

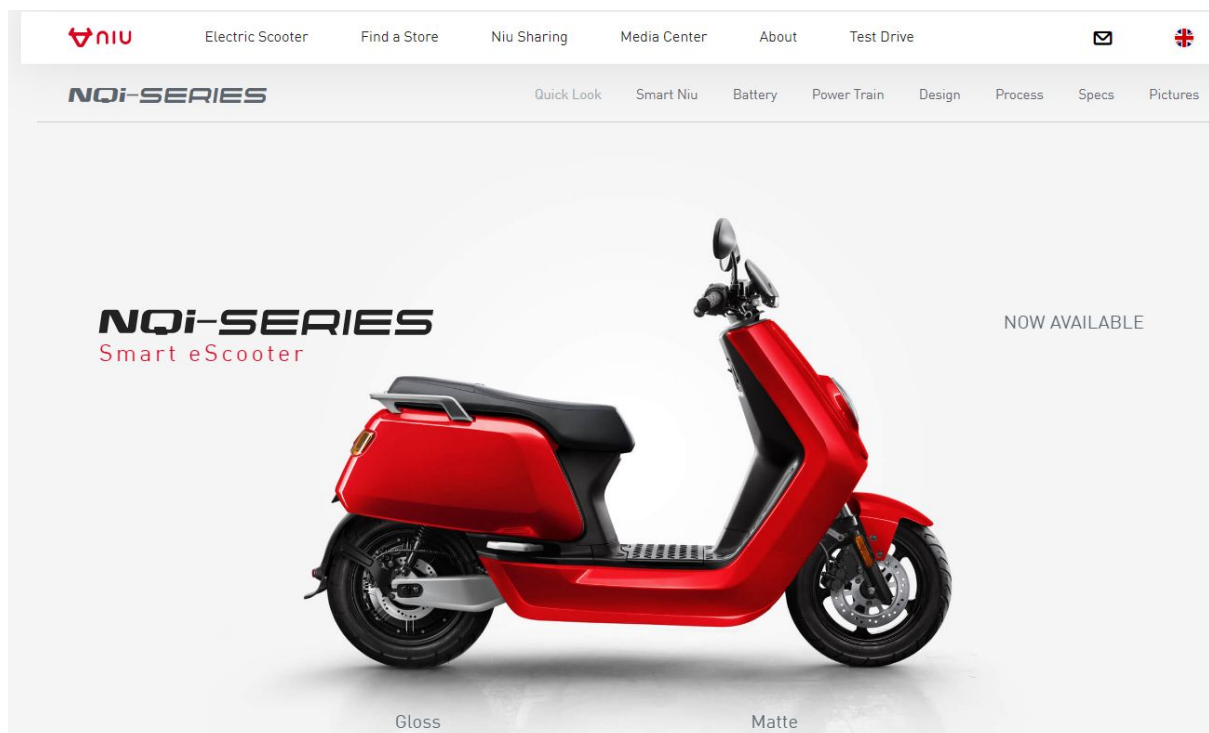
## NIU: Attractive Business Model, But Share Price Is Not Attractive

Smart e-scooters' manufacturer NIU (NIU) delivers double digit sales growth, and targets a massive market. The amount of employees is growing at a fast pace, which will most likely lead to additional sales. The share price is not extremely attractive, but I believe that both growth investors and value investors will be attracted by the company's business model. In my view, they will follow the company's next moves.

### Market Opportunity And Sales Growth

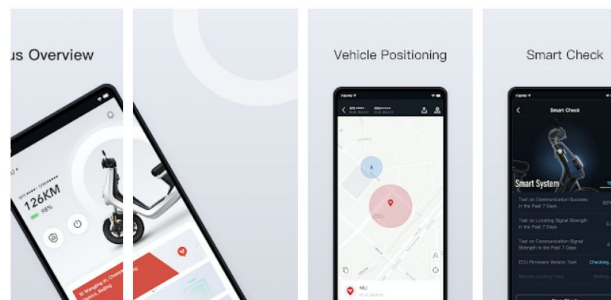
Founded in 2014, NIU launched its smart e-scooters in June 2015. The company has noted in its annual [report](#) that it has manufactured a new market segment consisting of smart electric two-wheeled vehicles:

