

Harmoney

Stellare® 2.0 Efficiency Offsets Slower Growth

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Harmoney's (HMY.AX) 3Q24 trading update showed incremental loan book growth despite a tough operating environment, with consumers and households under pressure. HMY achieved +4% growth in its loan book compared to the prior corresponding period (pcp), with its Australian book reaching A\$400m (~53% of the group's total loan book). Revenue saw a robust increase of +18% on the pcp, rising to A\$91m, supported by higher interest rates, while the credit loss percentage improved by -10 basis points from the 1H24 result of 4.1%, benefiting from the larger influence of the new Australian scorecard. HMY's cost-to-income ratio continued its downward trend, improving impressively to 23% from 28% in the pcp. The Stellare® 2.0 platform is gaining traction in Australia and is set to be rolled out in New Zealand in 1H25. We adjust earnings estimates, reflecting a balance of cost improvements and changes in NIM and impairment estimates. Our spot valuation falls -3cps to A\$1.26.

ASX Code	HMY	Financials: Jun/	23A	24E	25E	26E	Valuation (x)	23A	24E	25E	26E
Share price	A\$0.43	Rev (A\$m)	105.5	122.3	135.0	155.6	PE	n/a	n/a	18.4	4.9
Spot Valuation	A\$1.26 (from 1.29)	NPAT* (A\$m)	0.2	(3.1)	2.4	8.9	EV/EBIT	n/a	n/a	n/a	n/a
Risk rating	High	EPS* (Ac)	0.2	(3.0)	2.3	8.7	EV/EBITDA	n/a	n/a	n/a	n/a
Issued shares	102.0m	DPS (Ac)	0.0	0.0	0.0	0.0	Price / NTA	0.4	0.4	0.4	0.4
Market cap	A\$43.3m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	27.0k (A\$12k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

What's changed?

- **Earnings:** Normalised NPAT loss estimates in FY24 improve marginally to -A\$3.1m, while FY25 estimates rise +14% to a profit of A\$2.4m, and FY26 estimates lift +6% to A\$8.9m.
- **Spot valuation:** Our spot DCF falls -2% to NZ\$1.26.

Operational efficiency and platform innovation

HMY has advanced its industry-leading position with a cost-to-income ratio of an impressive 23%, supported by the growth of its loan book and efficiencies from the Stellare® 2.0 platform. The company's direct-to-consumer lending model results in a low cost for acquiring new customers and nearly zero cost for returning customers' subsequent loans, strengthening its competitive edge. Additionally, the successful roll-out of Stellare® 2.0 in Australia has enhanced customer experience through its faster, more seamless operations. We expect HMY to extend this software into New Zealand, likely in 1H25, once Australia is bedded down.

Book growth dampened by a consumer under pressure, while the rapid rise in interest rates crimps NIM

The rapid increase in market interest rates has constrained consumer activity, slowing loan growth and prompting an increase in HMY's cost of funds, leading to a rise in lending rates. Despite the year-to-date portfolio net interest margin (NIM) percentage contracting to 8.8%, due to the rapid rise in funding costs HMY achieved a 10% NIM on new lending this quarter, steering us back towards HMY's target range of 9% to 10% from FY25 onwards.

Credit losses improving – new scorecard takes effect

HMY's credit losses have moderated to 4.1% year to date, a 10 bps decrease from the 4.2% reported for the first half of the financial year ending December 2023. This downward trend is expected to continue as loans originated from the newer Australian scorecard, introduced over 20 months ago, and now constitute a majority of Australian lending, with 90+ day arrears maintaining a low rate of 67 bps.

