

Harmoney

FY24 – Good Progress in a Tough Market

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Harmoney's (HMY.AX) FY24 result was broadly in line with expectations (but with a one-off write-off), reflecting good cost-out progress amidst challenging market conditions. Key profitability metrics, including net interest margin (NIM) and risk-adjusted income, deteriorated in FY24 as expected. HMY's internal improvements meant it was somewhat more resilient to the deteriorating economic backdrop across ANZ than expected. Incurred credit loss percentage improved in 2H24 to 4.0% from 4.2% in 1H24, as the improved scorecard implemented two years ago benefited. HMY's completion of the Australian roll-out of its Stellare® 2.0 platform should see future efficiency and customer conversion rate benefits, which is set to roll out across NZ during 1H25. We see HMY profitable in FY25 at our Normalised NPAT line, but remaining at a Statutory NPAT loss as credit loss provision lifts substantially, due to expected loan book growth. We make amendments to estimates on slower short-term growth, but remain positive on the long-term opportunity. Our spot valuation falls -2cps to A\$1.24.

ASX Code	HMY	Financials: Jun/	24A	25E	26E	27E	Valuation (x)	24A	25E	26E	27E
Share price	A\$0.41	Rev (A\$m)	121.7	137.9	149.4	162.9	PE	n/a	49.2	5.7	3.8
Spot Valuation	A\$1.24 (from 1.26)	NPAT* (A\$m)	(3.9)	0.8	7.3	11.0	EV/EBIT	n/a	n/a	n/a	n/a
Risk rating	High	EPS* (Ac)	(3.8)	0.8	7.2	10.8	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	0.3	0.4	0.4	0.4
Market cap	A\$41.8m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	21.0k (A\$10k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

What's changed?

- **Earnings:** Our reported NPAT estimates fall -A\$0.4m in FY25, -A\$1.7m in FY26, but rise +A\$1.1m in FY27.
- **Spot valuation:** Falls -2% to A\$1.24.

FY24 results summary

Total income rose +14% to A\$122.5m from increases in interest rates and average loan book. Reported NPAT loss of -A\$13.2m included an -A\$9.5m non-cash abnormal impairment, related to writing off its legacy tech stack as its new Stellare® 2.0 platform went live. On our preferred metric, the Normalised NPAT loss was -A\$3.9m in FY24. The company reported +2% loan book growth over the year and achieved a solid reduction in its cost-to-income ratio, from 28% in the prior period to an impressive 24% in FY24.

Technology leads the way – Stellare® 2.0 implementation now fully complete in Australia

Over the period, HMY's new Stellare® 2.0 platform was delivered into Australia and should create efficiencies in FY25 and FY26. A faster, more seamless loan application process for customers should see a notable increase in customer conversion rates, a key factor in growing the book. Originations in July 2024 were up +50% from July 2023, boding well for our FY25 expectation of +9% total book growth. Stellare® 2.0 implementation in NZ will occur over 1H25.

A weakened consumer holds back growth, but has not overly impacted credit metrics

A weakened consumer environment (elevated unemployment, household costs and interest rates) has dampened HMY's growth. Logically, higher interest rates have reduced demand for loans associated with home renovations, cars, weddings, and other life events that HMY funds (with HMY's closing loan book up only +2% on FY23). Lower credit losses in 2H24 partially reflects a diminished impact from HMY's older and poorer-performing Australian credit scorecard, with 90+ day arrears at only 0.43% of the loan book, well below the Equifax Australian Consumer Credit Demand Index 2024 Q2 average of 1.58%.

Harmoney Corporation Ltd. (HMY)

