MIRABAUD
Equity Research

LION E-MOBILITY

CHANGE IN FORECAST

INDUSTRIALS

05 APR 2024 07:05 - PRODUCTION
05 APR 2024 07:06 - DISSEMINATION

BUY

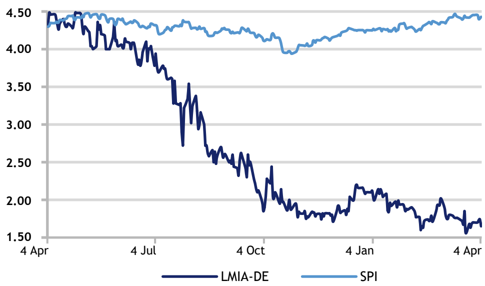
WELL-POSITIONED AS A BATTERY PACK COMPANY TO BENEFIT FROM THE ELECTRIFICATION

LION E-Mobility published preliminary Q4 numbers and issued guidance for FY 24. While the expectation for sales growth of 11% (range of EUR 60-65mn) was below our forecast for 2024, the EBITDA-target of EUR 0.5-1.0mn surpassed our estimates at the mid-point. Reflecting our earnings adjustment, we finetune our price target to EUR 4.8 (prev. EUR 5.3). We continue to think that the company should experience high growth, especially when the supply deal with SVOLT comes into effect. We are forecasting a revenue CAGR till 2030 of over 30%, and the company should show operating leverage in such a positive market environment. We reiterate our Buy recommendation.

KEY DATA

Share Price (EUR)	1.65
Target Price (EUR)	4.80
Upside / Downside	190.9%
Ticker	LMIA GR
Market Cap (EUR m)	20
Shares Outstanding (m)	12.35

SHARE PRICE PERFORMANCE (12M)



PRICE PERFORMANCE TABLE

%	YTD	1M	3M	12M
Absolute	-21.4	-13.2	-18.3	-61.6
Relative to SPI	-24.6	-14.6	-21.3	-62.7

All sources unless otherwise stated: Company data, FactSet, Mirabaud Securities. All data as of 4 April 2024

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COMPELLING GROWTH DRIVERS

LION E-Mobility operates in the fields of electrical energy storage and niche mobility providing a lithium-ion battery system technology, while it is developing further enhanced technologies.

The total addressable market was expected by McKinsey to grow at a compound annual growth rate (CAGR) of 30% until 2040, thanks to the widespread electrification of the economy. While large OEMs like Daimler e-trucks and Volkswagen have in-house capacity, many smaller mobility companies lack expertise and financial muscle in battery production. This, in addition to the expected expansion of stationary storage, creates an opportunity for focused battery production companies like LION E-Mobility.

In our view, the supply deal with the Chinese company SVOLT should prove to be transformational and improve operational leverage, as well as working capital management, vs. the previous one with Samsung SDI, providing upgraded products at more competitive costs. SVOLT will develop two new cells directly for LION Smart and the first samples are to be delivered to LION in May 2024. Shipping of the battery packs with the SVOLT cell technology is expected to start in Q4 2024.

INVESTMENT CASE AND OUTLOOK

LION E-Mobility's focus on battery pack production set it apart from others in the industry. It operates in a niche. Chinese companies primarily focus on cell production and have shown little interest in this niche market in the Western world so far. Safety standards, tailor-made customized products, and the relatively smaller market size act as barriers to entry. We think the high interest costs and a potential Chinese battery pack presence in Europe are the main risks. We anticipate that the company will achieve a CAGR sales of 32.6% from 2023-30 and 37.6% in gross profits.

SOLID FY 23 RESULT

REACHED SALES GUIDANCE

LION E-Mobility reached its FY23 sales guidance of over 55mn with EUR 56.1mn. The company said that revenues were mainly driven by the delivery of LION battery packs to the fast-developing markets of electric trucks and buses in North America and Europe, as well as the growing BTM C&I (Behind-The-Meter Commercial and Industrial) sector in Europe. The higher EBITDA loss can be attributed to an increase of the staffing associated to the new production site in Hildburghausen, Germany. Moreover, EBIT 23 is explained by the shift in investment focus towards the production facility in Hildburghausen, resulting in more than doubling the depreciation line in the fiscal year 2023. Moreover, there is a one-off impairment of EUR 0.5mnn associated to a customer order, the main reason behind the profit warning at 1H23.

