

# COMPANY PROFILE

## BELL POTTER

Harvey Norman Holdings Ltd

GICS- Consumer Discretionary Distribution & Retail

ASX Code: HVN

Price: \$4.28

12 Mth Target Price: \$4.60

Rating: Buy

### Business Summary

Harvey Norman Holdings Limited (HVN) is engaged in the retail business, the franchise business, property development and digital systems. The company acts as a franchisor; sells furniture, bedding, computers, communications and consumer electrical products; invests in property; leases premises; does media placement and also provides consumer finance and other commercial loans and advances. It is present in New Zealand, Singapore, Malaysia, Slovenia, Croatia, Ireland and Northern Ireland.

**Franchise segment:** Franchisees are investing in physical assets in warehousing and logistics to enhance the delivery experience for their customers. They provide home delivery services, delivery vehicle branding and customer warehouse pickup. They have 194 Franchised complexes in Australia trading under the Harvey Norman®, Domayne® and Joyce Mayne® brand names. They have 544 Number of franchisees who are responsible for the day-to-day management and control of their respective franchisee businesses. They have their flagship stores in Singapore, Malaysia, Slovenia and Ireland.

**Non-franchise segment:** The non-franchised retail segment consists primarily of retail and wholesale trading operations in Australia which are wholly-owned, controlled or jointly-controlled by the consolidated entity and does not include the operations of any Harvey Norman®, Domayne and Joyce Mayne® franchisee. The other non-franchised retail segment includes the operations of the KEH Partnership Pty Limited (KEH), a retailer of school apparel, education goods and technology equipment through the brand name of The School Locker.

**Property segment:** The property portfolio was valued at \$2.97 billion as of 31 December 2019. They have 289 owned and leased properties which consist of 119 owned properties and 170 leased properties.

**Divestment:** The equity-accounted joint venture investment in Coomboona Holdings Pty Limited (CHPL), that was divested out of the Coomboona business during the current year.

### Latest Research

AGM trading update indicates slight improvement in Australia

Harvey Norman's AGM trading update indicates the downturn in Australian

Franchisee sales is moderating as expected. This is supported by comps

getting easier from November. The result would have been better if not for the very poorly timed web outage on Black Friday. We trim our group earnings estimates by <1% on slightly weaker than expected international sales. We retain our Buy rating on the basis that conditions are unlikely to deteriorate materially from here with further lifts in house prices to drive demand. Our target price remains \$4.60.

For more information see research 30 Nov 2023.

### Snapshot

|                 |                 |
|-----------------|-----------------|
| Date            | 16 January 2024 |
| Market Cap.     | \$5,333m        |
| Shares on issue | 1,246.0m        |
| 12 Month High   | \$4.54          |
| 12 Month Low    | \$3.18          |

### Rating

|                      |        |
|----------------------|--------|
| Rating               | Buy    |
| 12 Mth Target Price  | \$4.60 |
| Capital Gain         | 12.8%  |
| Gross Yield          | 8.8%   |
| Implied Total Return | 21.5%  |

### Investment Fundamentals

| FYE 30 Jun     |     | 2023A | 2024F | 2025F | 2026F |
|----------------|-----|-------|-------|-------|-------|
| Profit         | \$m | 455.0 | 349.0 | 420.0 | 456.0 |
| Profit (norm)* | \$m | 455.0 | 349.0 | 420.0 | 456.0 |
| EPS*           | ¢   | 36.0  | 29.0  | 37.0  | 41.0  |
| EPS Growth     | %   | -32.1 | -19.4 | 27.6  | 10.8  |
| P/E*           | x   | 11.3  | 14.1  | 11.0  | 10.0  |
| P/E Relative   | %   | 0.0   | 0.0   | 0.0   | 0.0   |
| DPS            | ¢   | 25.0  | 19.0  | 25.0  | 28.0  |
| Yield          | %   | 6.1   | 4.7   | 6.1   | 6.9   |
| Franking       | %   | 100.0 | 100.0 | 100.0 | 100.0 |

