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Harvey Norman (HVN)

Moving the dial

Recommendation
Buy (unchanged)
Price
\$5.44
Target (12 months)
\$6.00 (previously \$5.80)

Sector
Retailing

Expected Return

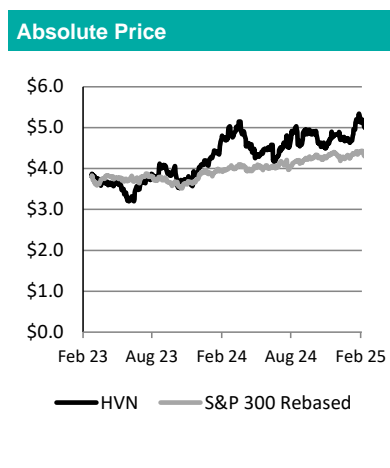
Capital growth	10.5%
Dividend yield	4.7%
Total expected return	15.2%

Company Data & Ratios

Enterprise value	\$8,763.1m
Market cap	\$6,778.2m
Issued capital	1,246m
Free float	43%
Avg. daily val. (52wk)	\$12.54m
12 month price range	\$4.11-\$5.37

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	4.95	4.79	4.75
Absolute (%)	9.90	13.57	14.53
Rel market (%)	11.64	14.90	7.06



SOURCE: IRESS

Some beats in 1H25 and good momentum at the start of 2H

Harvey Norman (HVN)'s 1H25 result saw some beats in the Australian Franchising division and also in the company operated New Zealand region. Australia franchisee headline comparable sales growth strengthened to +8.6% on pcp in Nov-Dec from +3.1% on pcp in Jul-Oct while all regions except Singapore/Malaysia had an incrementally better start to 2H with the positive consumer uptake of Mobile, Computer Technology and Home Appliances categories. In terms of new store growth, company-operated overseas stores were at 122 with 5 new stores opened across NZ, Malaysia & UK (Merry Hill flagship store) and 1 closure in Singapore.

Earnings changes

We factor in the beats in Australian franchising/NZ however somewhat offset by misses in Asia and higher costs (than BPe) in the company operated division including that for the UK flagship (opened in Oct-24). Our revenues are upgraded with the current comparable sales growth at +2.1% for Jan and +7.0% for Feb (first 21 days) in Australia while NZ has improved to better than expected -1.0% for Jan. We also make some changes to our new store assumptions given the closures of smaller stores in NZ (however offset by larger openings) and longer dated Malaysian store growth outlook. The net result sees our NPAT forecasts -1.8%/+2.3%/+3.1% for FY25/26/27e.

Investment View: PT +3% to \$6.00, maintain BUY

Our PT +3% to \$6.00 with earnings/cash flow changes. Our PT is based on a sum-of-the-parts valuation with a DCF methodology (WACC ~9%, TGR ~3%) for retail operations (ex-Property) and the property bank on a fair value basis (as last reported) assuming a broadly stable capitalisation rate in FY25e and ahead. We see HVN trading attractively at ~15x on a 1-year forward basis with multiple catalysts near/mid-term such as improving sales trends in key markets assisted by a sizable upside from the AI driven upgrade cycle/replacement & spend shift to tech, gaining penetration in targeted regions in the UK in addition to the incremental earnings opportunities in its Property division as Australia's largest single owner with a \$4.4b global portfolio.

Earnings Forecast

Jun Year end	2024a	2025e	2026e	2027e
Sales (A\$m)	4,110.4	4,336.7	4,659.6	5,063.0
EBITDA (A\$m)	882.7	936.7	994.2	1,063.1
NPAT (underlying) (A\$m)	360.9	404.1	463.1	509.7
EPS underlying (cps)	29.0	32.4	37.2	40.9
EPS underlying growth (%)	-35.3%	12.0%	14.6%	10.1%
EPS growth (%)	-35.3%	12.0%	14.6%	10.1%
PER (on underlying EPS) (x)	18.7	16.7	14.6	13.3
EV/EBITDA (x)	8.4	7.9	7.5	7.0
EV/EBIT (x)	11.4	10.5	9.6	8.8
Dividend (eps)	22.0	25.4	28.1	30.9
Yield (%)	4.1%	4.7%	5.2%	5.7%
Franking (%)	100%	100%	100%	100%
ROE (%)	8.0%	8.6%	9.5%	10.0%