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OUTLOOK 2024

The company said that in the outlook 2024, on top of the already disclosed order from Karsan totalling up to EUR 12mn, LION has successfully secured additional orders of a smaller scale and continues to engage in further negotiations with both existing and prospective customers. The company mentioned that for FY24, LION currently expects to reach revenues in the range of EUR 60mn – EUR 65mn, representing growth of around 11% and an expected EBITDA of EUR 0.5mn – EUR 1mn.

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Q4 CONFERENCE CALL FEEDBACK

LION said that this was a very respectable result, given the ramp-up.

We asked why the sales outlook for 24 of 11% (to the mid-point of the sales guidance for 2024) was so much lower versus the TAM growth rate of 30%.

The company believes that the forecast is conservative and that additional orders could give more momentum. The guidance is mainly based on existing customers and 25% would be new customers. We might add that the SVOLT supply agreement might help to increase competitiveness providing more appropriate products for client`s needs.

The company had Q4 revenues of EUR 24.0mn (9M 2023: 30.2mn), but EBITDA deteriorated by EUR 0.8mn (9M: 0.1mn). One participant in the call said that this was counterintuitive, given the higher sales in Q4 and thus, higher capacity utilisation should have led to a higher profitability. Why was there an EBITDA-loss in Q4? A big customer stopped an order.

Share North America: Used to be 50-50%. Now Europe 85%.

Immersion cooling: proof of concept. The company received promising feedback from the premium OEM. 30% better than competitor products. More newsflow expected in Q324.

Why higher raw materials? Arguably, cell prices went down, but other costs went up.

We asked if the development of the European electric vehicle market is worrying. We mentioned an article in edriver.com, where several European producers are postponing new model launches as there is soft demand. The company said that because of all the inhouse production of European car producers that this does not concern them. The company is exposed to the electric bus development (the Turkish company Dargan and Lion Electric in Canada). We might add: While Lion Electric is suffering from a weaker order book (due to the timing of the subsidy program), the newsflow from Dargan is positive.

Possible change of the administration in the U.S: The introduction of the Biden climate package (Inflation Reduction Act) has helped to drive demand for batteries considerably. The company thought that less than a new President, but more the technical details (what qualifies as made in the U.S. – given the cell supplier relation with SVOLT – in order to be able to benefit from the many tax benefits) are important. If Trump stopped this, because of China's importance, it would grind to a halt, as 80% of the cells are sold by China.

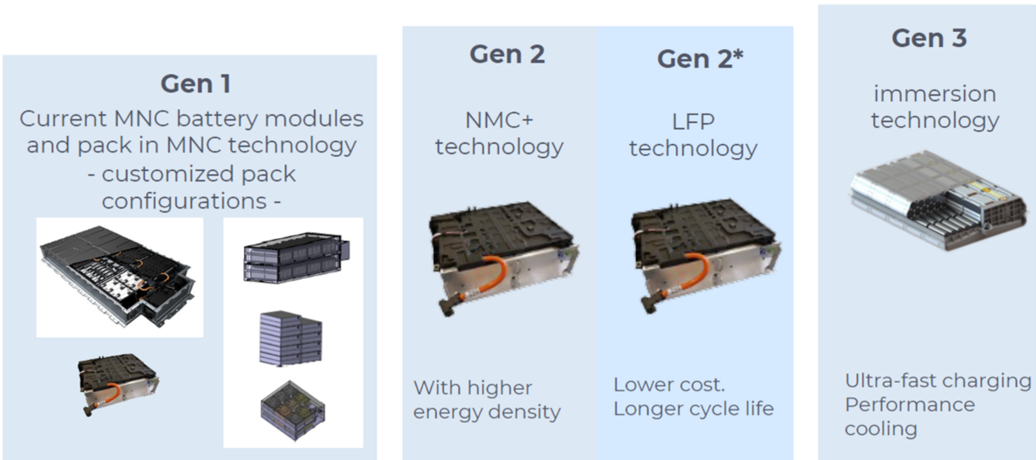
Given the strong demand in the U.S. we think that the company has eventually to go for a U.S. plant. A co-investment could lower the necessary capex. We think the company has to act prudently. The balance sheet does not allow for a mistake, and a new Trump administration could create a lot of uncertainty.

