

21 September 2020

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# Harvey Norman Holdings Limited

## Consumer Discretionary

### HOLD

**HVN A\$4.35**
**TARGET PRICE A\$4.60**

Harvey Norman Holdings Ltd. engages in the retail, franchise, property, and digital enterprise business. It operates business through the following segments: Franchising Operations; Retail-New Zealand; Retail-Singapore and Malaysia; Retail-Slovenia and Croatia; Retail-Ireland and Northern Ireland; Other Non-Franchised Retail; Retail Property; Retail Property Under Construction; Property Developments for Resale; Equity Investments; and Other

### Company Data

Number of shares	1,246.0M
Market Capitalisation	\$5,420.1M
Free float (%)	43.7
12-month high/low	\$4.81/\$2.46
Average Daily Turnover (\$m)	44.56
% S&P/ASX200	0.34%
DDM Ranking	192
% All Ordinaries	0.29%
GICS Industry Group	Consumer Discretionary

Source: FactSet, Barclay Pearce Capital

### Earnings Summary (AUD)

Year end Adjusted EPS - c	2020A	2021F	2022F	2023F
Revenue (\$M)	3,550.0	3,911.2	3,953.1	4,101.0
EBITDA (\$M)	904.5	966.2	924.5	955.1
Reported NPAT (\$M)	480.5	472.1	444.2	456.7
Adjusted NPAT (\$M)	462.2	457.9	432.0	446.3
Reported EPS (c)	39.2	38.2	36.1	37.2
Adjusted EPS (c - FD)	39.2	37.2	34.6	35.8
Adjusted EPS growth (%)	29.3	-5.1	-6.9	3.3
Adjusted P/E (x)	11.1	11.7	12.6	12.2
Dividend (c/sh)	24.0	28.5	27.1	28.2
Gross yield (%)	7.9	9.4	8.9	9.3
Net yield (%)	5.5	6.6	6.2	6.5
ROIC (%)	11.6	10.0	9.2	9.4

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet and Capital IQ.

### Share price performance



Source: FactSet, Barclay Pearce Capital

## Announce strong growth in profit before tax for the first two months of FY21

On 21 September Harvey Norman Holdings Ltd (HVN) announced their aggregated sales for the first quarter and profit before tax for the first two months of FY21Q21 with the following highlights:

- **Aggregated Sales** increased by 30.6% for the period 1 July 2020 to 17 September compared to the pcg;
- **Total Sales** changes calculated in the Australian Dollar (AUD)
  - Australia increased by 33.8%
  - New Zealand increased by 18.8%
  - Slovenia and Croatia increased by 27.2%
  - Ireland increased by 61.7%
  - Northern Ireland increased by 23.6%
  - Singapore decreased by 3.7%
  - Malaysia increased by 7.4%
- **Comparable Aggregated Sales** increased by 30.3% for the period 1 July 2020 to 17 September 2020 compared to the previous corresponding period;
- **Comparable Sales** changes calculated in the Australian Dollar
  - Australia increased by 34.5%
  - New Zealand increased by 18.0%
  - Slovenia and Croatia increased by 27.2%
  - Ireland increased by 55.1%
  - Northern Ireland increased by 23.6%
  - Singapore decreased by 3.8%
  - Malaysia decreased by 5.1%; and
- **Unaudited Preliminary Profit Before Tax & Non-Controlling Interests** \$178.1m compared to 62.3m (increased by 185.5%) for the period 1 July 2020 to 31 August 2020 compared to the pcg - this excludes the net impact of AASB 16 Leases and net property revaluation adjustments.

### Outlook

- Continued growth as customers continue to engage strongly with the brand, appreciating a pleasant shopping experience and embracing the brands digital presence and convenience of home delivery and click and collect.

## Earnings changes

HVN's reported profit before tax of \$178.1m for the period 1 July 2020 to 31 August 2020 compares to market expectations of \$627m for the full year. However, this is only for two months, and HVN's business is seasonal. Hence, we expect positive revision of earnings in the order of 5-10%.

We are initiating on HVN with a 12-month price target to \$4.60/sh and a HOLD recommendation. The price target is underpinned by our DDM valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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