\* Adjusted for goodwill and unusual items  
Source: Based on Citi estimates

### Share Price Chart



### Total Return on \$10,000 Investment



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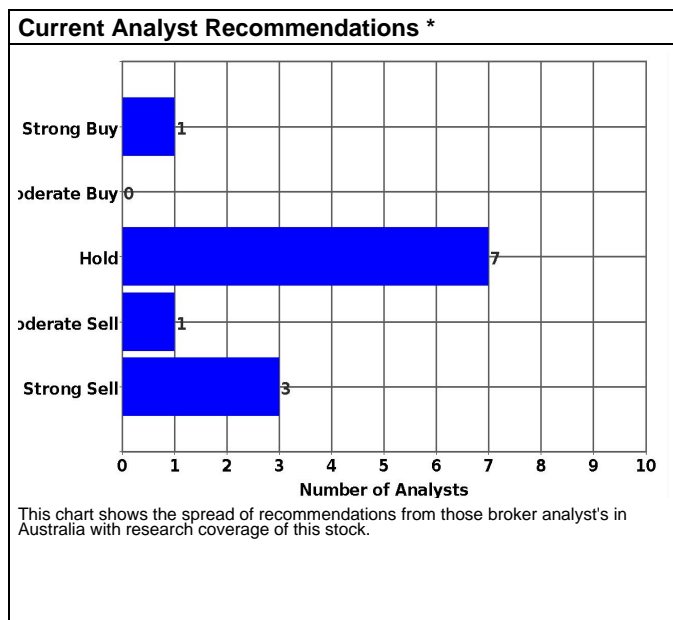
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| Profit & Loss (\$M)              |              |              |              |              |              |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
|                                  | 2019A        | 2020A        | 2021A        | 2022A        | 2023A        |
| <b>Sales Revenue</b>             | <b>3,205</b> | <b>3,378</b> | <b>4,148</b> | <b>4,144</b> | <b>3,984</b> |
| Total Revenue ex. Int.           | 3,415        | 3,539        | 4,434        | 4,499        | 4,260        |
| <b>EBITDA</b>                    | <b>693</b>   | <b>939</b>   | <b>1,452</b> | <b>1,423</b> | <b>1,115</b> |
| Depreciation & Amort.            | -85          | -224         | -224         | -244         | -263         |
| Goodwill Amortisation            | --           | --           | --           | --           | --           |
| EBIT                             | 608          | 716          | 1,228        | 1,179        | 852          |
| Net Interest                     | -24          | -53          | -45          | -45          | -76          |
| Profit Before Tax                | 584          | 662          | 1,183        | 1,134        | 776          |
| Income Tax                       | -166         | -175         | -336         | -323         | -229         |
| Outside Equity Int.              | -7           | -5           | -5           | -6           | -7           |
| <b>Profit after Tax</b>          | <b>412</b>   | <b>482</b>   | <b>841</b>   | <b>805</b>   | <b>540</b>   |
| Significant Items after Tax      | -10          | -1           | --           | 6            | --           |
| <b>Reported Profit after Tax</b> | <b>402</b>   | <b>481</b>   | <b>841</b>   | <b>812</b>   | <b>540</b>   |
| Preferred Dividends              | --           | --           | --           | --           | --           |

| Cash Flow (\$M)               |             |              |             |             |             |
|-------------------------------|-------------|--------------|-------------|-------------|-------------|
|                               | 2019A       | 2020A        | 2021A       | 2022A       | 2023A       |
| Receipts from Customers       | 3,256       | 3,766        | 3,871       | 4,156       | 4,180       |
| Funds from Operations         | 574         | 1,294        | 887         | 1,059       | 1,052       |
| <b>Net Operating Cashflow</b> | <b>373</b>  | <b>1,057</b> | <b>544</b>  | <b>597</b>  | <b>680</b>  |
| Capex                         | -94         | -94          | -100        | -95         | -188        |
| Acquisitions & Investments    | -30         | -59          | -179        | -82         | -144        |
| Sale of Invest. & Subsid.     | 18          | --           | 15          | 8           | 2           |
| <b>Net Investing Cashflow</b> | <b>-66</b>  | <b>-137</b>  | <b>-254</b> | <b>-179</b> | <b>-333</b> |
| Proceeds from Issues          | 164         | 166          | --          | --          | --          |
| Dividends Paid                | -342        | -323         | -473        | -436        | -380        |
| <b>Net Financing Cashflow</b> | <b>-246</b> | <b>-811</b>  | <b>-335</b> | <b>-433</b> | <b>-379</b> |
| Net Increase Cash             | 60          | 109          | -46         | -14         | -32         |
| Cash at Beginning             | 125         | 186          | 294         | 249         | 234         |
| Exchange Rate Adjust.         | --          | --           | --          | --          | --          |
| <b>Cash at End</b>            | <b>186</b>  | <b>294</b>   | <b>249</b>  | <b>234</b>  | <b>202</b>  |