TÜV Sued JV: steadily growing.

Capital market day: No definitive date was announced.

THE PRODUCT PORTFOLIO LOOKS LIKE THIS

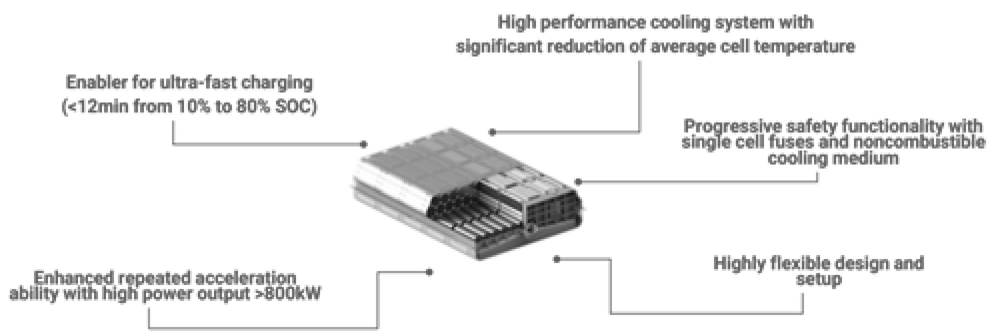
Figure 1: Product portfolio



Sources: LION E-Mobility, Mirabaud Securities

In the Q4 conference call, the company expressed optimism for its GEN3 product (LIGHT Battery). The features were like this (see Figure 2).

Figure 2: LIGHT Battery



Sources: LION E-Mobility, Mirabaud Securities

LION has been working on an immersion cooled battery pack since several years. Importantly, LION is currently testing prototypes with a premium OEM.

In this context, the announcement of early November 23 is interesting, in our opinion. The company appointed Dr. Ralf Eichhorn as the chairman of the newly established Global Technical Advisory Committee. He was the main Board member and Chief Engineer of Bentley Motors and later the chief technology officer for the Volkswagen Group. We think that this appointment is a statement for a company with revenues of less than EUR 100mn and an endorsement of the technological potential.

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What could be a total addressable market for the LIGHT Battery?

It was reported by Business Wire some time ago that the global immersion cooling fluids market is projected to reach USD 3,837.0mn by 2032 from USD 205.8mn in 2021. This would correspond to a CAGR of 30.78% during the forecast period 2022-2032.

We have not incorporated any revenue estimate for the LIGHT Battery in our excel model. There are two reasons for this: the small size of LION E-Mobility's R&D budget, the mighty competition, and the long-time of development. We would like to add. The company is optimistic, and a success is upside.

AGREEMENT WITH SVOLT

LION E-Mobility announced in early March 2024 that the company has specified and timelined the already announced collaboration with SVOLT after the inspection of the test samples in China. The company said that SVOLT would develop two new cells directly for LION Smart, a fully-owned subsidiary of LION E-Mobility AG. The first samples are to be delivered to LION in May 2024, and shipping of the battery packs with the SVOLT cell technology is expected to start in Q4 2024, according to the company. The high performance battery packs will integrate both NCM (NMX) (NCM: nickel, cobalt and manganese, NMX : nickel-manganese) High Energy as well as LFP (lithium ferrophosphate) cells. In addition, the two partners agreed on an intensified cooperation. The company added that in this respect, LION and SVOLT would regularly exchange information on technological innovations and co-operate in the development of new battery packs. LION E-Mobility mentioned that according to the cooperation agreement, the production of NMC (NMX) High Energy and LFP cells for LION´s Generation 2.0 battery packs will be ramped up in Europe in 2025 to secure a shorter supply chain and more environmentally friendly logistics, especially if SVOLT opens manufacturing site in Europe.

