

VivoPower International

Toyota agreement a major milestone

VivoPower has signed a letter of intent (LOI) with Toyota Australia, which provides a significant endorsement of Tembo's electric vehicle technology. Along with three other distribution agreements announced in 2021, it provides increasing certainty to the anticipated volume ramp-up.

Year end	Revenue (\$m)	PBT* (\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
06/20	48.7	(1.0)	(12.0)	0.0	N/A	N/A
06/21e	41.6	0.1	0.4	0.0	N/A	N/A
06/22e	52.3	(0.9)	(4.1)	0.0	N/A	N/A
06/23e	133.1	(1.4)	(6.2)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Toyota LOI corroborates Tembo's technology

Toyota Australia has signed an LOI with VivoPower's electric vehicle (EV) subsidiary, Tembo, for a collaboration programme using Tembo conversion kits to electrify Toyota Land Cruisers. The final agreement is expected to confirm Tembo as an exclusive partner for electrification of Toyota Land Cruisers for a five-year period. This is the culmination of two years of collaboration and field trials in the harsh environment of the Australian mining sector. Toyota is the largest car company in the world (9.5m units in 2020), a position it has gained through technology, quality and manufacturing excellence. Hence, we see this agreement as providing strong endorsement of Tembo's technology.

Commercial agreements provide clarity to ramp-up

VivoPower has now signed four agreements/LOIs in 2021 as it builds an international distribution network for its EV business. This brings greater clarity and certainty to the volume profile as it looks to ramp up production in the coming years.

Valuation: \$19/share

The DCF valuation in our March [initiation note](#) stands at \$19 per share using a 13% WACC. The key delta is inevitably the fortunes of Tembo, including an assumption of 5,000 units per year in 2025. The agreements announced to date do not yet suggest the need to upgrade volume requirements, at least until the volumes from the Toyota LOI become clearer. However, these announcements are starting to reduce the risk associated with such a growth profile.

Strategic announcement

General industrials

22 June 2021

Price **US\$7.01**

Market cap **US\$118m**

US\$1.40/£

Net debt (US\$m) at 31 December 2020 8.3

Shares in issue 16.9m

Free float 42.4%

Code VVPR

Primary exchange Nasdaq

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 0.7 (25.4) 349.4

Rel (local) (0.9) (30.9) 229.5

52-week high/low US\$17.9 US\$1.3

Business description

VivoPower International's strategy is to provide sustainable energy solutions on an international scale. Key activities at present are electric vehicles, critical power and solar development. Its primary operations are in Australia, Europe and North America.

Next events

Results TBC

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Toyota LOI

VivoPower announced it has signed an LOI with Toyota Motor Corporation of Australia (TMCA) for a collaboration programme using the conversion kits designed by VivoPower subsidiary Tembo for electrification of the powertrain for Toyota Land Cruisers. The LOI is expected to convert into a master service agreement (MSA) under which Tembo will become Toyota's exclusive electrification partner for Land Cruisers for a period of five years. The deal is with TMCA hence, we understand, covers only Australia at present. We note that Australia is a key market for Toyota and Land Cruiser. We also understand that TMCA has been tasked by Toyota Motor Corporation (TMC) to develop an electric Land Cruiser and that this is the only such project globally within Toyota. This would suggest the potential for significantly greater geographic scope, particularly as we believe Toyota is unlikely to want to use multiple powertrain variances as this would add to complexity and cost.

Background

Tembo and Toyota have been working together for a number of years. Around two years ago they started collaborating on vehicles for two international mining groups in Australia. The Land Cruiser/Hilux is the vehicle of choice in the mining sector and Tembo has experience in ruggedisation and electrification. These vehicles have since been undergoing field trials, highlighted by the recent [announcement](#) from BHP.

The partnership, which initially involves the Land Cruiser only, will enable the launch of an off-road EV utility vehicle, fully tested in the harshest environment, into the wider market. The partnership will also permit a more seamless and lower-cost integration from the previous retrofit model (ie Tembo will be fitted into the original vehicle frame rather than the vehicle being purchased with an internal combustion engine and converted).