| Ratios and Substantial Shareholders |       |       |       |       |       |       |
|-------------------------------------|-------|-------|-------|-------|-------|-------|
|                                     | 2019A | 2020A | 2021A | 2022A | 2023A |       |
| <b>Profitability Ratios</b>         |       |       |       |       |       |       |
| EBITDA Margin                       | %     | 21.62 | 27.81 | 35.01 | 34.34 | 27.99 |
| EBIT Margin                         | %     | 18.96 | 21.19 | 29.60 | 28.46 | 21.39 |
| Net Profit Margin                   | %     | 12.85 | 14.26 | 20.29 | 19.43 | 13.54 |
| Return on Equity                    | %     | 13.01 | 13.98 | 21.77 | 18.89 | 12.18 |
| Return on Assets                    | %     | 9.06  | 9.03  | 13.19 | 11.67 | 7.91  |
| <b>Debt/Safety Ratios</b>           |       |       |       |       |       |       |
| Net Debt/Equity                     | %     | 19.59 | 33.29 | 37.87 | 38.55 | 43.89 |
| Interest Cover                      | x     | 25.84 | 13.40 | 27.19 | 26.10 | 11.21 |
| <b>No Substantial Shareholders</b>  |       |       |       |       |       |       |

| Balance Sheet (\$M)              |              |              |              |              |              |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
|                                  | 2019A        | 2020A        | 2021A        | 2022A        | 2023A        |
| Cash & Equivalent                | 215          | 313          | 264          | 249          | 219          |
| Receivables                      | 742          | 512          | 889          | 1,065        | 993          |
| Inventories                      | 396          | 392          | 479          | 524          | 546          |
| Other Current Assets             | 67           | 65           | 81           | 56           | 73           |
| <b>Current Assets</b>            | <b>1,456</b> | <b>1,298</b> | <b>1,727</b> | <b>1,906</b> | <b>1,831</b> |
| Prop. Plant & Equipment          | 696          | 1,177        | 1,241        | 1,252        | 1,438        |
| Intangibles                      | 65           | 63           | 64           | 58           | 57           |
| Other Non-Current Assets         | 116          | 115          | 154          | 109          | 161          |
| <b>Non-Current Assets</b>        | <b>3,342</b> | <b>4,530</b> | <b>4,946</b> | <b>5,340</b> | <b>5,841</b> |
| Total Assets                     | 4,799        | 5,829        | 6,673        | 7,246        | 7,672        |
| Interest Bearing Debt            | 841          | 1,471        | 1,739        | 1,904        | 2,179        |
| Other Liabilities                | 759          | 880          | 1,041        | 1,048        | 1,026        |
| <b>Total Liabilities</b>         | <b>1,601</b> | <b>2,351</b> | <b>2,780</b> | <b>2,952</b> | <b>3,205</b> |
| Net Assets                       | 3,198        | 3,477        | 3,893        | 4,294        | 4,466        |
| Share Capital                    | 552          | 718          | 718          | 718          | 718          |
| Reserves                         | 218          | 217          | 267          | 288          | 299          |
| Retained Earnings                | 2,397        | 2,512        | 2,880        | 3,255        | 3,414        |
| Outside Equity Int.              | 30           | 31           | 28           | 33           | 35           |
| <b>Total Shareholders Equity</b> | <b>3,198</b> | <b>3,477</b> | <b>3,893</b> | <b>4,294</b> | <b>4,466</b> |



| Principals & Directors  |  |
|---|--|
| <b>Principals</b>   |  |
| <b>Directors</b>  |  |
| Mr Maurice (John) John Craven(Non-Executive Director)                         |  |
| Mr Gerald Harvey(Executive Director,Executive Chairman)                       |  |
| Ms Kay Lesley Page(Chief Executive Officer,Executive Director)                |  |
| Mr John Evyn Slack-Smith(Chief Operating Officer,Executive Director)          |  |
| Mr Michael John Harvey(Non-Executive Director)                                |  |
| Mr Christopher Herbert Brown(Non-Executive Director)                          |  |
| Ms Luisa C Catanzaro(Non-Executive Director)                                  |  |
| Mr Kenneth William Gunderson-Briggs(Non-Executive Director)                   |  |
| Mr David Matthew Ackery(Executive Director)                                   |  |
| Mr Chris Mentis(Chief Financial Officer,Company Secretary,Executive Director) |  |

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