Market Data (A\$)						Spot valuation (A\$)					
Priced as at 23 Aug 2024					0.41	1.24					
52 week high / low					0.65 / 0.34	1.24					
Market capitalisation (A\$m)					41.8						
Key WACC assumptions						DCF valuation summary (A\$m)					
Risk free rate					5.00%	Total firm value					
Equity beta					1.40	134					
WACC					11.7%	(Net debt)/cash					
Terminal growth					2.0%	0					
						Less: Capitalised operating leases					
						(8)					
						Value of equity					
						126					
Profit and Loss Account (A\$m)						Valuation Ratios					
	2023A	2024A	2025E	2026E	2027E	2023A	2024A	2025E	2026E	2027E	
Interest income	105.5	121.7	137.9	149.4	162.9	EV/Sales (x)	n/a	n/a	n/a	n/a	
Net interest income	65.7	65.8	70.0	81.9	93.3	EV/EBITDA (x)	n/a	n/a	n/a	n/a	
Other income	1.5	0.9	0.3	0.3	0.3	EV/EBIT (x)	n/a	n/a	n/a	n/a	
Net operating income	67.2	66.7	70.2	82.1	93.6	PE (x)	>100x	n/a	49.2	5.7	
Operating expenses	(62.5)	(66.0)	(66.2)	(69.2)	(75.8)	Price/NTA (x)	0.4	0.3	0.4	0.4	
Associate income	0	0	0	0	0	Free cash flow yield (%)	n/a	n/a	n/a	n/a	
Tax	0	0	0	(1.1)	(1.6)	Adj. free cash flow yield (%)	37.6	49.3	65.8	88.6	
Minority interests	0	0	0	0	0	Gross dividend yield (%)	0.0	0.0	0.0	0.0	
Normalised NPAT	0.2	(3.9)	0.8	7.3	11.0	Net dividend yield (%)	0.0	0.0	0.0	0.0	
Abnormals/other	(7.8)	(9.3)	(3.3)	(6.0)	(5.6)						
Reported NPAT	(7.6)	(13.2)	(2.5)	1.3	5.4	Capital Structure					
Normalised EPS (cps)	0.2	(3.8)	0.8	7.2	10.8	2023A	2024A	2025E	2026E	2027E	
DPS (cps)	0	0	0	0	0	Interest cover EBIT (x)	>100x	>100x	>100x	>100x	
						Interest cover EBITDA (x)	>100x	>100x	>100x	>100x	
						Net debt/ND+E (%)	n/a	n/a	n/a	n/a	
						Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	
Growth Rates						Key Ratios					
	2023A	2024A	2025E	2026E	2027E	2023A	2024A	2025E	2026E	2027E	
Revenue (%)	53.1	15.3	13.3	8.3	9.0	Return on assets (%)	0.0	-0.5	0.1	0.8	
EBITDA (%)	n/a	n/a	n/a	n/a	n/a	Return on equity (%)	0.2	-3.1	0.7	5.9	
EBIT (%)	n/a	n/a	n/a	n/a	n/a	Return on funds employed (%)	0.0	0.0	0.0	0.0	
Normalised NPAT (%)	n/a	n/a	n/a	>100	51.2	EBITDA margin (%)	n/a	n/a	n/a	n/a	
Normalised EPS (%)	n/a	n/a	n/a	>100	51.2	EBIT margin (%)	n/a	n/a	n/a	n/a	
Ordinary DPS (%)	n/a	n/a	n/a	n/a	n/a	Capex to sales (%)	n/a	n/a	n/a	n/a	
						Capex to depreciation (%)	n/a	n/a	n/a	n/a	
						Imputation (%)	0	0	0	0	
						Pay-out ratio (%)	0	0	0	0	
Cash Flow (A\$m)						Segment Performance					
	2023A	2024A	2025E	2026E	2027E	2023A	2024A	2025E	2026E	2027E	
EBITDA	n/a	n/a	n/a	n/a	n/a	Group Reported NPAT	(7.6)	(13.2)	(2.5)	1.3	5.4
Working capital change	n/a	n/a	n/a	n/a	n/a	Movement in credit provision	7.8	-0.2	3.3	6.0	5.6
Interest & tax paid	n/a	n/a	n/a	n/a	n/a	Share based expenses	1.9	1.5	1.5	2.0	2.1
Other	n/a	n/a	n/a	n/a	n/a	D&A expenses	2.5	12.6	1.7	2.5	3.2
Operating cash flow	n/a	n/a	n/a	n/a	n/a	Group Cash NPAT	4.7	0.7	4.0	11.8	16.3
Capital expenditure	n/a	n/a	n/a	n/a	n/a	Group Average Loan book (\$m)	683.1	754.2	793.6	893.9	1019.9
(Acquisitions)/divestments	n/a	n/a	n/a	n/a	n/a	NIM (%)	9.6%	8.7%	8.8%	9.2%	9.2%
Other	n/a	n/a	n/a	n/a	n/a	Equity ratio (%)	6.8%	4.6%	4.4%	3.8%	3.4%
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	Australia:					
Equity raised/(returned)	n/a	n/a	n/a	n/a	n/a	Loan book (period end, \$m)	381.6	411.0	489.1	601.6	709.9
(Increase)/decrease in net debt	n/a	n/a	n/a	n/a	n/a	Number of originations (#)	12,597	10,808	10,832	13,323	15,721
						Total Income (\$m)	52.7	61.9	77.9	90.6	105.2
						NIM (%)	10.3%	9.7%	9.3%	9.4%	9.3%
						AU Cash NPAT (\$m)	5.8	5.1	8.9	14.9	19.0
						New Zealand:					
						Loan book (period end, \$m)	362.4	347.0	340.1	357.1	371.3
						Number of originations (#)	13,605	9,358	7,123	7,479	7,778
						Total Income (\$m)	54.3	60.6	60.2	59.0	57.9
						NIM (%)	9.0%	7.7%	8.1%	8.7%	8.8%
						NZ Cash NPAT (\$m)	(1.1)	(4.4)	(4.9)	(3.1)	(2.7)
Balance Sheet (A\$m)											
	2023A	2024A	2025E	2026E	2027E						
Working capital	43.5	37.7	28.0	27.2	31.4						
Receivables	710.8	727.8	792.5	916.3	1,033.6						
Intangibles	11.6	4.5	8.3	11.5	14.1						
Right of use asset	3.4	2.8	2.1	1.5	0.9						
Other assets	16.1	11.2	11.2	11.2	11.2						
Total funds employed	785.7	784.1	842.5	968.1	1,091.6						
Deposits	n/a	n/a	n/a	n/a	n/a						
Other borrowings	726.9	744.6	803.7	929.7	1,053.8						
Other liabilities	5.0	3.0	2.1	1.5	0.9						
Shareholder's funds	53.8	36.5	36.7	36.8	36.9						
Minority interests	0	0	0	0	0						
Total funding sources	785.7	784.1	842.5	968.1	1,091.6						