*We have created a new market category. Before NIU, smart electric two-wheeled vehicles did not exist in China, and two-wheeled vehicles were perceived as low-end. We have changed that perception with our smart e-scooters. We currently design, manufacture and sell high-performance electric bicycles and motorcycles. Source: [20-F](#)*



Source: [Company's Website](#)

NIU's portfolio of scooters includes [four](#) e-scooter series. Among the different features offered by NIU, I would like to focus on the company's app and cloud technologies. NIU drivers use the app to locate the scooter, obtain riding data, as well as real-time status of the battery. That's not all. NIU offers online services through the app, including online repair request, insurance superscription, washing services, and theft reporting among others:



The NIU App provides users with comprehensive vehicle services, including:

- Vehicle: Remaining battery level and range estimate, GPS positioning, security alert, past routes and riding statistics;
- Service: Service station inquiry, intelligent service activation and inquiry;
- Me: Vehicle management, personal and binding information management, App Settings.

Source: [Google Play](#)

NIU appears to be targeting a massive market size. According to Grand View Research, the company's target market will be equal to \$41 billion by 2030, and will grow at a CAGR of 7.7%. The current market cap is below \$4 billion, and sales are below \$500 million. Hence, if NIU is about to gain market share in the future, the growth potential appears significant:

## E-scooters Market Size Worth \$41.98 Billion By 2030 | CAGR: 7.7%

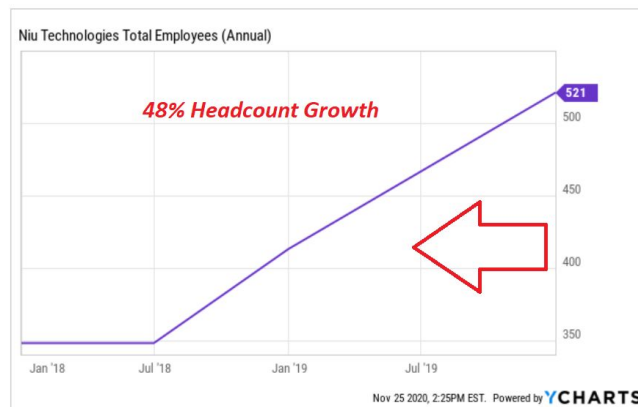
February 2020 | Report Format: Electronic (PDF)

### E-scooters Market Growth & Trends

The global [electric scooters market](#) size is expected to reach **USD 41.98 billion by 2030 at a CAGR of 7.7%** over the forecast period, according to a study conducted by Grand View Research, Inc. Increasing adoption of e-scooters among the young population, the rising purchasing power of the middle-class community in developing countries, and rapid urbanization are expected to significantly drive product demand across the globe. Electric scooters offer affordable last-mile transportation as compared to on-demand transportation. Agility and ease of maneuver in densely populated areas with high traffic congestion are additional advantages these vehicles offer, which is expected to fuel E-scooters' market growth.

Source: [Market Opportunity](#)

If you are a growth investor looking for growth stories, you will need to have a look at NIU. NIU has increased its headcount growth at a massive rate in 2020. According to Ycharts, from July 2018, the number of employees increased by 48%. I do believe that the employees growth will most likely lead to sales growth in 2020, 2021.



Source: [Ycharts](#)

## Brand Awareness Efforts, And Big Data

NIU appears to be making a lot of efforts to create a premium brand. For instance, in 2018, the company collaborated with McLaren to design NIU-McLaren smart e-scooters. These efforts are generating customer loyalty. Note that in 2017, NIU increased its retail price and still obtained massive sales volume:

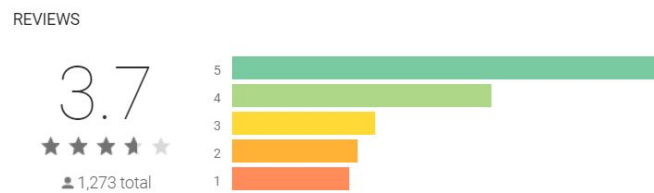
“Although we increased the retail price across a majority of our e-scooter models in March 2017, with the volume-weighted average retail price increasing by 8.2%, we were still able to achieve a solid growth of 123.2% in sales volume in 2017, as compared to 2016.” Source: 20-F

