



Kogan.com Ltd (KGN.ASX)

Private Label, Telecoms, and Insurance to Drive Future Profitability

Event:

- Updating estimates, post result.

Investment Highlights:

- In the doom and gloom of the retail sector, **KGN is a standout performer with growth in its private label offering as well as telecoms footprint and launch of its new insurance vertical.** No specific FY18e financial guidance was provided, but management will provide regular trading updates with its quarterly statements. In July, revenues were a robust +34.9% y-o-y.
- KGNs FY17a results were strong: EBITDA \$13.2m (vs our \$13.5m) and NPAT \$7.2m (vs our \$7.5m).** Cash conversion to EBITDA was a healthy 82%. FY17A dividends were 7.7 cps. In FY18e the payout ratio will be in the range of 60-80%.
- At the end of June 2017, inventory on hand is \$30.7m and inventory in transit is \$9.0m.** 3.0x inventory turnover is KGN's target, we have assumed 3.5x in our forecast. In FY17a KGN focused on replenishing its best sellers, whilst its focus in FY18e is producing new products and expanded its private label range.
- KGN recently improved its deal with Vodafone, to include NBN, mobile broadband and extended its contract for 4-years to 2022 (2-year extensions thereafter).** Not necessarily a surprise, with the future competitive intensity from TPG's roll-out of its own mobile network that has a similar customer base to Vodafone / Kogan. Enhanced economics kick-in, in October 2017 (2% pt uplift across its installed base) and its NBN product will launch in 2H18e.
- We view KGN's launch into the insurance vertical positively and prescribe a rough valuation estimate of A\$1.80 per share.** KGN has entered into an agreement with Hollard, for an initial period of 3-years to market home, contents, landlord, car and travel insurance into KGN's 6m subscriber base. Assuming KGN sign 250k policyholders in 5-years, it could represent additional revenue (and 100% margin) of A\$22.5m to KGN (250k holders x 1.5 policies x ARPU \$600 x c.10%). We would not be surprised to see Kogan launch additional verticals in the next 12-months that capitalise on selling into its customer base.
- We believe Amazon's arrival in Australia is likely to be advantageous for KGN, as it provides an additional channel to sell its private label offering into.** The cost to using Amazon is not significant for its private label offering (c.6-7%).

Recommendation, Earnings and Price Target

- We maintain our BUY rating on KGN and our PT is A\$4.60** (previously A\$2.73). We have upgraded our earnings principally due to mix shift to higher margin private label, as well as mobile & insurance verticals.
- KGN continues to grow strongly and we would not be surprised to see further consensus earnings upgrades in FY18e.** A robust revenue run rate, margin expansion opportunity, continued growth in active customers, investment in inventory, both private label and domestic and launch of new verticals are all factors building a solid foundation.
- We see Q1FY18e quarterly as the next near term catalyst.** Understanding the dynamics of private label offering, launch of new verticals and potential acquisition opportunities are key. Management indicated that they are looking at selective and opportunistic M&A.

Rating	Buy
Previous	Buy
Price Target (A\$)	A\$ 4.60
Previous	\$2.73
Risk	Medium
Share price	A\$ 2.88
ASX code	KGN
52 Week Low-High	\$1.32-3.14

Capital Structure

Shares on Issue (M)	93.5
Market Cap (A\$M)	269.2
Net Cash (Debt) (A\$M)	32.0
EV (A\$M)	237.2
Options on issue (M)	0.0
Performance rights	2.7
Diluted mkt cap (A\$M)	276.9
1mth Av Daily Volume ('000)	95

Y/e Jun (A\$M)	2016a	2017e	2018e	2019e
Sales Revenue	211.2	289.5	370.4	421.7
Gross Profit	32.7	51.7	69.8	85.7
EBITDA \$M	4.0	13.2	19.8	28.8
NPAT \$M	0.8	7.9	12.5	18.7
EPS (cents)	0.8	8.4	13.0	19.5
DPS (cents)	0.0	7.7	9.1	13.6
PER x	nm	34.1	22.2	14.8
EV/EBITDA x	nm	18.0	12.0	8.2
EV/EBIT x	nm	22.0	13.7	9.0
Dividend yield (%)	0.0	2.7	3.2	4.7

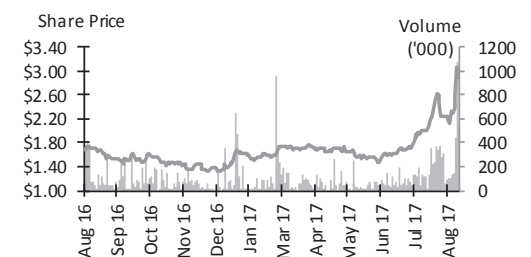
Board of Directors

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