



## Kogan.com Ltd (KGN.ASX)

*More Upgrades Likely, Private Label & Mobile to Drive Profitability*

### Event:

- Meeting with management, following results. Outlook bright, upgrade to guidance EBITDA \$10.5-\$11.5m (our forecast \$13.5m).

### Investment Highlights:

- With its IPO proceeds, KGN has invested in 13 private label brands, which are capital intensive and highly profitable. On inventory turnover of 3-4x per year, this equates to sales of \$107m-\$142m. Our forecasts are at the lower-end, before refunds/cancellations. Inventory levels are \$42.5m (\$9.7m in transit and \$25m private label) and are today at a level that will support growth for 2017. As KGN becomes larger, they are likely to get improved payments terms with its suppliers. Of note, KGN has inventory risk on 3<sup>rd</sup> party domestic sales (2-4 weeks of stock, 30 day terms) & prices are some of the lowest levels in the market.
- Kogan Mobile is highly profitable with limited marketing expense. So far Kogan mobile has exceeded expectation and looks set to continue. With every phone sold (200k per year), KGN encloses a free SIM card with \$15 free credit. Promotions are funded by Vodafone. To the same end, KGN has invested in its travel brand where it resells travel offerings at a discount (12-15% commission). We would expect to see additional verticals launched in the next 12 months that capitalize on selling into KGN's subscriber base.
- 1H17A key metrics are: Revenue \$143.9m (+37% pcp), gross margin +18.2% (vs 15.1% pcp, EBITDA \$7.3m (1H16A \$2.6m), Underlying NPAT \$3.7m (1H16A \$1.3m), inventory \$42.4m, cash \$26.5m & an interim dividend of 3.9 cents (fully franked). A formal dividend policy will be decided at end of financial year. The strong result was driven by third party international & Kogan mobile. With KGN's investment in its private label & domestic inventory heading into Christmas (2Q17A), operating cash flow in the 1H was weak (cash conversion 11.6%, as flagged at IPO). We are expecting an improvement to +60% in FY18E. KGN's GP is driven by mix shift to private label products which are yet to make a meaningful contribution to results, as private label inventory surfaced in Sept/Oct 2016.
- Amazon's (AMZN) possible arrival in Australia will be advantageous rather than disadvantageous to the KGN's business model. AMZN will provide a new sales channel to sell its private label brands. In any case, AMZN is already a competitor to KGN. We are conservatively forecasting a decline in international third party sales in FY18E due to the change to online purchases relating to GST.

### Valuation, Earnings & Recommendation

- KGN continues to grow strongly and we believe there is a high likelihood EBITDA guidance for FY17e will be revised upwards yet again. A better than expected revenue run rate, margin expansion opportunity due to scale and automation, continued growth in active customers, and investment in inventory, both private label and domestic, are all factors building a solid foundation.
- We see FY17E result announcement as the key near term catalyst. Understanding the dynamics of private label offering, launch of new verticals and potential acquisition opportunities are key.
- We have upgraded our earnings principally due to mix shift to higher margin private label and mobile sales. We maintain our BUY rating on KGN with a price target of A\$2.73 (previously \$2.44).

Rating	Buy
Previous	Buy
Price Target (A\$)	A\$ 2.73
Previous	\$2.44
Risk	Medium
Share price	A\$ 1.75
ASX code	KGN
52 Week Low-High	\$1.32-1.80

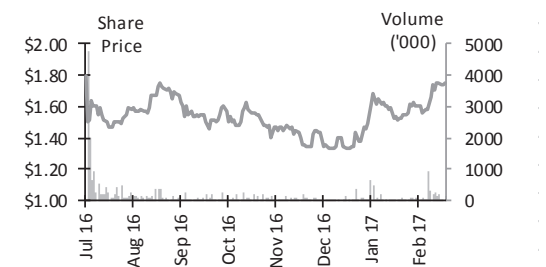
Capital Structure	
Shares on Issue (M)	93.3
Market Cap (A\$M)	163.3
Net Cash (Debt) (A\$M)	26.5
EV (A\$M)	136.8
Options on issue (M)	0.0
Performance rights	2.1
Diluted mkt cap (A\$M)	167.1
1mth Av Daily Volume ('000)	153

Y/e Jun (A\$M)	2016a	2017e	2018e	2019e
Sales Revenue	211.2	287.0	303.3	337.7
Gross Profit	32.7	51.5	59.0	68.2
EBITDA \$M	4.0	13.5	18.2	22.9
NPAT \$M	0.8	7.5	11.7	15.0
EPS (cents)	0.8	8.1	12.5	16.0
DPS (cents)	0.0	5.7	6.9	8.8
PER x	nm	21.7	14.0	10.9
EV/EBITDA x	nm	10.2	7.5	6.0
EV/EBIT x	nm	13.5	8.4	6.6
Dividend yield (%)	0.0	3.2	3.9	5.0

Board of Directors	
Greg Ridder	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



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 The analyst does not hold KGN securities