On top of this further product diversification and higher functionalities of the current one, we continue to believe that the significant benefits of the SVOLT agreement for LION are: 1) cheaper supplies vs. the current procurements from Samsung (c. 10% below), 2) the placement of smaller sized orders to better meet demand requirements and consequently improve working capital management and potentially 3) further additional improvements could come from the reduction of supply chain times and CO2 emissions if finally SVOLT starts production in Europe.

CONCLUSION

We continue to like LION E-Mobility because of the very strong operational earnings opportunities. Batteries are key components of the energy transformation.

LION E-MOBILITY

While there is no single solution for the climate crisis, batteries play a crucial role in the energy transition – enabling the electrification of vehicles as well as the storage of energy to support electricity grids and the use of renewable.

Climate change is a major concern worldwide that has motivated the transformation of the energy sector to swiftly reduce the greenhouse emissions that cause it. The 2015 Paris Agreement on Climate Change, the first-ever universal legally binding global climate change agreement, established the goal of limiting the increase of global temperatures to a maximum of 2 degrees Celsius and pursuing efforts to limit such increase to 1.5 degrees Celsius.

LION E-Mobility has only one plant, in Europe. A U.S.-based production should be in the cards due to the quickly growing demand in the U.S. coupled with the USD 369bn Inflation Reduction Act, which, among others, aims to significantly fund investments into the U.S. energy infrastructure, including the whole EV value chain. We feel that given the pending presidential elections a decision could be after November.

Depending on the development of its customer base, we see a high likelihood of LION building a U.S.-based greenfield battery pack production, which would cost around USD 30mn-80mn. The conditions in the U.S. are so attractive due to the Biden climate package, and growth because of the support of electrification should be very high.

Due to the high level of uncertainty, we do not include this significant investment in our projections, albeit this decision will be a game changer for the company both in operating terms and in the financial structure. It is highly probable that part of the resources required by the new asset will be in the form of equity-related instruments for current shareholders.

Thus, we think an expansion in the U.S. with a new plant would be earnings-accretive. We believe strategically, it is a must as even exporting only 15% of revenues is inefficient.

In the near term, we expect additional positive news flow regarding customer wins and a growing order backlog.

Given the large pent-up demand, the market outlook should be strong for many years to come.

On the valuation side, we value the stock on the average of battery universe multiples and DCF. Our average of the battery universe indicates a value of EUR 4.6.

Our DCF is deliberately very modest. Our WACC stands at a very conservative 14.1%. The DCF assigns a valuation of EUR 4.9/share.