Harmoney Corporation Ltd. (HMY)
Market Data (A\$)

Priced as at 01 May 2024	0.43
52 week high / low	0.65 / 0.31
Market capitalisation (A\$m)	43.8

Key WACC assumptions

Risk free rate	5.00%
Equity beta	1.40
WACC	11.7%
Terminal growth	2.0%

Profit and Loss Account (A\$m)

	2022A	2023A	2024E	2025E	2026E
Interest income	68.9	105.5	122.3	135.0	155.6
Net interest income	50.8	65.7	66.7	74.1	86.0
Other income	3.9	1.5	0.3	0.3	0.3
Net operating income	54.7	67.2	66.9	74.4	86.2
Operating expenses	(54.5)	(62.5)	(65.3)	(66.8)	(71.1)
Associate income	0	0	0	0	0
Tax	0	0	(0.7)	(0.6)	(1.2)
Minority interests	0	0	0	0	0
Normalised NPAT	(3.9)	0.2	(3.1)	2.4	8.9
Abnormals/other	(14.9)	(7.8)	(0.8)	(5.3)	(5.9)
Reported NPAT	(18.8)	(7.6)	(3.9)	(2.9)	3.0
Normalised EPS (cps)	(3.9)	0.2	(3.0)	2.3	8.7
DPS (cps)	0	0	0	0	0

Growth Rates

	2022A	2023A	2024E	2025E	2026E
Revenue (%)	96.1	53.1	15.9	10.4	15.3
EBITDA (%)	n/a	n/a	n/a	n/a	n/a
EBIT (%)	n/a	n/a	n/a	n/a	n/a
Normalised NPAT (%)	n/a	n/a	n/a	n/a	>100
Normalised EPS (%)	n/a	n/a	n/a	n/a	>100
Ordinary DPS (%)	n/a	n/a	n/a	n/a	n/a

Cash Flow (A\$m)

	2022A	2023A	2024E	2025E	2026E
EBITDA	n/a	n/a	n/a	n/a	n/a
Working capital change	n/a	n/a	n/a	n/a	n/a
Interest & tax paid	n/a	n/a	n/a	n/a	n/a
Other	n/a	n/a	n/a	n/a	n/a
Operating cash flow	n/a	n/a	n/a	n/a	n/a
Capital expenditure	n/a	n/a	n/a	n/a	n/a
(Acquisitions)/divestments	n/a	n/a	n/a	n/a	n/a
Other	n/a	n/a	n/a	n/a	n/a
Funding available/(required)	n/a	n/a	n/a	n/a	n/a
Dividends paid	n/a	n/a	n/a	n/a	n/a
Equity raised/(returned)	n/a	n/a	n/a	n/a	n/a
(Increase)/decrease in net debt	n/a	n/a	n/a	n/a	n/a

Balance Sheet (A\$m)

	2022A	2023A	2024E	2025E	2026E
Working capital	56.8	43.5	34.8	30.4	32.6
Receivables	553.1	710.8	725.9	831.3	948.7
Intangibles	8.5	11.6	13.5	15.4	17.0
Right of use asset	0.2	3.4	3.5	3.0	2.5
Other assets	16.1	16.1	16.1	16.1	16.1
Total funds employed	634.9	785.7	794.2	896.6	1,017.4
Deposits	n/a	n/a	n/a	n/a	n/a
Other borrowings	570.4	726.9	736.4	839.5	961.5
Other liabilities	5.4	5.0	3.5	3.0	2.5
Shareholder's funds	59.1	53.8	54.3	54.1	53.4
Minority interests	0	0	0	0	0
Total funding sources	634.9	785.7	794.2	896.6	1,017.4

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend** Information on Forsyth Barr's Carbon and ESG (CESG) ratings can be found at www.forsythbarr.co.nz/corporate-news-events/cesg-report

Spot valuation (A\$)

DCF	1.26
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DCF valuation summary (A\$m)

Total firm value	138
(Net debt)/cash	0
Less: Capitalised operating leases	(9)
Value of equity	129

Valuation Ratios

	2022A	2023A	2024E	2025E	2026E
EV/Sales (x)	n/a	n/a	n/a	n/a	n/a
EV/EBITDA (x)	n/a	n/a	n/a	n/a	n/a
EV/EBIT (x)	n/a	n/a	n/a	n/a	n/a
PE (x)	n/a	>100x	n/a	18.6	4.9
Price/NTA (x)	0.4	0.4	0.4	0.4	0.4
Free cash flow yield (%)	n/a	n/a	n/a	n/a	n/a
Adj. free cash flow yield (%)	1.0	35.9	58.7	73.0	95.9
Gross dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Capital Structure

