

china conference research
NOT RATED
AuMake International Ltd

Combining retailing and brand ownership

Stock Code: AU8.ASX

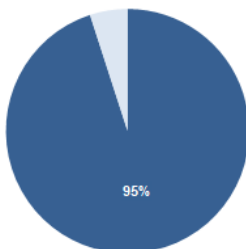
Last Price: \$0.295

Market Cap (fd): \$98m

Risk Level: n/a


www.aumake.com.au/

China Related Revenue (FY19E)



Source: Select Equities Research estimate

BACKGROUND

- **Daigou and tourist focused retailer:** AuMake International (AU8) is a daigou and tourist focused retailer based in Sydney. It acquired Kiwi Buy, a 5-store network in Sydney and an online store with 38,000 members, resulting in a total of 13 locations. AU8 connects Australian suppliers directly with daigou and tourists via its growing distribution network of AuMake and Kiwi Buy branded retail and online stores, as well as daigou hubs and warehouse showrooms. AU8 sells both owned and non-owned brands at its retail stores.

CHINA EXPOSURE

- **Daigou hubs – a key asset:** AU8's unique daigou hubs are concept stores with product displays, presentation rooms, livestreaming capability and cafeterias. Daigou hubs allow AU8 to engage directly with the daigou community and provide in-person product education and promotion. AU8 also utilises this growing network of daigous to host marketing events for Australian brands, providing valuable direct access to daigous. Currently there are two daigou hubs in Haymarket and Burwood, and a warehouse showroom in Auburn.
- **George Street flagship store – caters to independent tourists:** AU8's flagship store is located opposite Town Hall on George Street which is a key tourist area. AU8's owned brand products account for 27% of sales at the flagship store.
- **Owned brands – an increasing focus:** AU8 owns 5 brands operating in skincare (*Health Essence*), healthcare (*Medigum honey*), dairy (*Herbsmart*), and wool (*Jumbuck, UGG Aus*).

CHINA STRATEGY

- **Online distribution:** AU8 has an online store front on JD.com, while online members on AU8's own website and WeChat have reached 80,000.
- **Offline Australia:** The company has partnered with Chemsave to distribute to its 150 stores in Australia, while an agreement with DHL eCommerce will provide shipping solutions for AU8 customers.
- **Offline China:** A China daigou hub opened in Xiamen to provide local daigous exposure to Australian products and AU8's owned brands, and to generate word-of-mouth brand awareness. AU8 plans to open more daigou hubs in other capital cities in China.

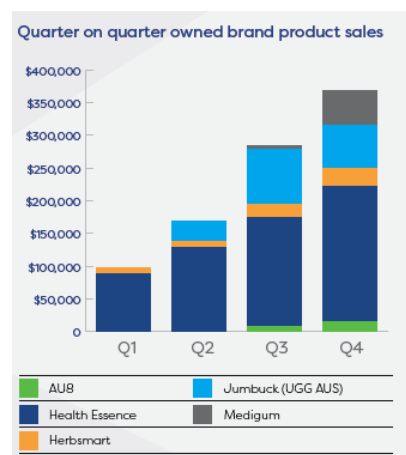
RECENT TRADING / OUTLOOK

- **FY18 result:** Revenue (\$21.4m, +107%) and gross profit (\$3.1m, +172%) both grew strongly due to increasing scale and the shift towards more own-brand sales.
- **Outlook:** AU8 expects to reach operational breakeven in FY19. It has signed a supply deal with NZ's Pure Nutrition (majority owned by Ausnutria Dairy Corp), for 1m tins of A1 powder and 600k tins of A2 milk powder by Apr/May-19.

Business Overview

Operations	Targeted customers
Australian stores (eight in Sydney) 1 Flagship store, 1 Daigou Hub, 1 Warehouse Showroom, 5 retail stores	400,000 daigou within Australia
One China Daigou Hub in Xiamen with four more planned, to grow China based daigou networks	1.4 million Chinese tourists p.a. and growing
Auburn head office (Sydney, NSW) combines a Warehouse Showroom and viewing platform for Jumbuck production	300 million Chinese middle class and growing
Store expansion Two more in Sydney, assessing Melbourne, Brisbane and Gold Coast	Strategic partnership Chemsave
Online sales platform including WeChat	Owned brands HealthEssence AUSTRALIA, UGG AUSTRALIA, Medigum, Herbsmart