Figure 3: LION E Mobility DCF Valuation

DCF Valuation	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Revenues	**56**	**63**	**80**	**124**	**171**	**204**	**384**	**404**	**405**	**405**	**413**	**422**	**430**
Var (%)		12.5%	26.7%	54.7%	38.6%	18.8%	88.6%	5.2%	0.2%	0.2%	2.0%	2.0%	2.0%
EBITDA	**-0.7**	**0.5**	**1.5**	**3.6**	**7**	**10**	**23**	**28**	**29**	**30**	**30**	**31**	**32**
DDA	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-1.0
EBIT	**-1.6**	**-0.4**	**0.6**	**2.7**	**5.9**	**9.2**	**22.0**	**26.7**	**27.8**	**28.9**	**29.5**	**30.1**	**30.7**
Tax o/ EBIT	0.0	0.0	0.0	0.0	-0.7	-1.4	-4.1	-5.3	-5.6	-5.8	-5.9	-6.0	-6.1
WCR	4.2	0.5	0.0	-1.0	-0.7	0.1	-6.0	-2.6	-2.0	-2.0	-2.1	-2.1	-2.2
Capex	-10.2	-5.3	-1.8	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.1
Unlevered CF	**-6.7**	**-4.3**	**-0.2**	**1.6**	**4.4**	**7.9**	**11.8**	**18.7**	**20.1**	**21.0**	**21.4**	**21.9**	**22.3**
% Revenue	-11.9%	-6.8%	-0.3%	1.3%	2.6%	3.9%	3.1%	4.6%	5.0%	5.2%	5.2%	5.2%	5.2%
Main Hypothesis													
EBIT mrg	-2.9%	-0.7%	0.8%	2.2%	3.4%	4.5%	5.7%	6.6%	6.9%	7.1%	7.1%	7.1%	7.1%
Capex/DDA	11.33	5.83	1.94	1.11	1.11	1.11	1.11	1.11	1.11	1.11	1.11	1.11	1.11
DDA/Sales	-1.6%	-1.4%	-1.1%	-0.7%	-0.5%	-0.4%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
WCR/sales	7.5%	0.8%	0.0%	-0.8%	-0.4%	0.1%	-1.6%	-0.6%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%
Capex/Sales	-18.2%	-8.3%	-2.2%	-0.8%	-0.6%	-0.5%	-0.3%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
Tax rate/EBIT	0.0%	0%	0%	0%	-11%	-15%	-19%	-20%	-20%	-20%	-20%	-20%	-20%
PV Calculations													
Periods	0.0	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0	12.0
Discounted cash flow	**-6.7**	**-3.8**	**-0.2**	**1.1**	**2.6**	**4.1**	**5.3**	**7.4**	**7.0**	**6.4**	**5.7**	**5.1**	**4.6**

Sources: Company data, Mirabaud Securities

Figure 4: LION E Mobility DCF result

DCF Valuation	
PV of FCF	45
PV of Terminal Value	37
Enterprise value	**82**
(-) Net Debt 24e	-22.9
(+) Affiliates	2.8
(-) Provisions	-0.9
Equity value	**61**
Fully Diluted Shares	12
Equity fair value	**4.9**
Implied terminal EBITDA multiple	6.0

Sources: Company data, Mirabaud Securities

Figure 5: LION E Mobility DCF Valuation Parameters

WACC Calculation	
Risk free rate	5.00%
Equity Risk Premium	9.5%
Beta	1.7
Cost of Equity	**20.7%**
Credit spread	6.0%
Cost of debt	**11.0%**
Normalised tax rate	20%
Leverage	55%
WACC	**14.1%**
Perpetual growth rate	**1.50%**

Sources: Company data, Mirabaud Securities

The average of the two methodologies reaches EUR 4.8/share, which is our new target price.

Figure 6: LION E Mobility Valuation Methods

Valuation Summary	Enterprise Value	Equity Value (EUR m)	Target Price (EUR/sh.)
DCF Valuation	82	61	4.9
Multiple Valuation	78	57	4.6
Average	**80**	**59**	**4.8**

Sources: Company data, Mirabaud Securities

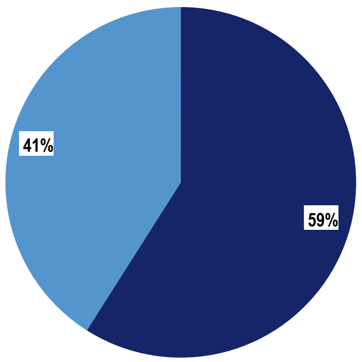
Overall, despite sizeable risks, we think the growth outlook of LION E-Mobility is very good. We reduced our earnings estimates and now forecast the company to reach a double-digit EBITDA in the year 2028 (EUR 10.1mn). At the current share price level, the stock offers a good risk-return.

