



Kogan.com Ltd (KGN.ASX)

Kogan.com outperformed prospectus forecast in 1Q17.

Event:

- Appendix 4C cash flow statement.

Investment Highlights:

- KGN released its cash flow statement for 1Q17 on 20th October.** In the accompanying announcement with 4C, KGN management described 1Q17 as outperforming expectations. Revenue, gross profit and pro-forma EBITDA, all trending above prospectus forecast by +10%, +20% and +30% respectively at the end of 1Q17. The cash balance at the end of 1Q17 was \$31.7M.
- Although KGN didn't release the actual sales figure for 1Q17, but looking at the receipts, this was also above our expectations.** Total receipts from customers during the quarter were \$68.6M, and after we adjust downwards by 5% for refunds and cancellation, gives an approximate revenue of \$65.1M for 1Q17. This was 14% above our revenue forecast of \$57.0M for 1Q17.
- We believe that KGN's growth rate will continue to improve as new inventory has just started to arrive with full impact to become visible in 2Q17.** A major portion of that new inventory is the higher margin private label brands. This will lead to further improvement in margin as 3rd party international products, 3rd party domestic products and KGN mobile mainly contributed to margin improvement and growth during 1Q17.
- KGN's active paying customers during FY17e to increase by more than +20%.** Based on 1Q17 figures and KGN's average revenue per customer of \$294, we forecast KGN's active paying customers during FY17 will grow to more than 850k, a substantial increase from 702k active paying customers during the 12 month to June 2016.

Valuation and Earnings

- We are increasing revenue growth estimates for FY17e and FY18e.** We now expect sales revenue of \$290.1M and \$361.2M above our previous estimate of \$285.1M and \$354.9M. The NPAT forecast has also been increased for FY17e and FY18e to \$4.5M and \$7.0M from \$4.4M and \$6.9M based on growth in 1Q17.
- We believe risk is that KGN will likely exceed our revenue and margin forecast for FY17e.** We anticipate that current trend in revenue and margin growth will improve over the next 3 quarters. KGN's investment in technology has improved order processing time between 1 to 2 days during the last 12 to 18 months. 1Q17 performance clearly indicates that KGN is benefiting from the rise in online retail in Australia. New verticals like mobile are also gaining popularity.
- We have revised our DCF valuation to A\$2.44 from A\$2.41 to reflect improving trend in growth.**

Recommendation

- We see 1Q17 result announcement at the AGM on 18th November as the key near term catalyst.** The 2Q17 result post key December shopping season and launch of new verticals as other short term catalysts.
- We maintain our **BUY** rating on KGN with a price target of **A\$2.44** in line with our valuation.

Rating	Buy
Previous	Buy
Price Target (A\$)	A\$ 2.44
Previous	\$2.41
Risk	Low
Share price	A\$ 1.630
ASX code	KGN
52 Week Low-High	\$1.45-1.80

Capital Structure

Shares on Issue (M)	93.3
Market Cap (A\$M)	152.1
Net Cash (Debt) (A\$M)	31.7
EV (A\$M)	120.4
Options on issue (M)	0.0
Performance rights	0.6
Diluted mkt cap (A\$M)	153.2
1mth Av Daily Volume ('000)	238

Y/e Jun (A\$M)	2016a	2017e	2018e	2019e
Sales Revenue	211.2	290.1	361.2	433.5
Gross Profit	32.7	48.3	61.4	75.9
EBITDA \$M	4.0	9.1	12.6	17.3
NPAT \$M	0.8	4.5	7.0	10.6
EPS (\$)	0.01	0.05	0.07	0.11
PER x	201.3	34.1	22.0	14
EV/EBITDA x	30.1	13.2	9.5	7

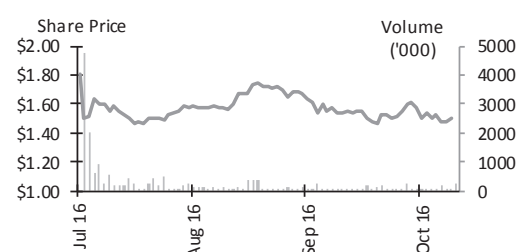
Board of Directors

Greg Rider	Chairman
Ruslan Kogan	CEO & Executive Director
David Shafer	CFO & Executive Director
Harry Debney	Non-Executive Director

Major Shareholders

Kogan Management Pty Ltd	50.4%
Shafer Corporation Pty Ltd	19.1%

Share Price Graph



Analyst: Qaiser Malik +61 2 9993 8130
qaiser.malik@fostock.com.au