* 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

Result review

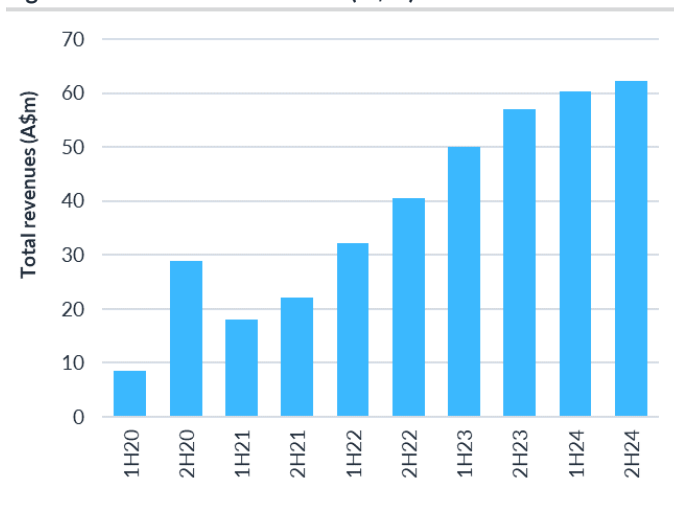
HMY reported a NPAT loss of -\$A13.2m for FY24, but this result was significantly impacted by the one-off -\$A9.5m impairment of intangible assets (on retiring Stellare® 1.0 its legacy tech platform). Adjusting for this one-off, our preferred metric 'Normalised NPAT' was, however, a -\$A3.9m loss. The company reported +2% loan book growth over the year to A\$758m. The Australian loan book is now 54% of the group's total loan book and underscores HMY's successful expansion into the Australian market. Total income increased by +14% to reach A\$123m on the back of rises in interest rates and a lift in average loan book. NIM (8.8% in FY24 versus 9.6% in FY23) and risk-adjusted income (from 6.0% to 4.8%) fell, both being held back as interest rate rises squeezed margins. However, NIM rose to 10.2% for new business originated in 4Q24. The company achieved a significant reduction in its cost-to-income ratio, which decreased from 28% to 24% year-over-year, highlighting the scalable nature of its operations and effective cost management strategies.

Figure 1. Results comparison (\$Am)

	FY23 Actual	FY24 Actual	Change
Interest income	105.5	121.7	+15%
Other income	1.5	0.9	-43%
Total Income	107.1	122.5	+14%
Interest expense	(39.8)	(55.8)	+40%
Impairment expense	(32.4)	(30.5)	-6%
Customer acquisition expense	(12.3)	(10.6)	-14%
Personnel expenses	(12.9)	(12.5)	-3%
Customer servicing expenses	(6.2)	(5.9)	-4%
Technology expenses	(4.8)	(5.0)	+3%
General and administrative expenses	(3.7)	(2.8)	-23%
Depreciation and amortisation expenses	(2.5)	(12.6)	n/a
Profit/(Loss) before income tax expense	(7.6)	(13.2)	n/a
Income tax benefit / (expense)	-	-	
Statutory reported NPAT	(7.6)	(13.2)	n/a
Movement in expected credit loss provision	7.8	(0.2)	n/a
Other non-underlying costs or income	-	9.5	n/a
Normalised NPAT (FB preferred metric)	0.2	(3.9)	n/a
Share based payment expenses	1.9	1.5	n/a
Depreciation and amortisation expenses	2.5	3.1	n/a
Cash NPAT (HMY metric)	4.7	0.7	n/a

