

Harmoney

Hitting the Right Notes – 1Q25 Trading Update

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Harmoney's (HMY) 1Q25 trading update showed robust performance across key metrics, driven by the implementation of its Stellare® 2.0 lending platform in the Australian market. Loan book growth, net interest margins (NIM) and credit losses are all tracking in line with, or slightly ahead of, our expectations for FY25. Additionally, HMY's cost-to-income ratio (which fell to 21% in 1Q25 from 24% in FY24) continues to decline faster than anticipated. The outlook for the remainder of FY25 appears positive, underpinned by >+50% growth in Australian new customer loan originations in 1Q25 versus 1Q24. The growth in originations should support an acceleration in loan book growth in 2H25, and ultimately, HMY's target of a 20% cash ROE run rate in 2H25. HMY has total warehouse capacity of over A\$900m to facilitate growth, with its loan book currently A\$769m. We increase our short-term earnings expectations to reflect marginally improved NIMs and management efficiency. Long-term forecasts are largely unchanged and our blended spot valuation rises +5cps to A\$1.29.

NZX code	HMY	Financials: Jun/	24A	25E	26E	27E	Valuation (x)	24A	25E	26E	27E
Share price	A\$0.42	Rev (A\$m)	121.7	136.1	150.5	164.9	PE	n/a	18.7	5.5	3.7
Spot Valuation	A\$1.29 (from 1.24)	NPAT* (A\$m)	-3.9	2.3	7.8	11.6	EV/EBIT	n/a	n/a	n/a	n/a
Risk rating	High	EPS* (Ac)	-3.8	2.2	7.6	11.4	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\$42.8m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	19.6k (A\$9k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

What's changed?

- **Earnings:** Normalised NPAT rises +A\$1.5m/+A\$0.5m/+A\$0.6m in FY25/FY26/FY27.
- **Spot valuation:** Rises +4% to A\$1.29 on stronger near-term earnings.

Strong performance across key metrics

HMY's loan book finished the period at A\$769m, +3% on pcp. The company achieved a net interest margin of 8.9% in 1Q25, with new lending maintaining a margin above 10%, signalling further improvements. Credit losses declined to 3.7% of lending from 4.5% in 1Q24, further enhancing profitability, with risk-adjusted income rising to 5.1% of lending (up from 4.8% in FY24). HMY's cost-to-income ratio improved to 21% from 24% in FY24, reflecting the scalability of its tech-driven lending platform. HMY has over A\$900m in total warehouse capacity and available cash of A\$20m, plus \$7.5m in undrawn corporate debt to support future growth.

Outlook for FY25 remains solid

HMY's outlook statements for FY25 are positive after a strong start to the year. The company expects a significant acceleration in loan book growth in 2H25, supported by the NZ rollout of Stellare® 2.0. Net interest margin is expected to return to ~9%, with continued growth in cash NPAT. Management commented HMY is: 'on track for achieving our target of 20% cash return on equity run rate in H2FY25'. Further, management added that the ongoing improvements in credit performance and cost efficiency, combined with the 'acceleration in Australian new customer originations', provide confidence in the company's FY25 outlook.

New Zealand weak but expected to improve

The New Zealand loan book fell -2% sequentially in 1Q25 to NZ\$373m. However, loan originations are expected to improve in 2H25, reflecting: (1) the NZ government's recent repeal of 'overly-prescriptive affordability regulations', and (2) the rollout of Stellare® 2.0. The Stellare® 2.0 rollout in NZ was pushed back slightly, with HMY focussed on the Australian opportunity.

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

Priced as at 16 Oct 2024	0.42
52 week high / low	0.70 / 0.34
Market capitalisation (A\$m)	42.8

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)	2023A	2024A	2025E	2026E	2027E
Interest income	105.5	121.7	136.1	150.5	164.9
Net interest income	65.7	65.8	71.0	81.9	93.3
Other income	1.5	0.9	0.3	0.3	0.3
Net operating income	67.2	66.7	71.2	82.1	93.6
Operating expenses	(62.5)	(66.0)	(65.8)	(68.8)	(75.3)
Associate income	0	0	0	0	0
Tax	0	0	0	(1.1)	(1.6)
Minority interests	0	0	0	0	0
Normalised NPAT	0.2	(3.9)	2.3	7.8	11.6
Abnormals/other	(7.8)	(9.3)	(3.3)	(6.0)	(5.6)
Reported NPAT	(7.6)	(13.2)	(1.1)	1.8	6.0
Normalised EPS (cps)	0.2	(3.8)	2.2	7.6	11.4
DPS (cps)	0	0	0	0	0

Growth Rates	2023A	2024A	2025E	2026E	2027E
Revenue (%)	53.1	15.3	11.8	10.6	9.6
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	>100	49.5
Normalised EPS (%)	n/a	n/a	n/a	>100	49.5
Ordinary DPS (%)	n/a	n/a	n/a	n/a	n/a

