

Harmony

1H25 Result—Operational Leverage Overture

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Harmony (HMY) reported a strong 1H25 result, underpinned by continued operational scalability and improving credit performance. Key highlights for 1H25 included: (1) a +50 bp sequential improvement in net interest margin (NIM) to 9.0%, now back within the targeted 9%–10% range and driven by new lending NIM at ~10%; (2) a -50 bps reduction in incurred credit losses versus 1H24 to 3.7% despite a soft economic backdrop; and (3) Stellare® 2.0 drove a +43% increase in Australian new customer originations, reinforcing its effectiveness in scaling loan volumes. These positives outweighed the weak NZ loan book performance (-6% on pcp). HMY is positioned to unlock operating leverage as its loan book expands, with newly introduced Cash NPAT guidance for FY25 (A\$5m) and FY26 (A\$10m+), reinforcing our near-term earnings expectations. We make minor amendments to our earnings forecasts and lift our spot valuation by +1% to A\$1.30, representing 10.6x our revised FY26 Cash NPAT estimate.

NZX code	HMY	Financials: Jun/	24A	25E	26E	27E	Valuation (x)	24A	25E	26E	27E
Share price	A\$0.70	Rev (A\$m)	122.5	134.5	148.3	162.5	PE	n/a	29.1	9.0	5.9
Spot Valuation	A\$1.30 (from 1.29)	NPAT* (A\$m)	-3.9	2.4	7.8	12.0	EV/EBIT	n/a	n/a	n/a	n/a
Risk rating	High	EPS* (Ac)	-3.8	2.4	7.7	11.7	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	0.6	0.6	0.7	0.7
Market cap	A\$70.9m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	31.4k (A\$13k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

What's changed?

- **Earnings:** FY25 Cash NPAT estimate rises +3% to A\$5.6m, whilst FY26 and FY27 rise +0% and +2% respectively
- **Spot valuation:** Our blended spot valuation lifts +1cps to A\$1.30.

Heading in the right direction—1H25 result overview

HMY delivered a strong 1H25 performance, reporting a Cash NPAT of A\$2.3m and a Statutory NPAT of A\$2.0m. This result marks the sixth consecutive half-year of positive Cash NPAT and demonstrates the growing scalability of HMY's tech-driven platform in a stabilising macroeconomic environment. Loan book growth of +4% (over pcp) to A\$783m was driven by a +14% increase in Australian loans, now comprising 57% of the total book, which helped offset a -6% decline in the New Zealand loan book. HMY's cash return on equity (ROE) reached 13% in 1H25, positioning HMY well to achieve its 2H25 run-rate target of 20%.

HMY is well positioned for earnings growth

HMY is well-positioned to deliver significant earnings growth as the interest rate cycle turns. This reflects: (1) higher risk-adjusted income yields, supported by NIM expansion from reduced funding costs and declining credit losses, and (2) HMY's highly scalable business model, with the cost-to-income ratio falling further to just 18% in 1H25. The combination of these factors means incremental book growth will be highly accretive for HMY's profitability. While HMY needs to execute on growing its scale, strong growth in Australian new customer loan originations (+43% versus pcp) is a constructive trend. HMY's capital position could support loan book growth to A\$1.2b (+53% from current levels), with further growth able to be funded through operational earnings.

First time guidance and targets provided

HMY provided its first Cash NPAT guidance, targeting A\$5m for FY25 and at least A\$10m for FY26, reflecting management's growing confidence in its earnings trajectory. Our new estimates for FY25 and FY26 are largely consistent with this new guidance, but are +12% and +23% ahead of HMY's guidance/targets respectively.