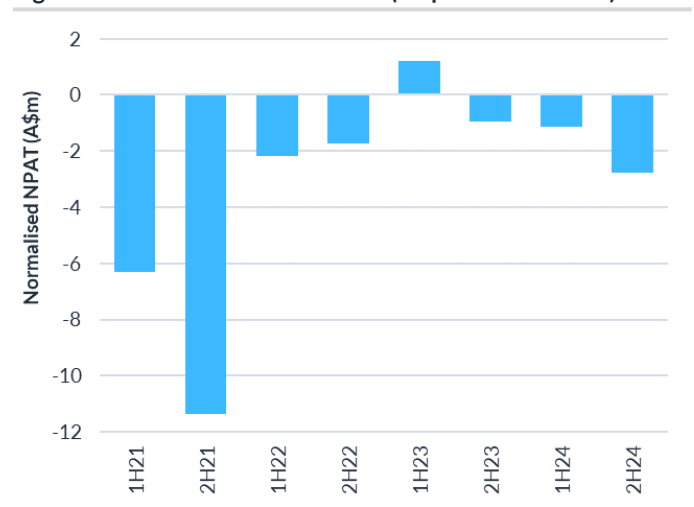
Source: Company, Forsyth Barr analysis

Figure 2. HMY – Total revenues (A\$m)



Source: Company, Forsyth Barr analysis

Figure 3. HMY – Normalised NPAT (FB preferred metric)



Source: Company, Forsyth Barr analysis

Earnings revisions

We lower our FY25 and FY26 loan book growth expectations (on a generally softer economic environment) and interest rate assumptions (with cash rate cuts now coming earlier than our prior assumptions), and lower our NIM forecast in FY25 (from 9.0% to 8.8%), but see improvements into FY26 and FY27 at 9.2% (see Figure 11). As growth returns, we expect share-based payments to rise, so lift our estimates for this expense. Offsetting these somewhat are cuts in our expected operating expense lines, as HMY is making good progress on costs, with its cost-to-income ratio continuing to fall (see Figure 14). D&A estimates fall materially in FY25, on the back of the complete Stellare® 1.0 write-off seen in FY24. On funding, over the year HMY completed NZ's first-ever unsecured personal loan-backed ABS (NZ\$200m). Further, a new A\$140m warehouse facility was added in Australia, and three existing facilities were extended for two years each, creating growth capacity of \$181m. The refinancing of corporate-level debt, with a new limit rising +50%, provides the capacity to grow without new equity being required. On its results call, management essentially ruled out seeking or needing new equity over FY25.

HMY noted incurred credit loss percentage improved in 2H24 to 4.0% (from 4.2% in 1H24), as a result of the better performing Australian scorecard (implemented two years ago) having a positive impact. We see this as boding well for future periods. As such, we now forecast lifetime group credit loss provision falling to 4.7% in FY25 and 4.6% in FY26 and FY27, as compared to the 4.8% HMY estimated for FY24. Stellare® 2.0 implementation is also likely to help but we see this benefit 12-18 months out (being the time of normal peak hazard for losses).

We see HMY at a tipping point, with a modern tech architecture, strong cost management, greater efficiency on customer conversion (see Figures 9 and 10), good progress on managing incurred losses, and returning to loan growth in FY25. This, along with NIM normalisation over FY25 and into FY26, we forecast HMY breaking even at our preferred Normalised NPAT line in FY25, and at the Reported NPAT line in FY26 (albeit, this largely depends on the 'Movement in expected credit loss provision' as HMY's loan book grows).

HMY management updated its forward guidance for:

1. 1H25 Stellare 2.0 rollout in NZ.
2. NIM returning to 9% in 2H25.
3. Cash NPAT growth (HMY metric).
4. Achieving a 20% Cash ROE (HMY definition) run-rate sometime in 2H25.