There is something very valuable that other motorbike manufacturers don't have. NIU has access to a significant amount of data collected from different sources. In December 2019, the company had connected more than 880,000 smart e-scooters to their servers. Undoubtedly, the data from the customers can be valuable for many purposes:

“We have accumulated massive amount of data from multiple sources. We currently collect 462 types of data points covering 72 dimensions such as humidity, lighting and temperature, from our Cloud ECU and up to 32 sensors installed on each smart e-scooter. We also collect data from our NIU app, company’s websites, e-commerce platforms, as well as through providing repair and maintenance services.” Source: 20-F

## Feedback From Users

I reviewed the feedback given by the users of the app. Most commentaries were positive. With more than 1,200 comments, the company obtained 3.7 out of 5 stars. Notice that anybody can comment on Google play:



Source: Google Play

According to Google Play, NIU App obtained more than 10,000 installs. The last updated version was released in November 2020. NIU appears to be releasing a new app version when new bugs appear:

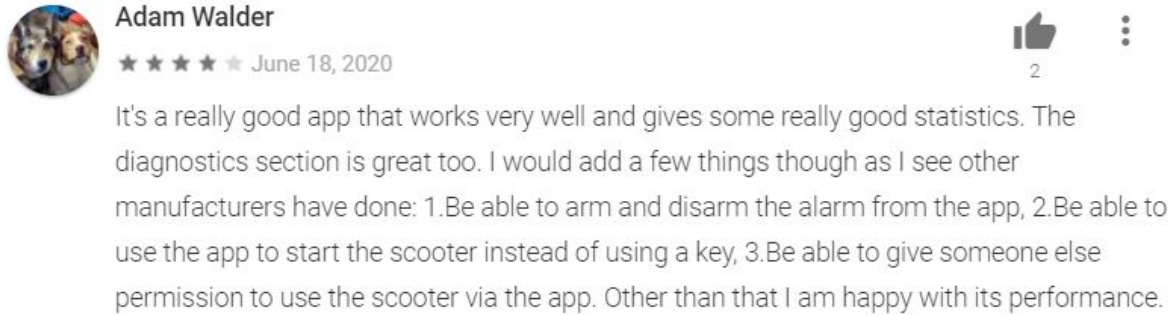
ADDITIONAL INFORMATION

<b>Updated</b> November 3, 2020	<b>Size</b> 37M	<b>Installs</b> 10,000+
<b>Current Version</b> 4.5.3	<b>Requires Android</b> 5.0 and up	<b>Content Rating</b> PEGI 3 <a href="#">Learn more</a>
<b>Permissions</b> <a href="#">View details</a>	<b>Report</b> <a href="#">Flag as inappropriate</a>	<b>Offered By</b> Google Commerce Ltd

Source: Google Play

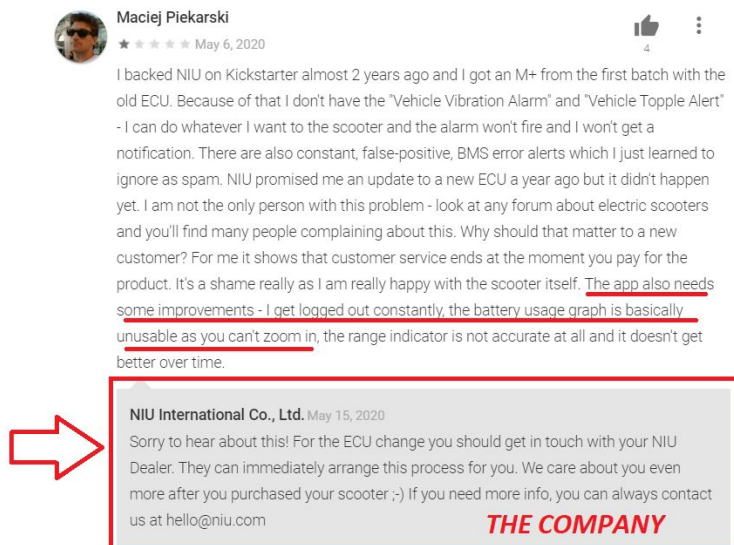
I cannot show all the comments. However, I will try to show the most interesting comments. Most users say that the app provides very valuable information and stats. Interestingly, some users offer some recommendations to NIU developers. I could find developers answering

questions, and reading the comments. I believe that this communication will help the company in the following years:



Source: [Comments In Google Play](#)

To be fair, let's mention bad comments also. In an old comment written in May 2020, a user noted that customers are not receiving updates from NIU. In addition, he pointed out that app users get logged out constantly. Have a look at the comment below, and also notice that NIU responded:



Source: Comments In Google Play

## Company Expects Increases In Sales In 2021 And 2022

The number of e-scooters sold in China grew by 70.2% y/y. In the international markets, NIU reported only 6.3% increase. However, most investors will not really care about the international markets. Note that in Q3 2020, 82% of the total amount of sales were reported in China. I would like to mention one of the most relevant indicators of sales growth. In the



last quarter, the number of stores in China grew by 14%. Besides, the company is also increasing the number of distributors. In my opinion, an increase in stores and sellers will most likely lead to an increase in sales in the future. That's not all. The fact that more and more distributors want to work with NIU is very beneficial. They know their industry very well. If they like NIU, it is because they see a lot of business potential in its products:

### Third Quarter 2020 Operating Highlights

- The number of e-scooters sold reached 250,889, up 67.9% year over year
- The number of e-scooters sold in China reached 245,293, up 70.2% year over year
- The number of e-scooters sold in the international markets reached 5,596, up 6.3% year over year
- The number of franchised stores in China was 1,266, an increase of 182 since June 30, 2020 **14% Increase**
- International sales network expanded to 36 distributors covering 46 countries

Source: [10-Q](#)

NIU suffered a bit from the COVID19 crisis. Total sales in Q3 2020 increased to 36.7% y/y. In 2018 and 2017, the company delivered more than 92% sales increase y/y. I would expect NIU to reach more sales growth in 2021 than that in 2020. Even if COVID19 does not disappear completely, think about the following. Drivers may protect themselves by driving a scooter instead of a car.

Revenues (in RMB million)	2020 Q3	<b>82%</b>	2019 Q3	% change YoY
E-scooter sales from China market	740.8		532.1	+39.2%
E-scooter sales from international markets	59.6		44.1	+35.2%
E-scooter sales, sub-total	800.4		576.2	+38.9%
Accessories, spare parts and services	94.1		78.3	+20.2%
Total	894.5		654.5	+36.7%

Source: 10-Q

	For the Year Ended December 31,				
	2016 RMB	2017 RMB	2018 RMB	2019	
				RMB	US\$
(in thousands, except for share amounts and per share data)					
<b>Selected Consolidated Statements</b>					
<b>(Loss)/Income Data:</b>					
Revenues	354,810	769,368	1,477,781	2,076,289	298,240
Cost of revenues <sup>(1)</sup>	(367,587)	(714,670)	(1,279,156)	(1,589,738)	(228,351)
Gross (loss)/profit	(12,777)	54,698	198,625	486,551	69,889

Source: 20-F

NIU will be liked by value investors because it reports positive net income. In the nine months ended September 30, 2019, NIU had a net margin of 8%.

In the same period in 2020, the net margin was 6%. As a growth investor, I would prefer that the company increase its R&D expenses. With that, profitability will not harm growth investors.

	Nine months ended September 30,		
	2019	2020	
	RMB	RMB	US\$
Revenues	1,540,182,595	1,772,339,186	261,037,349
Cost of revenues <sup>(a)</sup>	(1,193,792,703)	(1,382,236,093)	(203,581,373)
<b>Gross profit</b>	<b>346,389,892</b>	<b>390,103,093</b>	<b>57,455,976</b>
<b>Operating expenses:</b>			
Selling and marketing expenses <sup>(a)</sup>	(133,992,951)	(140,614,281)	(20,710,245)
Research and development expenses <sup>(a)</sup>	(48,097,804)	(75,611,663)	(11,136,394)
General and administrative expenses <sup>(a)</sup>	(53,350,498)	(74,779,905)	(11,013,890)
<b>Total operating expenses</b>	<b>(235,441,253)</b>	<b>(291,005,849)</b>	<b>(42,860,529)</b>
Government grants	16,371,120	9,202,371	1,355,363
<b>Operating income</b>	<b>127,319,759</b>	<b>108,299,615</b>	<b>15,950,810</b>
Interest expense	(8,185,509)	(5,609,889)	(826,247)
Interest income	14,650,950	7,073,118	1,041,758
Investment income	3,381,554	8,208,884	1,209,038
<b>Income before income taxes</b>	<b>137,166,754</b>	<b>117,971,728</b>	<b>17,375,359</b>
Income tax expense	(7,788,302)	(7,514,361)	(1,106,746)
<b>Net income</b>	<b>129,378,452</b>	<b>110,457,367</b>	<b>16,268,613</b>