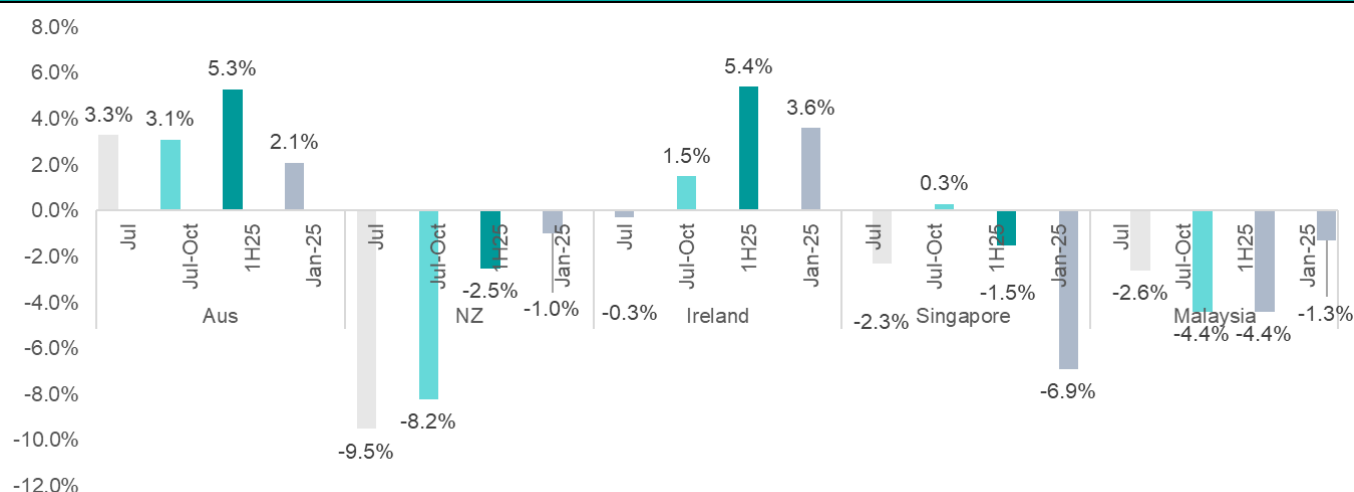
SOURCE: COMPANY REPORTS, BELL POTTER SECURITIES ESTIMATES

1H25 result summary

Highlights

- Total aggregate sales +2.7% on pcp for 1H25, improving from +1.7% on pcp for 1-Jul to 31-Oct
- Australia (at a franchisee headline level) and New Zealand ahead of BPe, Ireland broadly in line however Singapore & Malaysia largely behind
- Australia franchisees headline sales +5.3% on pcp for 1H25 vs BPe +2.6% for 1H25e, seeing a material improvement in the seasonal period of Nov-Dec from +3.1% on pcp in Jul-Oct
- PBT (excluding revals) \$310.5m, a ~1% miss to Consensus/BPe \$313.7m
- DPS 12cps vs Consensus of 10.7cps

Figure 1 – HVN Comparable sales trend by key market



SOURCE: COMPANY REPORTS, VISIBLE ALPHA, BELL POTTER SECURITIES ESTIMATES

New stores

- Company-operated overseas stores in line with BPe of 122 for 1H25e (vs 120 as of 31-Oct); 6 new stores opened and 1 closure in Singapore, a region which currently sees weaker performance
- Second store for UK confirmed for CY26 with a significant opportunity recognised in Birmingham and wider Midlands

