found on our website at <http://www.StoneBridgeGroup.com.au>. Further information is available on request.

© StoneBridge Group Limited 2009