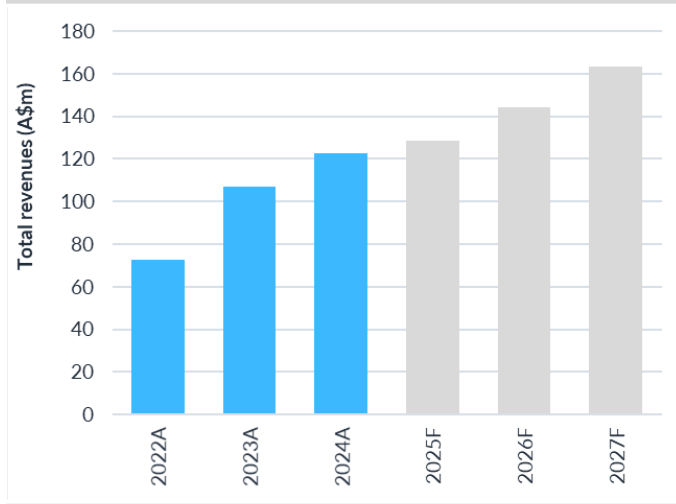
Figure 4. Earnings revisions

	FY25E			FY26E			FY27E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Interest income	135.0	137.7	+2%	155.6	149.5	-4%	169.4	163.1	-4%
Other income	0.3	0.3	+0%	0.3	0.3	+0%	0.3	0.3	+0%
Total Income	135.2	138.0	+2%	155.8	149.8	-4%	169.7	163.4	-4%
Interest expense	(60.8)	(67.8)	+11%	(69.6)	(67.7)	-3%	(75.9)	(69.8)	-8%
Impairment expense	(35.4)	(32.9)	-7%	(38.6)	(36.8)	-5%	(42.5)	(41.3)	-3%
Customer acquisition expense/marketing	(10.1)	(10.9)	+8%	(10.5)	(11.2)	+8%	(10.8)	(11.6)	+8%
Personnel expenses	(11.9)	(12.9)	+9%	(12.3)	(13.9)	+13%	(12.7)	(14.4)	+13%
Customer servicing expenses	(6.9)	(6.4)	-6%	(7.5)	(7.2)	-5%	(8.2)	(7.8)	-4%
Technology expenses	(5.5)	(5.0)	-10%	(5.7)	(5.1)	-10%	(5.8)	(5.3)	-10%
General and administrative expenses	(3.4)	(2.9)	-14%	(3.5)	(3.0)	-14%	(3.6)	(3.1)	-14%
Depreciation and amortisation expenses	(3.6)	(1.7)	-53%	(4.0)	(2.5)	-37%	(4.3)	(3.2)	-27%
Profit/(Loss) before income tax expense	(2.3)	(2.5)	n/a	4.2	2.4	-43%	5.8	6.9	+19%
Income tax benefit/(expense)	(0.6)	-	n/a	(1.2)	(1.1)	-13%	(1.5)	(1.6)	+3%
Reported NPAT	(2.9)	(2.5)	-15%	3.0	1.3	-55%	4.3	5.4	+25%
Movement in expected credit loss provision	5.3	3.3	-37%	5.9	6.0	+1%	5.4	5.6	+5%
Normalised NPAT (FB preferred metric)	2.4	0.8	-64%	8.9	7.3	-18%	9.7	11.0	+14%
Share based payment expenses	1.0	1.5	+42%	1.1	2.0	+86%	1.1	2.1	+85%
Depreciation and amortisation expenses	3.6	1.7	-53%	4.0	2.5	-37%	4.3	3.2	-27%
Cash NPAT (HMY metric)	7.0	4.0	-42%	13.9	11.8	-15%	15.1	16.3	+8%

Source: Forsyth Barr analysis

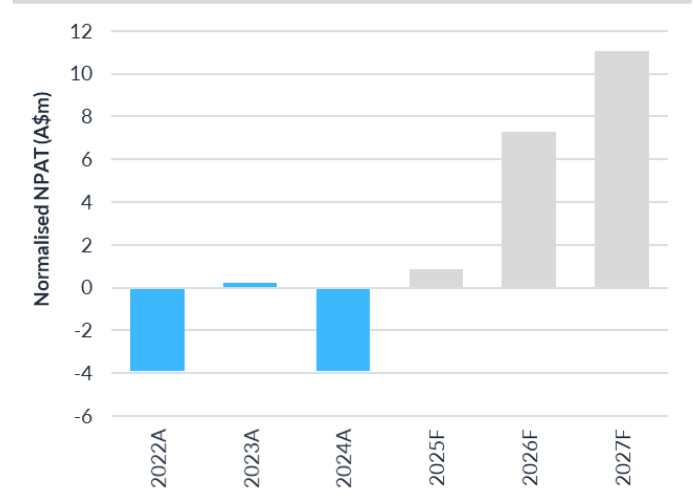
Key charts

Figure 5. HMY – Total income (A\$m)