Cash Flow (A\$m)	2023A	2024A	2025E	2026E	2027E
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)	2023A	2024A	2025E	2026E	2027E
Working capital	43.5	37.7	29.7	29.9	35.4
Receivables	710.8	727.8	792.5	916.3	1,033.6
Intangibles	11.6	4.5	8.0	10.7	12.7
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	843.9	970.0	1,094.2
Deposits	n/a	n/a	n/a	n/a	n/a
Other borrowings	726.9	744.6	805.0	931.7	1,056.5
Other liabilities	5.0	3.0	2.1	1.5	0.9
Shareholder's funds	53.8	36.5	36.8	36.8	36.8
Minority interests	0	0	0	0	0
Total funding sources	785.7	784.1	843.9	970.0	1,094.2

* 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	1.29
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DCF valuation summary (A\$m)

Total firm value	139
(Net debt)/cash	0
Less: Capitalised operating leases	(8)
Value of equity	131

Valuation Ratios	2023A	2024A	2025E	2026E	2027E
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)	>100x	n/a	18.7	5.5	3.7
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 (%)	45.5	48.3	68.3	89.0	112.0
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	2023A	2024A	2025E	2026E	2027E
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	2023A	2024A	2025E	2026E	2027E
Return on assets (%)	0.0	-0.5	0.3	0.8	1.1
Return on equity (%)	0.2	-3.1	1.8	6.3	9.4
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	2023A	2024A	2025E	2026E	2027E
Group Reported NPAT	(7.6)	(13.2)	(1.1)	1.8	6.0
Movement in credit provision	7.8	-0.2	3.3	6.0	5.6
Share based expenses	1.9	1.5	1.5	2.0	2.1
D&A expenses	2.5	12.6	1.7	2.4	3.0
Group Cash NPAT	4.7	0.7	5.5	12.2	16.7
Group Average Loan book (\$m)	683.1	754.2	793.6	893.9	1019.9
NIM (%)	9.6%	8.7%	8.9%	9.2%	9.2%
Equity ratio (%)	6.8%	4.6%	4.4%	3.8%	3.4%

Australia:	2023A	2024A	2025E	2026E	2027E
Loan book (period end, \$m)	381.6	411.0	489.1	601.6	709.9
Number of originations (#)	12,597	10,808	10,832	13,323	15,721
Total Income (\$m)	52.7	61.9	77.7	91.9	107.0
NIM (%)	10.3%	9.7%	9.5%	9.4%	9.3%
AU Cash NPAT (\$m)	5.8	5.1	9.6	14.9	19.0
New Zealand:	2023A	2024A	2025E	2026E	2027E
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	58.6	58.9	58.2
NIM (%)	9.0%	7.7%	8.2%	8.7%	8.8%
NZ Cash NPAT (\$m)	(1.1)	(4.4)	(4.2)	(2.7)	(2.3)

Earnings revisions

Following HMY's robust 1Q25 update, we increase our NIM assumption marginally for FY25, with the NIM on new lending above 10% in the period. We also make small cuts to our short-term operating expenses, as cost-to-income improvements track ahead of our expectations. Changes to our interest income and interest expense lines reflect the updated interest rate curves for NZ and Australia.

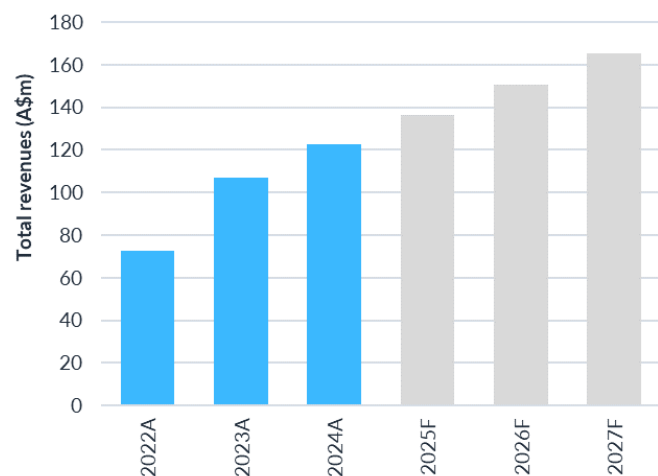
Figure 1. Earnings revisions (A\$m)