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

Priced as at 20 Feb 2025	0.70
52 week high / low	0.70 / 0.34
Market capitalisation (A\$m)	70.9

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	134.2	148.0	162.3
Net interest income	65.7	65.8	71.0	80.7	92.0
Other income	n/a	n/a	n/a	n/a	n/a
Net operating income	65.7	65.8	71.0	80.7	92.0
Operating expenses	(62.5)	(66.0)	(65.7)	(68.1)	(74.2)
Associate income	0	0	0	0	0
Tax	0	0	0	(0.5)	(1.0)
Minority interests	0	0	0	0	0
Normalised NPAT	0.2	(3.9)	2.4	7.8	12.0
Abnormals/other	(7.8)	(9.3)	1.1	(4.1)	(5.6)
Reported NPAT	(7.6)	(13.2)	3.5	3.7	6.4
Normalised EPS (cps)	0.2	(3.8)	2.4	7.7	11.7
DPS (cps)	0	0	0	0	0

Growth Rates	2023A	2024A	2025E	2026E	2027E
Revenue (%)	47.0	14.4	9.7	10.3	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	52.4
Normalised EPS (%)	n/a	n/a	n/a	>100	52.4
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	34.3	35.8	41.1
Receivables	710.8	727.8	781.7	905.1	1,020.4
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	837.7	964.7	1,086.6
Deposits	n/a	n/a	n/a	n/a	n/a
Other borrowings	726.9	744.6	798.7	926.3	1,048.8
Other liabilities	5.0	3.0	2.1	1.5	0.9
Shareholder's funds	53.8	36.5	36.8	36.9	36.9
Minority interests	0	0	0	0	0
Total funding sources	785.7	784.1	837.7	964.7	1,086.6

* 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

Spot valuation (A\$)

n/a	1.30
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DCF valuation summary (A\$m)

Total firm value	141
(Net debt)/cash	0
Less: Capitalised operating leases	(8)
Value of equity	133

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	29.1	9.0	5.9
Price/NTA (x)	0.6	0.6	0.6	0.7	0.7
Free cash flow yield (%)	n/a	n/a	n/a	n/a	n/a
Adj. free cash flow yield (%)	27.5	29.2	41.1	52.3	66.4
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

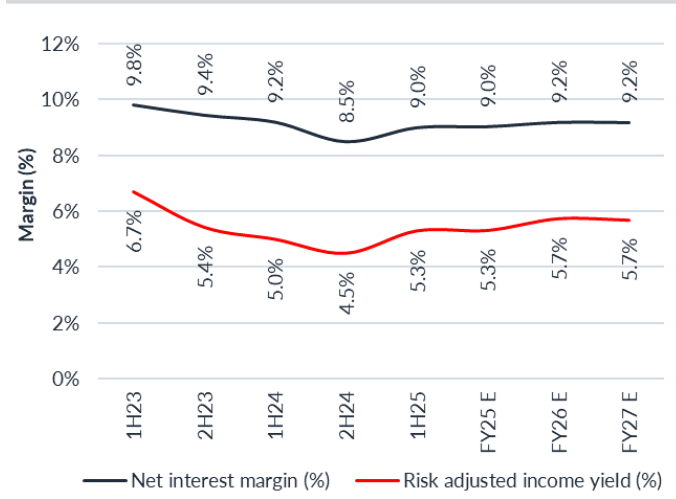
Key Ratios	2023A	2024A	2025E	2026E	2027E
Return on assets (%)	0.0	-0.5	0.3	0.8	1.1
Return on equity (%)	0.2	-3.1	2.0	6.7	10.7
Return on funds employed (%)	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	n/a	n/a	n/a	n/a	n/a
EBIT margin (%)	n/a	n/a	n/a	n/a	n/a
Capex to sales (%)	n/a	n/a	n/a	n/a	n/a
Capex to depreciation (%)	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)	3.5	3.7	6.4
Movement in credit provision	7.8	-0.2	-1.1	4.1	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	5.6	12.3	17.0
Group Average Loan book (\$m)	683.1	754.2	786.0	877.6	1001.5
NIM (%)	9.6%	8.7%	9.0%	9.2%	9.2%
Equity ratio (%)	6.8%	4.6%	4.8%	4.5%	4.6%