	2022A	2023A	2024E	2025E	2026E
Interest cover EBIT (x)	>100x	>100x	>100x	>100x	>100x
Interest cover EBITDA (x)	>100x	>100x	>100x	>100x	>100x
Net debt/ND+E (%)	n/a	n/a	n/a	n/a	n/a
Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a

Key Ratios

	2022A	2023A	2024E	2025E	2026E
Return on assets (%)	-0.6	0.0	-0.4	0.3	0.9
Return on equity (%)	-3.2	0.2	-2.5	1.9	7.1
Return on funds employed (%)	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	n/a	n/a	n/a	n/a	n/a
EBIT margin (%)	n/a	n/a	n/a	n/a	n/a
Capex to sales (%)	n/a	n/a	n/a	n/a	n/a
Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Imputation (%)	0	0	0	0	0
Pay-out ratio (%)	0	0	0	0	0

Segment Performance

	2022A	2023A	2024E	2025E	2026E
Group Reported NPAT	(18.8)	(7.6)	(3.9)	(2.9)	3.0
Movement in credit provision	14.9	7.8	0.8	5.3	5.9
Share based expenses	2.7	1.9	0.5	1.0	1.1
D&A expenses	1.3	2.5	3.4	3.6	4.0
Group Cash NPAT	0.2	4.7	0.9	7.0	13.9
Group Average Loan book (\$m)	432.5	683.1	754.5	816.6	933.3
NIM (%)	11.8%	9.6%	8.8%	9.1%	9.2%
Equity ratio (%)	9.3%	6.8%	6.8%	6.0%	5.2%

Australia:

	2022A	2023A	2024E	2025E	2026E
Loan book (period end, \$m)	274.1	381.6	402.6	495.2	599.2
Number of originations (#)	12,571	12,597	11,085	13,634	16,498
Total Income (\$m)	25.8	52.7	65.2	73.8	90.4
NIM (%)	12.2%	10.3%	9.7%	9.4%	9.4%
AU Cash NPAT (\$m)	(1.5)	5.8	7.7	10.2	16.3

New Zealand:

	2022A	2023A	2024E	2025E	2026E
Loan book (period end, \$m)	306.8	362.4	358.8	376.7	395.5
Number of originations (#)	14,161	13,605	9,934	10,431	10,952
Total Income (\$m)	47.0	54.3	57.3	61.4	65.4
NIM (%)	11.5%	9.0%	7.9%	8.7%	8.9%
NZ Cash NPAT (\$m)	(7.9)	(11.7)	(6.8)	(3.2)	(2.4)