Figure 2 – HVN 1H25 summary

Result Summary YE 30 June A\$m	1H24A	2H24A	FY24A	1H25 (adjusted for revaluation gains)					
				Actual	vs pcp	BPe	vs BPe	Consensus	vs Cons
Franchise Headline Sales	3160.0	2900.0	6060.0	3340.0	6%	3236.3	3%	3271.4	2%
Revenue	2204.9	2005.5	4210.4	2290.9	4%	2247.0	2%	2157.4	6%
Franchise (Australia)	564.3	515.2	1079.5	598.5	6%	578.0	4%	531.0	13%
Company-Operated (Int'l)	1480.0	1323.4	2803.4	1495.2	1%	1498.7	0%	1527.6	-2%
Property	160.6	166.9	327.5	170.2	6%	170.3	0%	174.2	-2%
EBITDA	471.3	411.5	882.7	497.0	5%	492.5	1%	497.9	0%
Franchise	240.7	200.2	441.0	262.9	9%	252.0	4%	250.3	5%
Company-Operated (Int'l)	137.6	101.1	238.7	132.6	-4%	143.0	-7%	135.6	-2%
Property	92.9	110.1	203.0	101.5	9%	97.5	4%	103.4	-2%
Profit Before Tax (excl. revals)	303.8	236.3	540.1	310.5	2%	313.7	-1%	313.2	-1%
Franchise (Australia)	143.1	130.4	273.5	180.0	26%	162.7	11%	163.3	10%
Company-Operated (Int'l)	76.2	42.4	118.5	67.9	-11%	74.6	-9%	67.6	0%
Property	84.6	90.1	160.6	62.6	-26%	76.5	-18%	80.9	-23%

SOURCE: COMPANY REPORTS, VISIBLE ALPHA, BELL POTTER SECURITIES ESTIMATES

Earnings changes and Valuation

Earnings changes. We factor in the beats in the Franchising division/NZ however somewhat offset by misses in Asia and higher costs than BPe in the company operated division including that for the UK flagship (opened in Oct-24). Our revenue assumptions see minor upgrades with the current comparable sales growth running at +2.1% for Jan and +7.0% for Feb (first 21 days) in Australia together with NZ improving to -1.0% for Jan. We also make some changes to our new store assumptions given the closures of smaller stores in NZ and the longer dated timeline to reach the Malaysian store target of 80. The net result sees our NPAT forecasts -1.8%/+2.3%/+3.1% for FY25/26/27e.

Figure 3 – HVN BPe Changes

Earnings Changes	2025e			2026e			2027e		
	old	new	% change	old	new	% change	old	new	% change
Revenue (\$m)	4,291.3	4,336.7	1.1%	4,625.5	4,659.6	0.7%	4,972.6	5,063.0	1.8%
EBITDA (\$m)	937.2	936.7	-0.1%	992.6	994.2	0.2%	1,052.5	1,063.1	1.0%
NPAT (Underlying) (\$m)	411.4	404.1	-1.8%	452.6	463.1	2.3%	494.5	509.7	3.1%
EPS (Underlying) (cps)	32.9	32.4	-1.6%	36.2	37.2	2.5%	39.6	40.9	3.3%
DPS (cps)	25.9	25.4	-2.0%	28.5	28.1	-1.5%	31.2	30.9	-0.8%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Valuation. Our PT +3% to \$6.00 with earnings changes and changes to our CAPEX assumptions. Our PT is based on a sum-of-the-parts valuation with a DCF methodology (WACC ~9%, TGR ~3%) for retail operations (ex-Property) and the property bank on a fair value basis (as last reported) assuming a broadly stable capitalisation rate over FY25e. We factor in some additional CAPEX for the near and mid-term investments associated such as the conversion of multiple leasehold properties in Australia to freehold basis in 2H25/FY26, new developments across markets including in Croatia (200,000 sqft complex by late-2026) & UK with a handful of stores earmarked as the opportunity in Birmingham and ongoing premium refit program at Australian stores over the next 12 months.