	FY25E			FY26E			FY27E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Interest income	137.7	136.1	-1%	149.5	150.5	+1%	163.1	164.9	+1%
Other income	0.3	0.3	+0%	0.3	0.3	+0%	0.3	0.3	+0%
Total Income	138.0	136.3	-1%	149.8	150.8	+1%	163.4	165.2	+1%
Interest expense	(67.8)	(65.1)	-4%	(67.7)	(68.6)	+1%	(69.8)	(71.6)	+3%
Impairment expense	(32.9)	(32.9)	+0%	(36.8)	(36.8)	+0%	(41.3)	(41.3)	+0%
Customer acquisition expense/marketing	(10.9)	(10.8)	-1%	(11.2)	(11.1)	-1%	(11.6)	(11.5)	-1%
Personnel expenses	(12.9)	(12.6)	-2%	(13.9)	(13.6)	-2%	(14.4)	(14.1)	-2%
Customer servicing expenses	(6.4)	(6.4)	-0%	(7.2)	(7.1)	-0%	(7.8)	(7.8)	-0%
Technology expenses	(5.0)	(5.0)	+0%	(5.1)	(5.1)	+0%	(5.3)	(5.3)	+0%
General and administrative expenses	(2.9)	(2.9)	+0%	(3.0)	(3.0)	+0%	(3.1)	(3.1)	+0%
Depreciation and amortisation expenses	(1.7)	(1.7)	+0%	(2.5)	(2.4)	-2%	(3.2)	(3.0)	-5%
Profit/(Loss) before income tax expense	(2.5)	(1.1)	n/a	2.4	2.9	+21%	6.9	7.6	+9%
Income tax benefit/(expense)	-	-	n/a	(1.1)	(1.1)	+0%	(1.6)	(1.6)	+0%
Reported NPAT	(2.5)	(1.1)	n/a	1.3	1.8	+37%	5.4	6.0	+11%
Movement in expected credit loss provision	3.3	3.3	+0%	6.0	6.0	+0%	5.6	5.6	+0%
Normalised NPAT (FB preferred metric)	0.8	2.3	+170%	7.3	7.8	+7%	11.0	11.6	+6%
Share based payment expenses	1.5	1.5	+0%	2.0	2.0	+0%	2.1	2.1	+0%
Depreciation and amortisation expenses	1.7	1.7	+0%	2.5	2.4	-2%	3.2	3.0	-5%
Cash NPAT (HMY metric)	4.0	5.5	+36%	11.8	12.2	+4%	16.3	16.7	+3%

Source: Forsyth Barr analysis

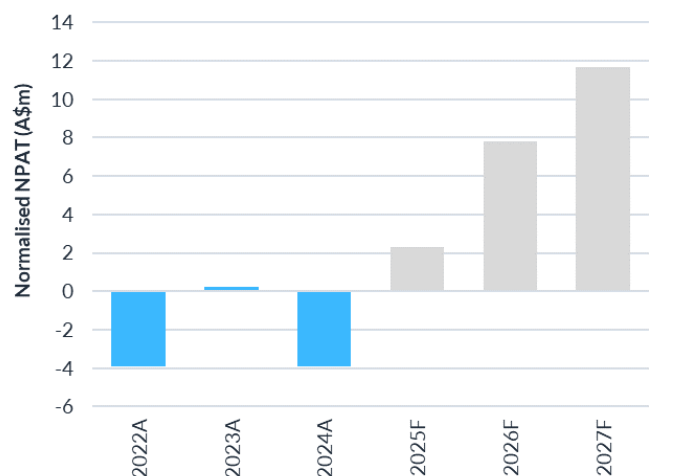
Key charts

Figure 2. HMY – Total income (A\$m)



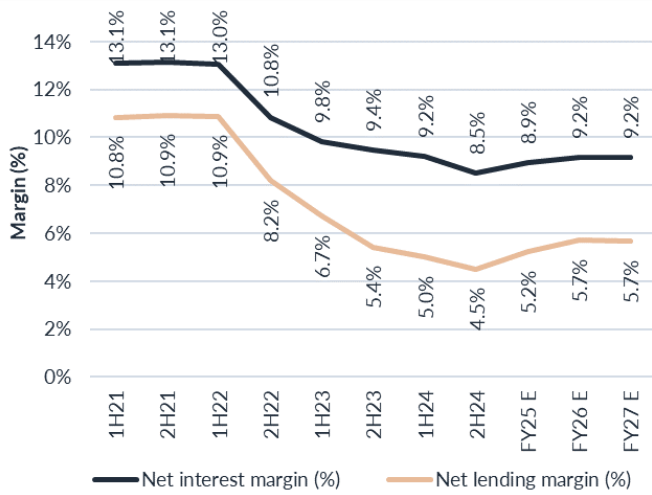
Source: Company, Forsyth Barr analysis

Figure 3. HMY – Normalised NPAT (A\$m)