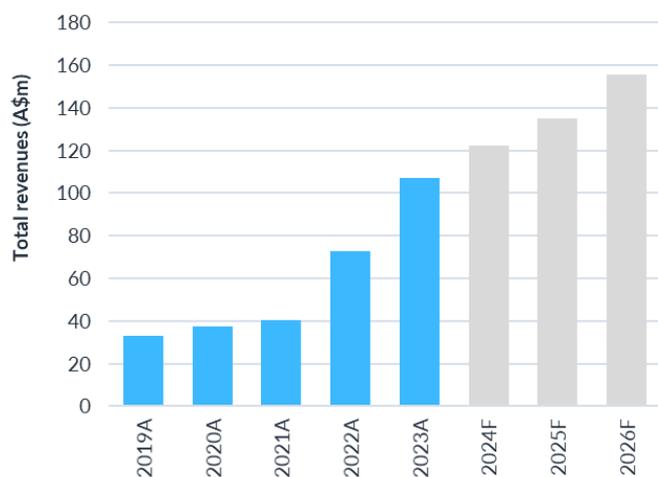
Earnings revisions

Figure 1. Earnings revisions

	FY24E			FY25E			FY26E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Interest income	124.0	122.3	-1%	135.4	135.0	-0%	156.1	155.6	-0%
Other income	0.3	0.3	+0%	0.3	0.3	+0%	0.3	0.3	+0%
Total Income	124.2	122.5	-1%	135.6	135.2	-0%	156.4	155.8	-0%
Interest expense	(55.4)	(55.6)	+0%	(60.8)	(60.8)	+0%	(69.8)	(69.6)	-0%
Impairment expense	(32.1)	(31.5)	-2%	(35.5)	(35.4)	-0%	(38.6)	(38.6)	+0%
Customer acquisition expense/marketing	(10.8)	(9.9)	-9%	(11.2)	(10.1)	-9%	(11.5)	(10.5)	-9%
Personnel expenses	(11.0)	(11.0)	+0%	(11.8)	(11.9)	+0%	(12.2)	(12.3)	+1%
Customer servicing expenses	(6.2)	(6.0)	-2%	(6.9)	(6.9)	-0%	(7.6)	(7.5)	-0%
Technology expenses	(5.3)	(5.1)	-5%	(5.5)	(5.5)	+0%	(5.7)	(5.7)	+0%
General and administrative expenses	(3.3)	(3.3)	+0%	(3.4)	(3.4)	+0%	(3.5)	(3.5)	+0%
Depreciation and amortisation expenses	(3.4)	(3.4)	+0%	(3.6)	(3.6)	+0%	(4.0)	(4.0)	+0%
Profit/(Loss) before income tax expense	(3.3)	(3.2)	-5%	(3.0)	(2.3)	-23%	3.7	4.2	+15%
Income tax benefit/(expense)	(0.4)	(0.7)		(0.5)	(0.6)		(1.2)	(1.2)	
Reported NPAT	(3.8)	(3.9)	-3%	(3.5)	(2.9)	+16%	2.5	3.0	+20%
Movement in expected credit loss provision	0.6	0.8	+31%	5.6	5.3	-5%	5.9	5.9	+0%
Normalised NPAT	(3.2)	(3.1)	-2%	2.1	2.4	+14%	8.3	8.9	+6%
Share based payment expenses	0.5	0.5	+0%	1.0	1.0	+0%	1.1	1.1	+1%
Depreciation and amortisation expenses	3.4	3.4	+0%	3.6	3.6	+0%	4.0	4.0	+0%
Cash NPAT	0.8	0.9	+9%	6.7	7.0	+4%	13.4	13.9	+4%
ROE (normalised NPAT)		-6%			4%			16%	
ROE (cash NPAT – HMY measure)		2%			13%			26%	

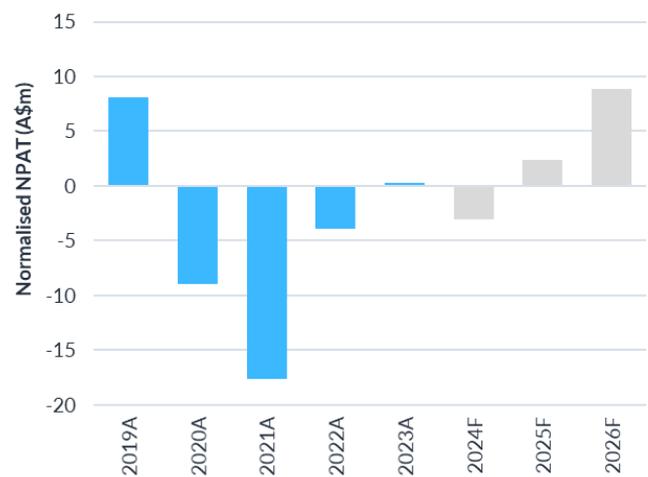
Source: Forsyth Barr analysis

Figure 2. HMY – Total revenues (A\$m)



Source: Company, Forsyth Barr analysis

Figure 3. HMY – Normalised NPAT*



Source: Company, Forsyth Barr analysis.

*Normalised NPAT is reported NPAT excluding the change in expected credit loss provision.

