



MACQUARIE
ACN 002 574 923

Macquarie Private Wealth



Harvey Norman

Business Description

Harvey Norman (HVN) is Australia's leading electrical franchisor. HVN's principal activities consist of an integrated retail, franchise and property enterprise including Franchiser; Sale of furniture, bedding, computers, communications and consumer electrical products in New Zealand, Slovenia and Ireland; Property investment; Lessor of premises to Harvey Norman franchisees and other third parties; Media placement; Provision of consumer finance.

Strategy Analysis

HVN strategy is to leverage its scale to buy in bulk and derive higher margins. Scale also enables HVN to offer unique promotional activities for its customers. The stronger A\$ and GST exemptions on imports has seen a rapid rise in internet commerce. HVN is developing a centralised online website to act as a referral type system and re-direct online sales to local stores to deliver product. International expansion remains the wild card which could deliver significant returns or absorb large amounts of management time and capital. Ireland continues to under perform while the UK mainland has been hinted at as a potential next move. Harvey Norman Holdings reported NPAT up 9% to \$252.26m for the year ended 30 June 2011. This result has been achieved by focusing on the Company's core competencies and by the prudent allocation of resources to those activities and assets that are capable of generating long term sustainable growth. Revenues from ordinary activities were \$1.56bn up from \$1.34bn last year. Diluted EPS was 23.75 cents compared to 21.78 cents last year. Net operating cash flow was \$357.39m compared to \$383.87m last year. The final dividend declared was 6 cents, taking the full year dividend to 12 cents compared with 14 cents last year. In the midst of challenging macroeconomic conditions, the outlook for the integrated retail, franchise and property system of the company remains positive. There is a clear strategy that is supported by a strong asset base.

27 January 2012

Recommendation

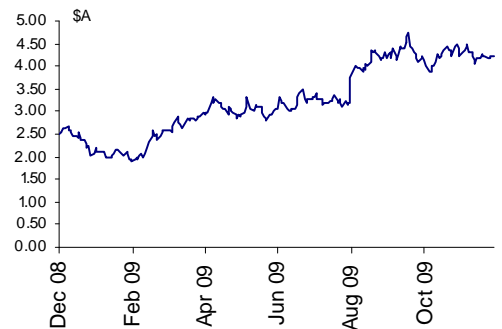
Recommendation: Neutral
Relative to: All Ind (ex Fins)

Investment Fundamentals

ASX code: HVN
Stock price: \$2.00
Market cap: \$2,125m

Y/E	30/06/2012	2012e	2013e	2014e	2015e
Reported e	\$m	209.6	223.2	225.6	234.1
Adjusted e	\$m	216.6	223.2	225.6	234.1
EPS adjusted	¢	20.4	21.0	21.3	22.1
EPS growth	%	-10.3	3.1	1.1	3.8
PE	x	9.8	9.5	9.4	9.1
PE relative	x	0.8	0.9	1.0	1.0
DPS	¢	10.0	11.0	16.0	17.0
Yield	%	5.0	5.5	8.0	8.5
Franking	%	100.0	100.0	100.0	100.0

Share Price



Source: ASX and Company accounts

Segment Performance

Results by Industry	Revenue (%)	Return on Sales (%)	Return on Assets (%)	Annual Shareholders' Return	
				1 year	3 year
Retail	58.8	-2.0	-0.7	-30.0%	1.0%
Franchising Operations	34.8	19.7	27.1	-10.0%	-3.0%
Property	6.5	5.5	64.2		
Total	100.1	23.2	90.6		
Results by Geography				Dividend Reinvestment Plan	No
Slovenia	0.0	0.0	0.0	Shareholder Discounts	No
Asia	0.0	0.0	0.0		
New Zealand	0.0	0.0	0.0		
Republic of Ireland & Northern Ireland	0.0	0.0	0.0		
Total	0.0				

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