Australia:	2023A	2024A	2025E	2026E	2027E
Loan book (period end, \$m)	381.6	411.0	480.9	591.5	697.9
Number of originations (#)	12,597	10,808	10,650	13,099	15,457
Total Income (\$m)	52.7	61.9	76.5	90.6	105.5
NIM (%)	10.3%	9.7%	9.6%	9.5%	9.4%
AU Cash NPAT (\$m)	5.8	5.1	8.6	14.0	18.0
New Zealand:	2023A	2024A	2025E	2026E	2027E
Loan book (period end, \$m)	362.4	347.0	333.1	349.8	363.8
Number of originations (#)	13,605	9,358	6,977	7,326	7,619
Total Income (\$m)	54.3	60.6	58.0	57.7	57.0
NIM (%)	9.0%	7.7%	8.3%	8.7%	8.8%
NZ Cash NPAT (\$m)	(1.1)	(4.4)	(3.0)	(1.7)	(1.0)

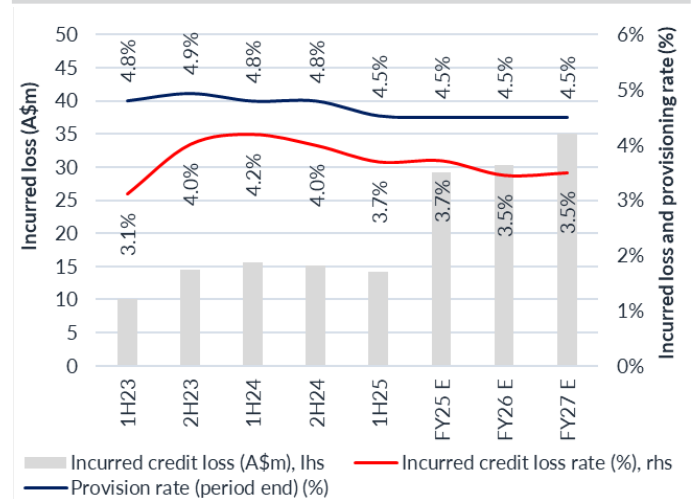
Key charts

Figure 1. HMY's risk adjusted income yield rose in 1H25, we expect further improvements ...



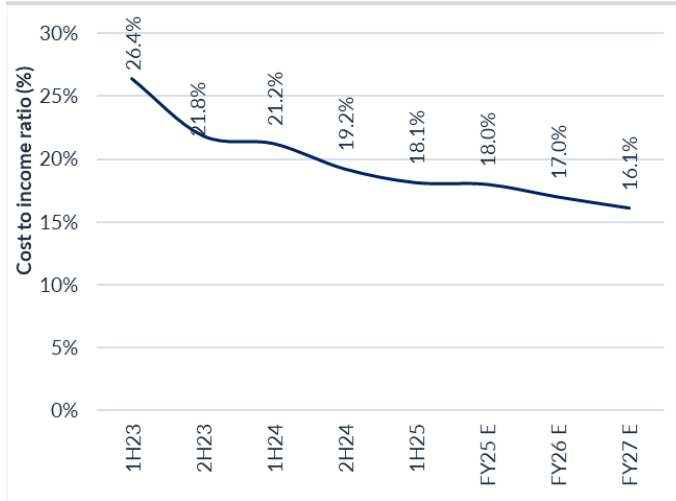
Source: Company, Forsyth Barr analysis

Figure 2. ... partly reflecting moderating credit losses, with the loss rate falling to 3.7% in 1H25