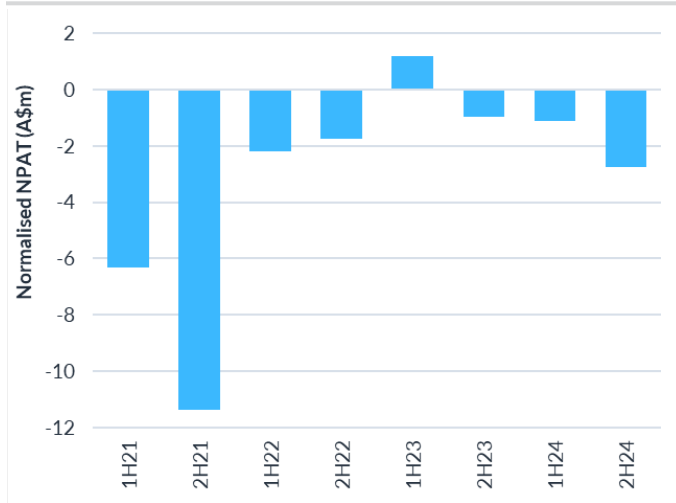
Source: Company, Forsyth Barr analysis

Figure 6. HMY – Normalised NPAT (A\$m)



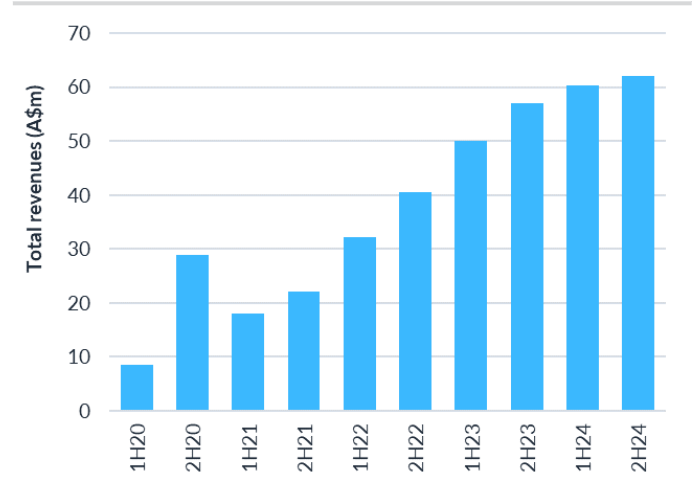
Source: Company, Forsyth Barr analysis

Figure 7. HMY – Normalised NPAT (half year historical)



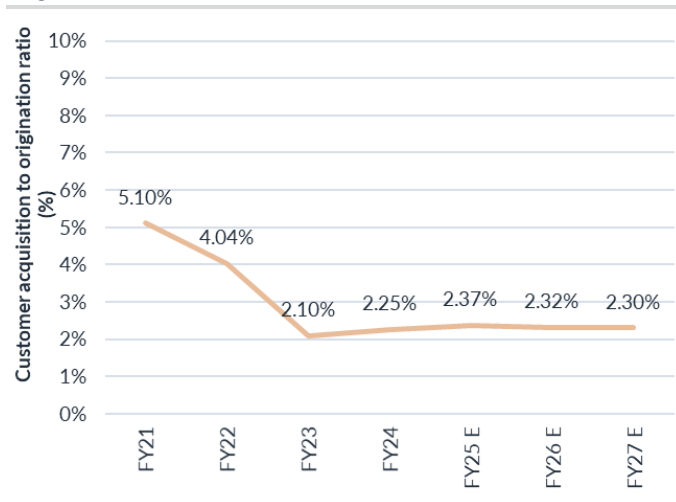
Source: Company, Forsyth Barr analysis

Figure 8. HMY – Loan book (half year historical)



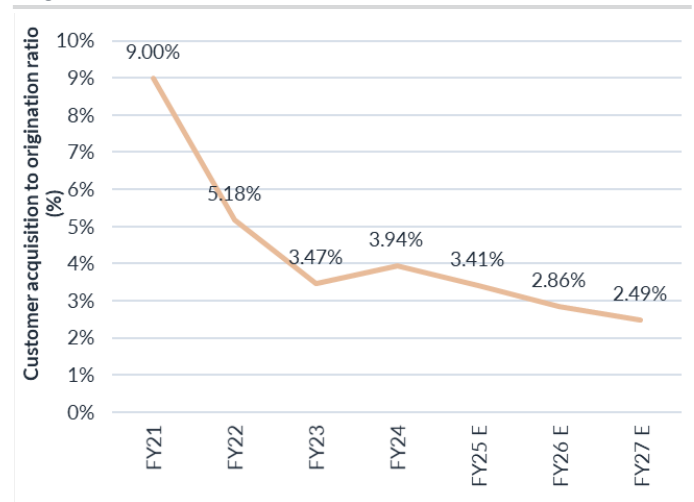
Source: Company, Forsyth Barr analysis

Figure 9. HMY – NZ customer acquisition expenses to origination ratio (%)