Volumes

Toyota sells c 400,000 Land Cruisers a year worldwide (total sales since launch in 1951 are now more than 10 million). In 2020, Toyota sold over 25,000 Land Cruisers in Australia and over 40,000 Hilux models. No volume commitments have been announced and they will, in part, depend on the speed of customer adoption of EVs. However, the potential would appear to be a magnitude greater than other recent Tembo agreements, as shown below. We expect the mining sector to be an early adopter given the expected financial benefits (reduced mine ventilation requirements, reduced vehicle maintenance and operating costs), along with increasing commitments to reducing emissions.

Future opportunities

The technology agreement covers Land Cruisers. There is potential to extend to other Toyota vehicles, with the Hilux being the closest model. Following this technology agreement, there is potential for further co-developments of the drive system and powertrain to improve performance.

Our interpretation of the agreement

The agreement is clearly a strong endorsement of Tembo and its technology. Not only is the agreement with the Australian subsidiary of the largest automotive company in the world, but it also covers a flagship model. It is also a step change for Tembo from re-kitting existing vehicles to being an integrated part of the manufacturing process.

Other recent contract announcements

VivoPower's Tembo EV business has signed a number of commercial agreements in 2021.

Exhibit 1: Summary of recent agreements

Date	Partner	Region	Contract	Technology	Volume (units)	Timescale	Value
January 2021	GB Auto	Australia	Definitive agreement	Conversion kits	2,000	4 years	\$250m
May 2021	Accès Industriel	Canada	Heads of terms	Conversion kits	1,675	5.5 years	\$120m
June 2021	Arctic Trucks	Nordic	Heads of terms	Conversion kits	800	5.5 years	\$58m
June 2021	Toyota	Australia	Letter of intent	Technology partnership		5 years	

Source: VivoPower

GB Auto

[GB Auto](#) is based in Australia. It is a leading provider of services, products and technology to fleet, heavy vehicle and mobile equipment, and specialises in the mining sector. GB has signed a definitive seven-year agreement under which it has committed to purchasing 2,000 Tembo electric conversion kits in the first four years including at least 500 kits in the first year. The value of the converted vehicles over the four years is estimated at around \$250m. The collaboration will focus on the next-generation 72kWh battery kit for the Land Cruiser and Hilux models and the mining sector.

Accès Industriel

[Accès Industriel](#) is a supplier of mechanical [equipment](#) to the mining and industrial sector in Canada. Activities include sales, servicing, customisation/ruggedisation and leasing. Tembo has entered into a non-binding heads of terms to distribute Tembo in Canada. Under the proposed agreement, Accès would purchase 1,675 Tembo electric drivetrain conversion kits through to December 2026 with an estimated value of \$120m.

Arctic Trucks

[Arctic Trucks](#) specialises in re-engineering, ruggedisation and conversion of four-wheel drive vehicles for extreme conditions. Tembo has entered into a non-binding heads of terms with Arctic to convert vehicles using Tembo electric kits in the Nordic region of Norway, Sweden, Iceland and Finland. Under the proposed agreement, Arctic Trucks would commit to purchasing 800 Tembo conversion kits over the next five and a half years with an estimated value of \$58m.