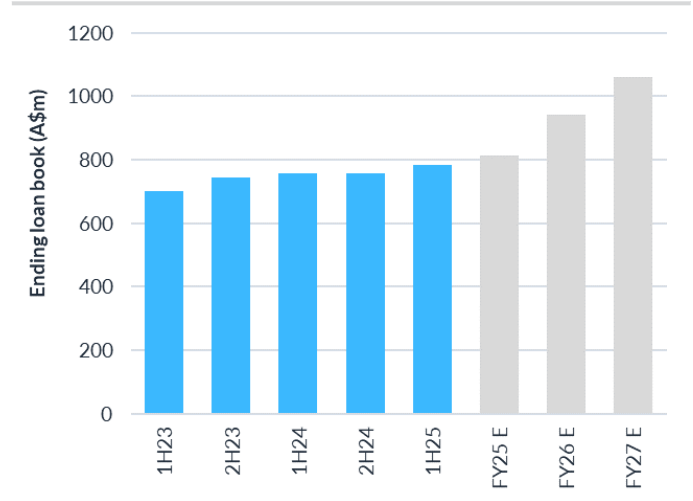
Source: Company, Forsyth Barr analysis

Figure 3. HMY continues to deliver impressive cost* efficiency



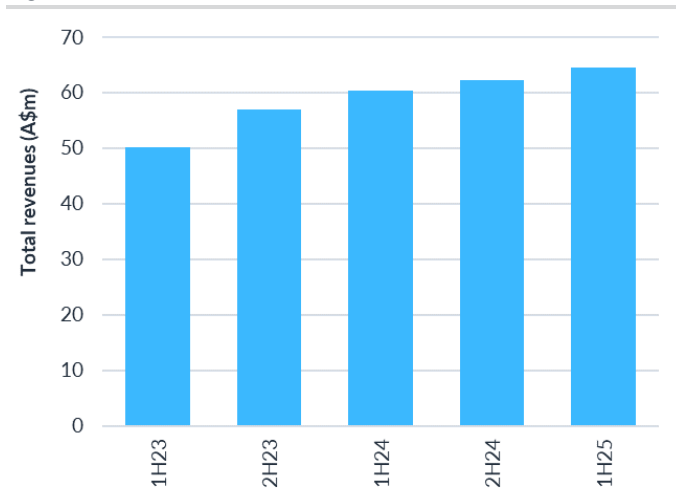
Source: Company, Forsyth Barr analysis. *Using 1H25 new Cash cost-to-income methods

Figure 4. HMY's loan book grew +4% in 1H25 versus the pcp



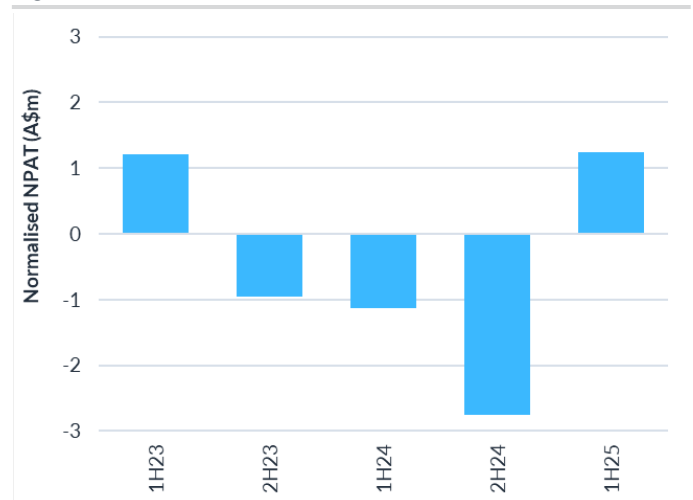
Source: Company, Forsyth Barr analysis

Figure 5. Total revenue continues to climb



Source: Company, Forsyth Barr analysis

Figure 6. HMY was profitable on our Normalised NPAT metric



Source: Company, Forsyth Barr analysis

1H25—Result review

HMY reported a robust 1H25 result, with Cash NPAT rising to A\$2.3m (+350% on pcp). Statutory NPAT was A\$2.0m, albeit this was assisted by an +A\$0.8m reduction in the total credit loss provision, despite book growth, as the provisioning rate over the whole book came back from 4.7% to 4.5%, supported by improving loss rates. HMY's cash ROE was 13% in 1H25. It is on track to achieve its goal of a 20% cash ROE run-rate in 2H25.

