



## Kogan.com Ltd (KGN.ASX)

### Reiterate Our Buy Recommendation: Business Fundamentals Unchanged

#### Event:

- We reiterate our company view, post KGN share price decline of 28% from its peak of \$4.99, due largely to disappointment with executive directors selling down on 24<sup>th</sup> October 2017, at a share price of \$4.25.

#### Investment Highlights:

- It has been a volatile time for the KGN share price, listing in July 2016 and initially out-of-favour til June 2017; the stock then increased quickly by 235% from 6<sup>th</sup> June 2017 to 16<sup>th</sup> October 2017. With some directors selling post half yearly results, and again on the 24<sup>th</sup> October 2017, the stock has traded at a recent low of \$3.32 on 8<sup>th</sup> November (28% decline from that date).
- At current levels, we believe that the sell-off has not been warranted. KGN's business fundamentals remain in-tact: 1) private label sales are heading into the peak Christmas selling period (where KGN has built up inventory with cash proceeds from the IPO); 2) mobile performance is solid and likely to continue as TPG rolls out a new mobile network increasing competitive intensity; 3) KGN's insurance product offering with Hollard is up and running (with new avenues of revenue potentially opening up in the insurance vertical).
- For the reasons above, we see significant upside to KGN's share price at these levels and view the recent share price weakness as a buying opportunity. Whilst director selling is usually viewed with suspicion, sometimes there is an exception to the rule (KGN stock ran up to an all-time high after the 1<sup>st</sup> tranche). We believe Q418e results are likely to be strong and the stock price will re-gain its positive momentum.

#### Recommendation, Earnings and Price Target

- We reiterate our BUY rating on KGN & PT of A\$5.73, based on FCF valuation and peer comparative analysis. 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, as well as 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.

<b>Rating</b>	<b>Buy</b>
Previous	Buy
<b>Price Target (A\$)</b>	<b>A\$ 5.73</b>
Previous	\$5.73
<b>Risk</b>	<b>Medium</b>
<b>Share price</b>	<b>A\$ 3.69</b>
ASX code	KGN
52 Week Low-High	\$1.32-4.99

<b>Capital Structure</b>	
Shares on Issue (M)	93.5
<b>Market Cap (A\$M)</b>	<b>344.9</b>
Net Cash (Debt) (A\$M)	25.8
<b>EV (A\$M)</b>	<b>319.1</b>
Options on issue (M)	0.0
Performance rights	2.7
<b>Diluted mkt cap (A\$M)</b>	<b>354.8</b>
1mth Av Daily Volume ('000)	191

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	43.7	28.4	18.9	14.9
EV/EBITDA x	24.2	16.1	11.1	8.8
EV/EBIT x	29.6	18.4	12.2	9.5
Dividend yield (%)	2.1	2.5	3.7	4.7

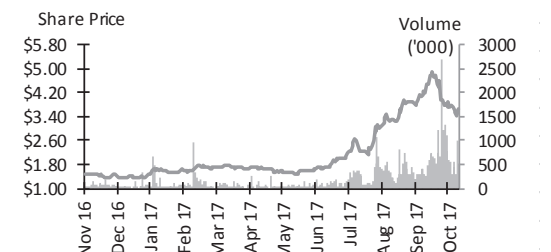
#### Board of Directors

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

#### Major Shareholders

Founders	56.0%
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#### Share Price Graph



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 The analyst does not hold KGN securities