LION E-MOBILITY

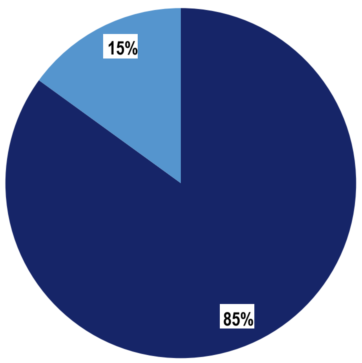
Fiscal Year ending December 31

CALENDAR

REVENUES SPLIT PER SEGMENT FY23



REVENUES SPLIT PER REGION FY23



VALUATION (x)	FY 2023	FY 2024E	FY 2025E	FY 2026E	FY 2027E
P / E	nm	nm	nm	2,112.7	7.7
P / E adjusted	nm	nm	nm	2,112.7	7.7
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%

INCOME STATEMENT (EUR m)	FY 2023	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Revenue	56	63	80	124	171
Gross profit	9	11	15	24	34
EBITDA	-1	0	2	4	7
EBIT	-2	-0	1	3	6
Pre-tax profit	-3	-2	-2	0	3
Income taxes	0	0	0	-0	-1
Net income	-3	-2	-2	0	3
EPS (EUR)	-0.24	-0.19	-0.16	0.00	0.22
Adjusted EPS (EUR)	-0.24	-0.19	-0.16	0.00	0.22
Fully diluted EPS (EUR)	-0.24	-0.19	-0.16	0.00	0.22
DPS (EUR)	0.00	0.00	0.00	0.00	0.00
Payout ratio	0.00	0.00	0.00	0.00	0.00
Margins					
Gross profit	16.8%	18.0%	18.7%	19.3%	19.9%
EBITDA	-1.2%	0.8%	1.9%	2.9%	4.0%
EBIT	-2.9%	-0.7%	0.8%	2.2%	3.4%
Pre-tax profit	-5.3%	-3.8%	-2.5%	0.0%	1.9%
Tax rate	0.0%	0.0%	0.0%	15.0%	20.0%
Net income	-5.3%	-3.8%	-2.5%	0.0%	1.6%
Growth rates					
Revenue	4.4%	12.5%	26.7%	54.7%	38.6%
EBITDA	-195.4%	167.8%	223.8%	136.8%	86.6%
EBIT	-159.7%	73.4%	249.9%	329.9%	115.1%
Net income	-266.3%	20.1%	15.6%	100.5%	27,498.6%
EPS	-266.3%	20.1%	15.6%	100.5%	27,509.3%

BALANCE SHEET (EUR m)	FY 2023	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Non-current assets	24	28	29	29	29
Current assets	45	45	45	45	45
Current liabilities	31	31	13	11	12
Long-term liabilities	17	23	26	27	25
Shareholders' equity	12	10	8	8	11
Net debt	17	23	26	27	25
Net debt / EBITDA (x)	-23.7	48.1	16.7	7.4	3.7

CASH FLOW (EUR m)	FY 2023	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net income	-3	-2	-2	0	3
Depreciation & amortisation	1	1	1	1	1
Other operating cash flow	0	0	0	0	0
Change in working capital	4	0	-0	-1	-1
Cash flow from operating activities	**2**	**-1**	**-1**	**-0**	**3**
Capex	-10	-5	-2	-1	-1
Cash flow from investing activities	**-10**	**-5**	**-2**	**-1**	**-1**

Sources: FactSet, Company data, Mirabaud estimates

RECOMMENDATIONS HISTORY

LION E-Mobility

Market Index: SPI

Date	Market Index Level	Stock Price (EUR)	Target Price (EUR)	Recommendation
4 Apr 2024	730	1.65	4.80	Buy
23 Oct 2023	652	1.86	5.30	Buy

RATINGS, CERTIFICATION AND DISCLOSURE

RATINGS SYSTEM

BUY: The stock is expected to generate absolute positive price performance of over 10% during the next 12 months.

HOLD: The stock is expected to generate absolute price performance of between negative 10% and positive 10% during the next 12 months.

SELL: The stock is expected to generate absolute negative price performance of over 10% during the next 12 months.

RISK QUALIFIER: Speculative: The stock bears significantly higher risk that typically cannot be valued by normal fundamental criteria and investment in the stock may result in material loss.

The ratings are applicable to all research produced after 1st January 2016

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