Source: 10-Q

## Balance Sheet

NIU reports a significant amount of cash, term deposits, and investments. In total, I counted \$217 million in liquidity, close to 9% of the market capitalization. The current amount of liquidity is another great feature that value investors will most likely appreciate. Among the assets, NIU also discloses \$25 million in property and equipment, which represent the new factories built very recently. Remember that the company commenced operations in 2015. The property is new.

	<u>September 30,</u>
	<u>2020</u>
	US\$
<b>ASSETS</b>	
<b>Current assets</b>	
Cash and cash equivalents	23,293,935
Term deposits	35,213,437
Restricted cash	26,050,628
Short-term investments	133,139,164
Accounts receivable, net	5,701,872
Inventories	21,172,937
Prepayments and other current assets	4,936,862
<b>Total current assets</b>	<b>249,508,835</b>
<b>Non-current assets</b>	
Property and equipment, net	25,648,086
Intangible assets, net	922,456
Land use right, net	4,983,285
Deferred income tax assets	2,542,273
Other non-current assets	6,606,642
<b>Total non-current assets</b>	<b>40,702,742</b>
<b>Total assets</b>	<b>290,211,577</b>

Source: 10-Q

I like quite a bit that NIU reports a small amount of financial debt, only \$26 million. That's not all. The company notes advances from customers worth \$4.1 million, and deferred revenue of \$3.5 million. It means that clients are financing NIU's operations, which is quite ideal. The company will not have to talk a lot to bankers.

<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Short-term bank borrowings	26,511,135
Accounts payable	80,906,095
Income taxes payable	2,953,741
Advance from customers	4,173,879
Deferred revenue-current	3,546,056
Accrued expenses and other current	29,595,995
<b>Total current liabilities</b>	<b>147,686,901</b>
Deferred revenue-non-current	541,684
Deferred income tax liability	—
Other non-current liabilities	4,159,513
<b>Total non-current liabilities</b>	<b>4,701,197</b>
<b>Total liabilities</b>	<b>152,388,098</b>

Source: 10-Q

**Value Investors Will Most Likely Believe That NIU Is Expensive**



As of September 30, 2020, the company reported a weighted average number of ordinary shares of 156 million. Each ADS represents two shares. With each ADS at \$29-\$32, the market capitalization is equal to \$2.2-\$2.4 billion. If we assume sales of \$652 million and 6% net income margin, 2021 net income would be \$39 million. Taking into account those figures, NIU has a PE of 58x. In my view, value investors will consider the company a bit expensive.

Annual Income Statement Data					
Fiscal Period: <b>December</b>	2017	2018	2019	2020	2021
Net sales <sup>1</sup>	769	1 478	2 076	2 493	4 290

<sup>1</sup> CNY in Million    <sup>2</sup> CNY

**\$652**

Source: [Market Screener](#)

With a market capitalization of \$2.3 billion, debt of \$26 million, and liquidity of \$217 million, the valuation equals close to \$2.1 billion. With 2021 sales of \$652 million, NIU trades at 3.2x. Sales increase in Q3 2020 was equal to 36.7% y/y. For certain investors who don't appreciate risk, with sales growth of only 36.7% y/y, NIU would not be cheap at 3.2x sales. If you appreciate risk and believe that NIU will sell more in 2021, NIU is not that expensive. Personally, right now, I would not be buying shares.

### My Take

With access to valuable data and a rising market opportunity, NIU will most likely attract many growth investors. I would expect the company to deliver a significant amount of business growth from 2020. With that, I am not a buyer at the current share price. I will try to grab shares at 2.5x sales or below \$25. With sales growth of 36.7%, I don't feel like paying more than that for the shares. If you appreciate risky bets, you can buy at the current price mark. However, remember that if NIU does not report more sales growth in 2021 and 2022, I would not expect the share price to go up.