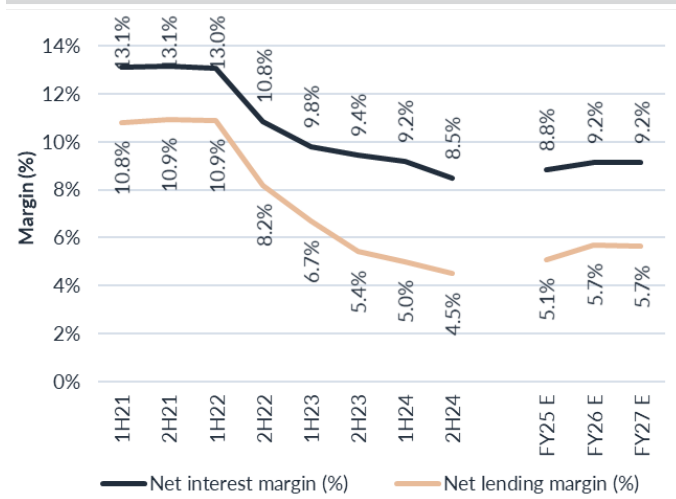
Source: Company, Forsyth Barr analysis

Figure 10. HMY – AU customer acquisition expenses to origination ratio (%)



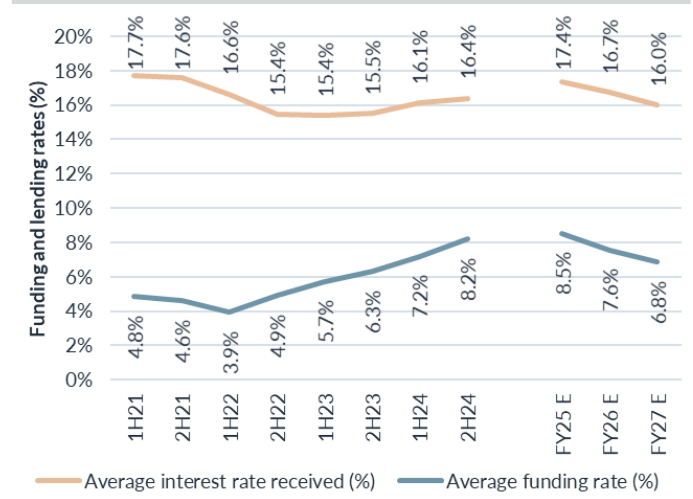
Source: Company, Forsyth Barr analysis

Figure 11. HMY – NIM and NLM margins



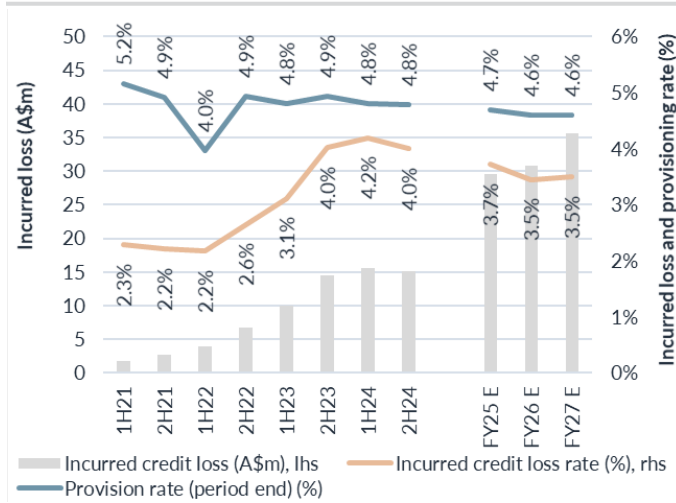
Source: Company, Forsyth Barr analysis

Figure 12. HMY – Average funding and lending rates



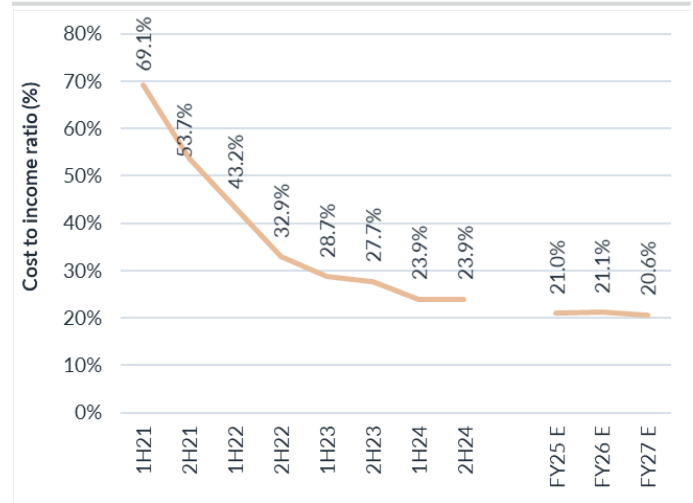
Source: Company, Forsyth Barr analysis

Figure 13. HMY – Incurred loss and provisioning rate



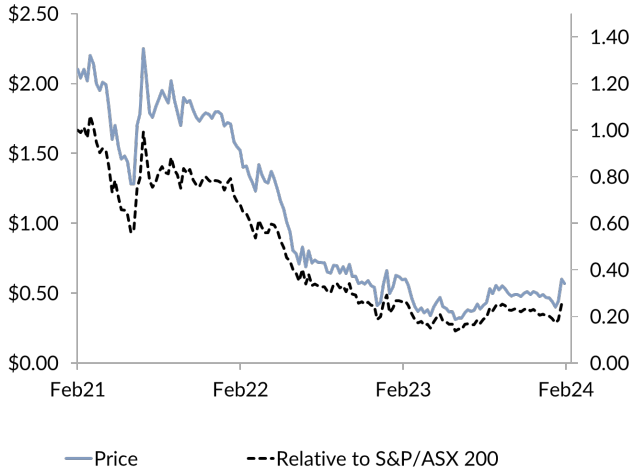
Source: Company, Forsyth Barr analysis

Figure 14. HMY – Cost-to-income ratio



Source: Company, Forsyth Barr analysis

Figure 15. Price performance



Source: Forsyth Barr analysis

Figure 16. Substantial shareholders

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

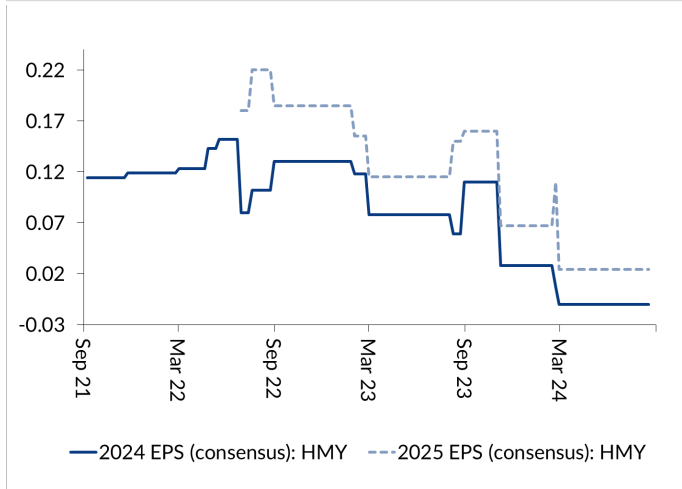
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 17. International valuation comparisons

Company (metrics re-weighted to reflect HMY's balance date - June)	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2026E	
				2025E	2026E	2025E	2026E	2025E	2026E		