Figure 4. Price performance



Source: Forsyth Barr analysis

Figure 5. Substantial shareholders

Shareholder	Latest Holding
Heartland Group Holdings	10.1%
Lookman Family Trust	9.0%
Kirwood Capital	8.7%

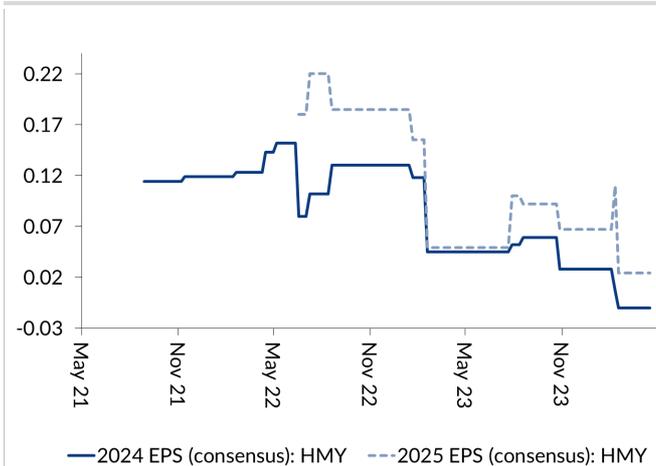
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 6. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE 2024E	PE 2025E	EV/EBITDA 2024E	EV/EBITDA 2025E	EV/EBIT 2024E	EV/EBIT 2025E	Cash Yld 2025E
Harmoney	HMY AU	A\$0.43	A\$43	<0x	18.4x	n/a	n/a	n/a	n/a	0.0%
Humm Group	HUM AU	A\$0.45	A\$230	15.0x	7.6x	>75x	>75x	>75x	>75x	5.3%
Moneyme	MME AU	A\$0.07	A\$56	2.3x	2.3x	45.4x	35.2x	50.7x	39.7x	n/a
Plenti Group	PLT AU	A\$0.64	A\$112	<0x	>50x	>75x	>75x	<0x	>75x	0.0%
Solvar	SVR AU	A\$1.00	A\$210	7.8x	6.8x	7.4x	6.8x	7.6x	7.0x	12.1%
Latitude Group Holdings	LFS AU	A\$1.18	A\$1,222	4.6x	13.4x	40.7x	44.4x	>75x	>75x	5.1%
Wisr	WZR AU	A\$0.04	A\$52	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Anz Group Holdings	ANZ AU	A\$28.25	A\$84,962	12.6x	12.8x	n/a	n/a	n/a	n/a	5.7%
Commonwealth Bank Of Austral	CBA AU	A\$111.86	A\$187,237	19.5x	20.1x	n/a	n/a	n/a	n/a	4.1%
National Australia Bank	NAB AU	A\$33.06	A\$102,577	14.6x	14.8x	n/a	n/a	n/a	n/a	5.1%
Westpac Banking Corp	WBC AU	A\$25.50	A\$88,569	13.4x	13.9x	n/a	n/a	n/a	n/a	5.6%
Compco Average:				11.2x	11.4x	31.2x	28.8x	29.1x	23.3x	5.4%
EV = Mkt cap+net debt+lease liabilities+min interests-investments				HMY Relative:		n/a	60%	n/a	n/a	-100%

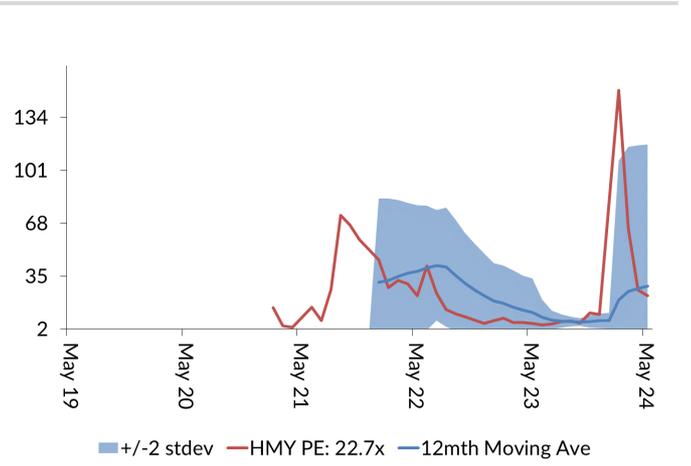
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (HMY) companies fiscal year end

Figure 7. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

Figure 8. One year forward PE (x)



Source: Forsyth Barr analysis

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