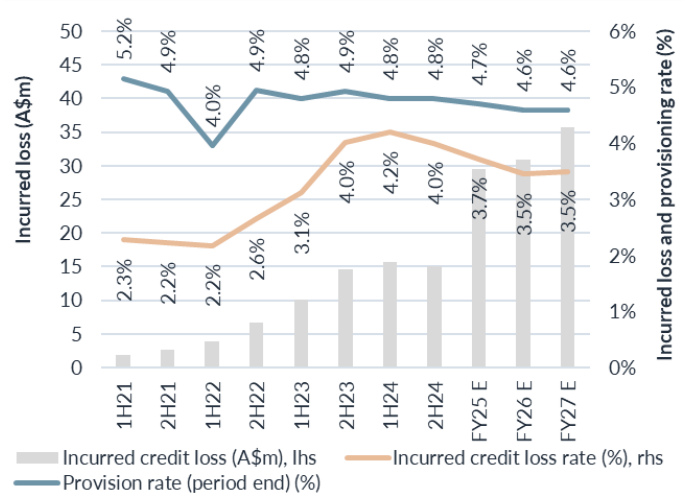
Source: Company, Forsyth Barr analysis

Figure 4. HMY – NIM and NLM margins



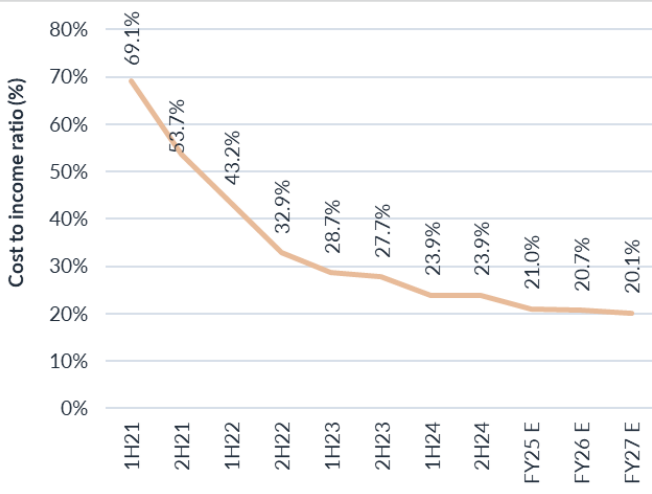
Source: Company, Forsyth Barr analysis

Figure 5. HMY – Incurred loss and provisioning rate



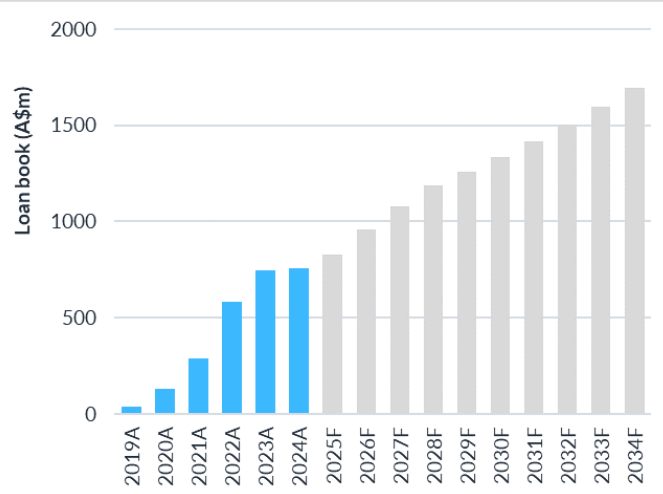
Source: Company, Forsyth Barr analysis

Figure 6. HMY – Cost-to-income ratio (%)



Source: Company, Forsyth Barr analysis

Figure 7. HMY – Loan book (A\$m)



Source: Company, Forsyth Barr analysis

Additional data

Figure 8. Share price performance



Source: LSEG, Forsyth Barr analysis

Figure 9. Substantial shareholders

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

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

Figure 10. International valuation comparisons using consensus data (one and two year forward)

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 1yr
				1yr	2yr	1yr	2yr	1yr	2yr	
Harmoney	HMY AT	A\$0.42	A\$42	18.9x	8.0x	>75x	74.8x	>75x	>75x	0.0%
ANZ	ANZ AT	A\$31.39	A\$93,487	13.9x	13.6x	n/a	n/a	n/a	n/a	5.3%
CBA	CBA AT	A\$139.96	A\$234,243	23.6x	22.8x	11.9x	11.3x	n/a	n/a	3.4%
NAB	NAB AT	A\$38.42	A\$118,105	16.7x	16.0x	n/a	n/a	4.5x	4.2x	4.5%
Westpac	WBC AT	A\$31.80	A\$109,437	16.3x	15.9x	18.8x	18.1x	9.2x	8.8x	4.9%

Source: Forsyth Barr analysis, Bloomberg, NOTE: all multiples based on Bloomberg consensus estimates, EV = market cap+net debt+lease liabilities+min interests-investments

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