Figure 4 – Valuation summary

Harvey Norman Group	Valuation method	Assumptions	EV (\$m)
Retail Operations	5-year DCF	WACC 9%, TGR ~3%	3993
Property bank (at cost)	Fair value	assuming cap rates remain broadly similar in FY25e	4380
Net debt			650
SOTP valuation			7723
Diluted shares on issue (m)			1246
Valuation per share (\$)			6.20
Discount factor			0.3
12-month forward Valuation (\$/share)			6.00

SOURCE: BELL POTTER SECURITIES ESTIMATES

Harvey Norman (HVN)

Company Description

Harvey Norman (HVN) is an omni-channel retailer operating under three banners; Harvey Norman, Joyce Mayne and Domayne. HVN has three key segments, being the Australian Franchising Operations, Overseas Company Operated Retail and their Retail Property Portfolio. HVN operates in Australia through a franchise model, with 196 franchised complexes with a network of 556 independent franchisees. Globally, HVN operates in 7 countries through a network of 120 company-owned retail stores, in Slovenia & Croatia, Ireland & Northern Ireland, Singapore & Malaysia and New Zealand. HVN is the largest owner of Large Format Retail property in Australia, owning 94 franchised complexes that house 470 tenants, collectively worth over \$3.5 billion. The company also owned 28 retail property assets overseas.

Valuation

Our blended 12-month price target is \$6.00/share. The PT is based on a sum-of-the-parts valuation with a DCF valuation (WACC ~9%, TGR ~3%) for the retail operations (ex-Property) and the property bank on a fair value basis (as last reported) assuming a largely similar capitalisation rate over FY25e.

Risk to Investment Thesis

- **Increased competition** – Increased competitive intensity via price/product range may place pressure on sales/margins. This includes the threat of online competition and a risk that HVN may lose market share to new/existing competitors. We are seeing the furniture and homewares category in particular under increased competition with newer entrants gaining market share over the past 5 years.
- **Consumer Sentiment** – HVN's high value items are subject to consumer spending sentiment that may change unexpectedly. If this were to occur, HVN may be required to sell significant volume of its products at deep discounts to clear surplus inventory, which would be detrimental to performance.
- **Rental** – Sustained high occupancy rates across broader markets will underpin rental income growth, however future increased supply and a continued reduction in consumer confidence/spending could put pressure on income growth for HVN.
- **Asset values** – Further cap rate expansion/asset devaluation can be expected in current market conditions, although we believe HVN's assets will be less affected than other sub-sectors given the defensive nature of their exposure.
- **Franchisee risk** – Due to difficult market conditions or the deterioration in franchisee health. HVN's Australian business (100% franchisee run) could see severe impact.
- **Reliance on Third Party suppliers** – As all HVN's product is sourced from third party suppliers, the success of the business relies on its ability to maintain and develop key supplier relationships. Any material changes in the distribution channel strategy of key suppliers, such as increasing or restricting supply, will adversely impact HVN.
- **Foreign currency/Inventory risk** – HVN is exposed to multiple currencies and also potential aged stock presenting a risk to operations. The group uses forward contracts as hedges of its exposure to foreign currency risk in forecast transactions.
- **Class Action** – The company is currently affected by a class action in connection with Product Care rights sold by franchisees to customers and could incur some costs as both ongoing and depending on the outcome.