Exhibit 2: Financial summary

\$000s	2018	2019	2020	2021e	2022e	2023e
Year end 30 June	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue	33,647	39,036	48,710	41,592	52,320	133,149
Cost of Sales	(28,524)	(32,726)	(40,885)	(35,963)	(47,313)	(112,438)
Gross Profit	5,123	6,310	7,825	5,629	5,007	20,711
EBITDA	(6,335)	(3,990)	3,935	4,940	5,254	11,551
Normalised operating profit	(7,595)	(5,410)	2,169	2,281	217	2,103
Amortisation of acquired intangibles	0	0	0	0	0	0
Exceptionals	(23,156)	(2,017)	(3,410)	(1,900)	0	0
Share-based payments	0	0	0	0	0	0
Reported operating profit	(30,751)	(7,427)	(1,241)	381	217	2,103
Net Interest	(3,386)	(3,239)	(3,149)	(2,194)	(1,110)	(3,474)
Profit Before Tax (norm)	(10,981)	(8,649)	(980)	86	(893)	(1,371)
Profit Before Tax (reported)	(34,137)	(10,666)	(4,390)	(1,814)	(893)	(1,371)
Reported tax	6,258	(557)	(713)	453	223	343
Profit After Tax (norm)	(10,981)	(8,649)	(1,176)	65	(670)	(1,029)
Profit After Tax (reported)	(27,879)	(11,223)	(5,103)	(1,360)	(670)	(1,029)
Basic average number of shares outstanding (m)	13,557	13,557	13,557	15,700	16,500	16,500
EPS - basic normalised (c)	(81.00)	(63.80)	(12.00)	0.41	(4.06)	(6.23)
EPS - diluted normalised (c)	(81.00)	(63.80)	(12.00)	0.41	(4.06)	(6.23)
EPS - basic reported (c)	(205.64)	(82.78)	(37.64)	(8.66)	(4.06)	(6.23)
Dividend (\$)	0.00	0.00	0.00	0.00	0.00	0.00
BALANCE SHEET						
Fixed Assets	55,034	36,826	41,907	44,803	54,192	84,154
Intangible Assets	36,402	31,762	29,849	31,750	40,423	46,206
Tangible Assets	1,915	2,951	2,486	3,678	4,393	28,573
Investments & other	16,717	2,113	9,572	9,375	9,375	9,375
Current Assets	21,278	36,283	20,473	46,143	22,580	32,839
Stocks	0	0	0	1,146	1,588	5,476
Debtors	7,903	14,992	12,556	10,721	12,399	19,770
Cash & cash equivalents	1,939	7,129	2,824	29,182	5,000	5,000
Other	11,436	14,162	5,093	5,093	3,593	2,593
Current Liabilities	(20,610)	(29,133)	(19,679)	(16,472)	(19,004)	(28,704)
Creditors	(14,082)	(24,639)	(15,395)	(13,046)	(14,891)	(22,511)
Tax and social security	(103)	(449)	(75)	(528)	(305)	38
Short term borrowings	(3,955)	(2,327)	(1,312)	0	0	0
Other	(2,470)	(1,718)	(2,897)	(2,897)	(3,808)	(6,231)
Long Term Liabilities	(18,699)	(21,460)	(24,811)	(26,954)	(21,297)	(54,051)
Long term borrowings	(18,385)	(19,359)	(24,642)	(25,954)	(19,983)	(51,901)
Other long-term liabilities	(314)	(2,101)	(169)	(1,000)	(1,314)	(2,151)
Net Assets	37,003	22,516	17,890	47,519	36,470	34,237
Minority interests	0	0	184	6,300	6,301	6,302
Shareholders' equity	37,003	22,516	18,074	53,819	42,771	40,539
CASH FLOW						
Op Cash Flow before WC and tax	(6,335)	(3,990)	3,935	4,940	5,254	11,551
Working capital	18,461	570	(3,145)	(829)	1,040	(584)
Exceptional & other	(3,229)	684	(4,999)	(3,843)	(500)	0
Tax	0	0	(477)	(475)	0	0
Net operating cash flow	8,897	(2,736)	(4,686)	(208)	5,793	10,967
Capex	1,196	116	(452)	(4,752)	(14,426)	(39,410)
Acquisitions/disposals	(17,823)	11,736	746	(1,500)	0	0
Net interest	(3,386)	(3,243)	(515)	(2,194)	(1,110)	(3,474)
Equity financing	0	0	0	26,358	0	0
Dividends	0	0	0	0	0	0
Other						
Net Cash Flow	(11,116)	5,873	(4,907)	17,705	(9,742)	(31,918)
Opening net debt/(cash)	(9,285)	(20,401)	(14,557)	(22,945)	(5,240)	(14,983)
FX	0	1,102	(3,100)	0	0	0
Other non-cash movements	0	(1,131)	(381)	0	0	0
Closing net debt/(cash)	(20,401)	(14,557)	(22,945)	(5,240)	(14,983)	(46,901)

Source: VivoPower International accounts, Edison Investment Research

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