Harmoney	HMY AU	A\$0.41	A\$42	49.2x	5.7x	n/a	n/a	n/a	n/a	0.0%	
Humm Group	HUM AU	A\$0.51	A\$248	11.5x	11.7x	>75x	>75x	<0x	>75x	2.0%	
Moneyme	MME AU	A\$0.10	A\$76	3.2x	3.2x	47.4x	38.7x	53.1x	44.0x	n/a	
Plenti Group	PLT AU	A\$0.69	A\$121	<0x	>50x	>75x	>75x	>75x	>75x	n/a	
Solvar	SVR AU	A\$1.17	A\$244	10.4x	8.1x	7.8x	7.3x	8.0x	7.5x	10.0%	
Latitude Group Holdings	LFS AU	A\$1.16	A\$1,201	12.2x	8.6x	42.0x	31.6x	65.1x	40.2x	7.9%	
Wisr	WZR AU	A\$0.03	A\$41	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Anz Group Holdings	ANZ AU	A\$29.59	A\$88,788	13.2x	13.0x	n/a	n/a	n/a	n/a	5.8%	
Commonwealth Bank Of Austral	CBA AU	A\$138.13	A\$231,172	23.6x	22.9x	n/a	n/a	n/a	n/a	3.5%	
National Australia Bank	NAB AU	A\$36.48	A\$112,521	16.0x	15.5x	n/a	n/a	n/a	n/a	4.7%	
Westpac Banking Corp	WBC AU	A\$29.66	A\$102,600	15.5x	15.0x	n/a	n/a	n/a	n/a	5.2%	
Compco Average:				13.2x	12.3x	32.4x	25.9x	42.1x	30.6x	5.6%	
EV = Mkt cap+net debt+lease liabilities+min interests-investments				HMY Relative:		273%	-53%	n/a	n/a	n/a	-100%

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

Figure 18. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

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