Table 1 - Financial summary

Jun Year end	2023a	2024a	2025e	2026e	2027e
Profit & Loss (A\$m)					
Sales revenue	3,947.1	4,110.4	4,336.7	4,659.6	5,063.0
... Change	-65.2%	4.1%	5.5%	7.4%	8.7%
EBITDA	1,123.9	882.7	936.7	994.2	1,063.1
... Change	-21.8%	-21.5%	6.1%	6.1%	6.9%
Deprec. & amort.	(253.6)	(232.9)	(228.6)	(220.4)	(221.4)
EBIT	870.3	649.8	708.1	773.8	841.6
Net Interest	(83.4)	(104.9)	(116.2)	(116.2)	(116.3)
Pre-tax profit	786.9	544.9	592.0	657.6	725.3
Tax expense	(229.2)	(184.0)	(187.9)	(194.5)	(215.7)
... tax rate	29%	34%	32%	30%	30%
Associates	-	-	-	-	-
Minorities/Prefs	-	-	-	-	-
Underlying Net Profit	557.7	360.9	404.1	463.1	509.7
... Change	-41.0%	-35.3%	12.0%	14.6%	10.1%
Abs. & extras.	-	-	-	-	-
Reported Profit	557.7	360.9	404.1	463.1	509.7
Cashflow (A\$m)					
EBITDA	1,123.9	882.7	936.7	994.2	1,063.1
Working capital changes	30.3	58.9	(73.3)	(79.9)	(58.1)
Net Interest Expense	(83.4)	(104.9)	(116.2)	(116.2)	(116.3)
Tax	(259.7)	(157.1)	(220.1)	(188.7)	(209.4)
Other operating items	(130.8)	7.0	61.6	3.2	2.3
Operating Cash Flow	680.3	686.5	588.6	612.6	681.6
Capex	(187.7)	(192.2)	(204.7)	(195.1)	(211.2)
Free Cash Flow	492.6	494.4	384.0	417.5	470.4
Acquisitions	(137.8)	(131.2)	(107.4)	(124.6)	(135.8)
Disposals	-	-	-	-	-
Payment of leases	(147.5)	(150.7)	(156.0)	(156.0)	(156.0)
Dividends paid	(380.0)	(274.0)	(299.0)	(336.1)	(371.2)
Other items	(9.6)	27.7	31.0	-	-
Core debt increase/(reduction)	150.0	85.0	193.3	199.4	192.7
Balance Sheet (A\$m)					
Cash	218.8	273.5	222.8	222.8	222.8
Receivables	997.0	944.3	986.0	1,048.8	1,094.4
Inventories & WIP	545.7	558.1	584.0	621.2	648.2
Other current assets	69.3	60.5	78.2	78.2	78.2
Current Assets	1,830.6	1,836.4	1,871.0	1,971.1	2,043.7
Receivables	89.4	85.2	54.3	54.3	54.3
Assoc & investments	4,188.6	4,395.3	4,562.8	4,562.8	4,562.8
Fixed Assets	892.0	946.4	998.8	992.3	1,000.8
Right-of-use Assets	546.0	511.9	565.8	584.7	606.0
Intangibles	57.4	74.1	128.9	234.8	351.9
Other non-curr assets	67.7	78.7	81.4	86.6	90.3
Non Current Assets	5,841.2	6,091.5	6,392.0	6,515.5	6,666.2
Total Assets	7,671.8	7,927.9	8,263.1	8,486.6	8,709.9
Short term debt	67.1	84.3	577.2	577.2	577.2
Creditors	352.7	378.7	396.3	421.5	439.9
Provisions	46.8	62.3	83.7	86.2	88.0
Other curr liabilities	272.0	270.9	295.3	300.8	306.9
Current Liabilities	738.7	796.2	1,352.4	1,385.7	1,412.0
LT debt (incl. LT leases)	783.3	860.3	311.7	311.7	311.7
Creditors	1,177.8	1,182.8	1,224.4	1,224.4	1,224.4
Provisions	9.2	10.7	11.2	11.9	12.4
Other non curr liabilities	496.5	540.9	570.4	570.4	570.4
Non Current Liabilities	2,466.7	2,594.7	2,117.7	2,118.4	2,119.0
Total Liabilities	3,205.3	3,390.9	3,470.1	3,504.1	3,530.9
Net Assets	4,466.5	4,536.9	4,792.9	4,982.5	5,179.0
Share Capital	717.9	717.9	717.9	717.9	717.9
Reserves	298.9	290.5	332.0	332.0	332.0
Retained Earnings	3,414.4	3,492.8	3,699.5	3,889.1	4,085.5
Shareholders Equity	4,431.2	4,501.2	4,749.5	4,939.0	5,135.5
Outside Equity Interests	35.2	35.7	43.5	43.5	43.5
Total Equity	4,466.5	4,536.9	4,792.9	4,982.5	5,179.0
Core Net debt/(cash) \$m	546.2	511.7	577.3	618.9	665.7

SOURCE: COMPANY REPORTS, BELL POTTER SECURITIES ESTIMATES

Price	\$5.43
Recommendation	Buy
Diluted issued capital (m)	1,246.0
Market cap (\$m)	6,765.8
Target Price (A\$ps)	\$ 6.00