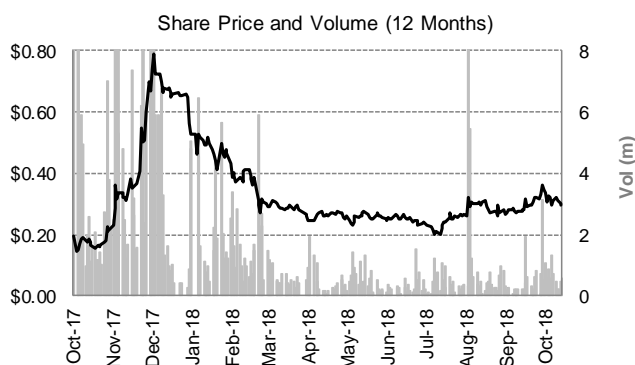
Source: Company data

Revenue of Own-Branded Business


AuMake International Ltd

 Select Equities Research
 Financial Model

Code	AU8			June Year End	FY16A	FY17A	FY18A
Last sale (\$)	19-Oct-18			\$0.295			
# Shares (m)				270			
# Performance Rights (m)				62			
Market Cap (fully diluted, \$m)				98			
Net Debt (\$ m)				-2			
Enterprise Value (\$ m)				96			
June Year End	FY16A	FY17A	FY18A				
Financial Performance (\$m)							
Revenue	3.1	1.2	21.6				
EBITDA	0.0	-0.9	-11.1				
D&A	0.0	0.0	-0.2				
EBIT	0.0	-0.9	-11.2				
Net Interest	0.0	0.0	0.0				
Tax	0.0	0.0	0.0				
NCI	0.0	0.0	0.0				
NPAT	0.0	-0.9	-11.2				
Abnormals (net)	0.0	0.0	0.0				
NPAT (reported)	0.0	-0.9	-11.2				
EPS (¢)	0.0	-0.9	-5.8				
DPS (¢)	0.0	0.0	0.0				
NTA / Share (\$)	n/a	n/a	0.0				
BV / Share (\$)	n/a	n/a	0.1				
Valuation/Performance Ratios							
PER (x)	n/a	n/a	n/a				
Ent. Value/ EBITDA (x)	n/a	n/a	n/a				
Ent. Value/ EBIT (x)	n/a	n/a	n/a				
Revenue Growth (%)	n/a	n/a	1658%				
EBITDA Growth (%)	n/a	n/a	1183%				
NPAT Growth (%)	n/a	n/a	1203%				
P/NTA (x)	n/a	n/a	5.1				
P/BV (x)	n/a	n/a	4.4				
Yield (%)	n/a	n/a	n/a				
Payout Ratio (%)	n/a	n/a	n/a				
Franking (%)	n/a	n/a	n/a				
EBITDA Margin (%)	0%	-70%	-51%				
EBIT Margin (%)	0%	-70%	-52%				
NPAT Margin (%)	0%	-70%	-52%				
Tax Rate (%)	51%	0%	30%				
Current ratio (x)	110%	86%	472%				
Interest Cover (x)	n/a	n/a	n/a				
Net Debt/ Equity (%)	-53%	98%	-61%				
ROE (%)	36%	-57%	-65%				
ROIC (%)	219%	-40%	-163%				
Interim Results (\$m)							
	1H17A	2H17A	1H18A	2H18A			
Total Revenue	1.0	0.2	9.0	12.5			
EBITDA	-0.3	-0.5	-5.8	-5.3			
D&A	0.0	0.0	0.0	-0.2			
EBIT	-0.3	-0.5	-5.8	-5.4			
Net Interest	0.0	0.0	0.0	0.0			
Tax	0.0	0.0	0.0	0.0			
NPAT	-0.3	-0.5	-5.8	-5.4			
Financial Position (\$m)							
Cash	0.0	1.1	10.7				
Accounts Receivable	0.0	0.3	0.5				
Inventory	0.1	2.0	3.4				
PPE	0.0	0.1	2.6				
Intangibles	0.0	1.9	2.1				
Other Assets	0.0	0.2	1.2				
Total Assets	0.1	5.7	20.5				
Accounts Payable	0.1	1.5	3.0				
Borrowings	0.0	2.6	0.2				
Other Liabilities	0.0	0.0	0.0				
Total Liabilities	0.1	4.2	3.3				
Net Assets	0.0	1.5	17.2				
Ordinary Equity	0.0	-1.3	-12.6				
NCI	0.0	0.0	0.0				
Total Equity	0.0	1.5	17.2				
Cash Flows (\$m)							
Net Receipts	0.1	-0.9	-7.5				
Net Interest	0.0	0.0	0.1				
Tax Paid	0.0	0.0	0.0				
Other Operating	0.0	0.0	0.1				
Operating Cash Flow	0.1	-0.8	-7.3				
Capex (net)	0.0	0.0	-2.4				
Intangibles	0.0	0.0	0.0				
Other Investing	0.0	-0.9	0.0				
Investing Cash Flow	0.0	-0.9	-2.4				
Change in Debt (net)	-0.1	2.5	0.0				
Change in Equity (net)	0.0	0.0	19.4				
Dividends	0.0	0.0	0.0				
Other Financing	0.0	0.0	0.0				
Financing Cash Flow	-0.1	2.5	19.4				
Change in Cash	0.0	0.8	9.6				
Substantial Shareholders							
				No. (m)		%	
Jiahua Zhou				40.4		14.9%	
Gang Xu				17.2		6.4%	



Source: Company data and Select Equities Research