



Kogan.com Ltd (KGN.ASX)

Platform to Growth, New Verticals Likely to Capitalize on Active Customer Base

Event:

- Quarterly update on activities, price target change.

Investment Highlights:

- In KGN's 1Q18a update, it reported impressive revenue growth of 35.9% y-o-y (vs our 32.5% FY18e) & gross margin of 18.2% (vs our 18.8% FY18e). With its key Christmas sales months fast approaching, KGN's cash balance is \$25.8m, as they build inventory to \$52.5m (up \$12.8m). Inventory on hand is \$36.8m and in-transit \$15.7m, which will be warehoused by the end of October. In 1Q18a increased marketing spend had an immediate positive impact on sales, and is broadly in-line with our forecasts.**
- Australia Post with its Shipster product is likely to increase KGN active customers for lower CAC.** Shipster is a subscription service that covers the cost of delivery when it is under \$20, from +40 retailers. The cost today is \$9.95 one-off payment, before heading to \$6.95 per mth on January 2018. Launching before Christmas is a master move by Australia Post, as it provides the appearance that you will spend more over the year if you do not sign up.
- 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 its new insurance vertical.** No specific FY18e financial guidance has been provided, but management will provide regular trading updates with its quarterly statements.
- KGN re-sells Vodafone's mobile, mobile broadband offerings today and NBN in 2H18e. With the competitive intensity in the mobile market provided by TPG Telecom, KGN's Vodafone relationship is likely to provide strong growth over the next few years.** We understand sign-ups were very strong around KGN's 2nd birthday regarding Vodafone's partnership with KGN (19th October 2017). As plans have become cheaper than ever, (recent round of price cuts per MB by Vodafone), subscribers are consuming an increasing amount of data on devices.
- We view KGN's launch into the insurance vertical positively and retain 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%).

Recommendation, Earnings and Price Target

- We maintain our BUY rating on KGN & our PT increases to A\$5.73** (vs A\$4.60), largely based on less conservative FCF valuation assumptions (WACC 10.1% vs 11.2%, terminal growth 3% vs 2% and an increase in growth assumptions beyond 2020). On a PEG of 1, it is easy to justify a valuation of \$5.59, with EPS growth CAGR of 43% over next 3-years. Our earnings forecasts remain unchanged.
- With positive momentum, we would not be surprised to see further upgrades to consensus earnings, post-Christmas.** 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, including strong mobile and insurance growth are all factors building a solid foundation.
- We see KGN's AGM as the next near term catalyst.** Understanding the dynamics of private label offering, launch of new verticals are key. Management indicated that they are looking at selective and opportunistic M&A.

Rating	Buy
Previous	Buy
Price Target (A\$)	A\$ 5.73
Previous	\$4.60
Risk	Medium
Share price	A\$ 4.59
ASX code	KGN
52 Week Low-High	\$1.32-4.99

Capital Structure

Shares on Issue (M)	93.5
Market Cap (A\$M)	429.0
Net Cash (Debt) (A\$M)	25.8
EV (A\$M)	403.2
Options on issue (M)	0.0
Performance rights	2.7
Diluted mkt cap (A\$M)	441.3
1mth Av Daily Volume ('000)	152

Y/e Jun (A\$M)	2017a	2018e	2019e	2020e
Sales Revenue	289.5	370.4	421.7	485.5
Gross Profit	51.7	69.8	85.7	101.8
EBITDA \$M	13.2	19.8	28.8	36.2
NPAT \$M	7.9	12.5	18.7	23.9
EPS (cents)	8.4	13.0	19.5	24.8
DPS (cents)	7.7	9.1	13.6	17.4
PER x	54.3	35.4	23.6	18.5
EV/EBITDA x	30.6	20.4	14.0	11.1
EV/EBIT x	37.4	23.3	15.4	12.0
Dividend yield (%)	1.7	2.0	3.0	3.8

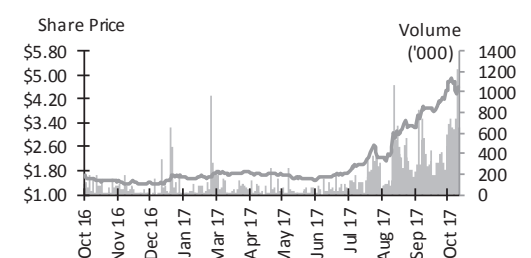
Board of Directors

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

Major Shareholders

Kogan Management Pty Ltd	55.1%
Shafer Corporation Pty Ltd	16.3%

Share Price Graph



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 The analyst does not hold KGN securities