Jun Year end	2023a	2024a	2025e	2026e	2027e
Valuation Ratios					
Underlying EPS (cps)	44.8	29.0	32.4	37.2	40.9
... % change	-67.8%	-35.3%	12.0%	14.6%	10.1%
P/E (on underlying EPS) (x)	12.1	18.7	16.7	14.6	13.3
EV/EBITDA (x)	6.6	8.4	7.9	7.5	7.0
EV/EBIT (x)	8.5	11.4	10.5	9.6	8.8
NTA (\$ps)	3.5	3.6	3.7	3.8	3.9
P/NTA (x)	1.5	1.5	1.5	1.4	1.4
Book Value (\$ps)	3.6	3.6	3.8	4.0	4.2
Price/Book (x)	1.5	1.5	1.4	1.4	1.3

DPS (cps)	25.0	22.0	25.4	28.1	30.9
... % pay-out	55.9%	76.0%	78.4%	75.6%	75.6%
Yield (%)	4.6%	4.1%	4.7%	5.2%	5.7%
Franking (%)	100%	100%	100%	100%	100%

Performance Ratios	2023a	2024a	2025e	2026e	2027e
Revenue growth (%)	-65.2%	4.1%	5.5%	7.4%	8.7%
EBITDA growth (%)	-21.8%	-21.5%	6.1%	6.1%	6.9%
EBITDA/sales margin (%)	28.5%	21.5%	21.6%	21.3%	21.0%
EBIT/sales margin (%)	22.0%	15.8%	16.3%	16.6%	16.6%

Gross cash conversion (%)	91.1%	107.5%	98.7%	92.3%	94.8%
Free cash-flow yield (%)	7.3%	7.3%	5.7%	6.2%	7.0%
ROE (%)	12.7%	8.0%	8.6%	9.5%	10.0%
ROIC (%)	16.0%	11.6%	12.1%	12.7%	13.3%
Capex/Depn (x)	0.8	0.9	1.0	1.0	1.0

Net interest cover (x)	10.4	6.2	6.1	6.7	7.2
Core Net Debt/EBITDA (pre-AASB16) (x)	n/a	n/a	n/a	n/a	n/a
Net debt/equity (%)	17.5%	18.1%	17.3%	16.8%	16.2%
Net debt/net debt + equity (%)	14.9%	15.4%	14.8%	14.4%	14.0%

Half yearly (A\$m)	2H22	1H23	2H23	1H24	2H24
Sales revenue	5,541.4	2,124.6	1,822.5	2,154.9	1,955.5
EBITDA	682.6	688.4	435.5	471.3	411.5
Deprec. & amort.	(131.0)	(127.1)	(126.5)	(130.2)	(102.7)
EBIT	551.5	561.3	309.1	341.0	308.8
Interest expense	(12.3)	(36.5)	(46.9)	(51.4)	(53.6)
Pre-tax profit	539.2	524.8	262.2	289.7	255.2
Tax expense	(106.8)	(152.9)	(76.3)	(80.8)	(103.2)
... tax rate	20%	29%	29%	28%	40%
Associates	-	-	-	-	-
Minorities	-	-	-	-	-
Underlying Net Profit	432.4	371.8	185.9	208.9	152.0
Abs. & extras.	-	-	-	-	-
Reported Profit	432.4	371.8	185.9	208.9	152.0

Segmental Information	2023a	2024a	2025e	2026e	2027e
Australian Franchise	1,171.1	1,079.5	1,146.2	1,188.3	1,217.0
Company-Operated	2,776.0	2,803.4	2,846.5	3,113.7	3,518.9
Property	423.1	327.5	343.9	357.7	370.2
Total Revenue (A\$m)	4,370.3	4,210.4	4,336.7	4,659.6	5,106.1
Australian Franchise	561.4	441.0	493.3	532.0	557.5
Company-Operated	254.2	238.7	229.3	247.2	283.1
Property	308.4	203.0	214.2	214.9	222.5
Total EBITDA (A\$m)	1,123.9	882.7	936.7	994.2	1,063.1

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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