Key points from the result:

- **Loan book:** A +14% increase in the Australian loan book more than offset a -6% decline in the New Zealand loan book in local currency, leading to overall loan book growth of +4% to A\$783m. Australian loans now account for 57% of HMY's total loan book.
- **Net interest margin (NIM):** New business NIM remained strong at >10%, driving overall loan book NIM to 9.0%, up from 8.8% in FY24 and back within its targeted range of 9%–10%.
- **Credit losses:** Loan book credit performance strengthened, with incurred credit losses declining to 3.7% (from 4.2% pcp), while 90+ day arrears remained stable at 0.64% (0.65% pcp). HMY moved its provisioning rate from 4.8% to 4.5% as its view of lifetime expected losses fell.
- **Risk adjusted income:** Lifted to 5.3%, up from 4.8% in FY24 and back within its targeted range of 5%–6%.
- **Cost-to-income ratio:** The cost-to-income ratio improved to 18.1% in 1H25 from 21.2% in 1H24, underscoring HMY's efficiency in scaling operations. HMY has amended its methodology for calculating its cost-to-income: 'to better align Cost to income ratio costs with Cash NPAT, and with peer group ratios, non-cash share based payments and depreciation and amortisation costs are now excluded'.
- **Originations:** Stellare® 2.0 drove a +43% increase in Australian new customer loan originations. The platform will launch in New Zealand in 2H25. While NZ originations were down on pcp, they showed sequential growth in 2Q25 over 1Q25 following the October 2024 platform update prompted by regulatory changes.
- **Funding:** HMY has over A\$900m in warehouse funding, A\$21m in unrestricted cash, and A\$7.5m in undrawn corporate debt. This capital position could support loan book growth to A\$1.2b (+53% from current levels), however, management expects—as already demonstrated during 1H25—to maintain reserves by funding loan book expansion with positive operating earnings, thereby remaining self-sustaining.

Figure 7. 1H25 result summary (A\$m)

	1H24 Actual	1H25 Actual	Change	Forbar	Deviation
Interest income	60.3	64.4	+7%	64.2	+0%
Other income	0.1	0.0	n/a	0.1	n/a
Total Income	60.4	64.4	+7%	64.3	+0%
Interest expense	(26.0)	(30.0)	+15%	(30.6)	-2%
Impairment expense	(15.1)	(13.5)	-11%	(15.4)	-13%
Customer acquisition expense	(5.4)	(6.2)	+14%	(5.2)	+19%
Personnel expenses	(5.4)	(5.7)	+5%	(6.0)	-6%
Customer servicing expenses	(3.2)	(2.8)	-13%	(3.1)	-11%
Technology expenses	(2.7)	(2.3)	-12%	(2.4)	-3%
General and administrative expenses	(1.6)	(1.2)	-27%	(1.7)	-28%
Other operating expenses	(12.9)	(12.0)	-7%	(13.2)	-9%
Depreciation and amortisation expenses	(1.5)	(0.7)	-51%	(0.4)	+98%
Profit/(Loss) before income tax expense	(0.6)	2.0	n/a	(0.5)	n/a
Income tax benefit / (expense)	-	-	n/a	-	n/a
Reported NPAT	(0.6)	2.0	n/a	(0.5)	n/a
Movement in expected credit loss provision	(0.5)	(0.8)	n/a	1.1	n/a
Other non-underlying costs or income	(0.5)	(0.8)	n/a	1.1	n/a
Normalised NPAT	(1.1)	1.2	n/a	0.6	n/a
Share based payment expenses	0.1	0.3	+161%	0.8	-61%
Depreciation and amortisation expenses	1.5	0.7	-51%	0.4	+98%
Cash NPAT (HMY metric)	0.5	2.3	+351%	1.7	+31%

Source: Company, Forsyth Barr analysis

Earnings revisions

We reduce our loan-book growth assumptions modestly (with NZ weakness and greater AU strength), with HMY's loan book growth tracking behind our expectations for FY25. In FY25, this is offset by: (1) stronger NIMs and (2) lower cash operating expenses, which flows through to higher normalised NPAT. In FY26 and FY27, slower loan book growth is offset by downwards revisions in costs. We continue to expect HMY to deliver significant operating leverage in the medium term. We also incorporate a lower credit provisioning rate of 4.5%, which results in changes to our 'movement in expected credit loss provision' line and has a favourable impact on HMY's reported NPAT. Further, we lower our FY26 and FY27 estimates of cash tax paid, given a revised assumption around where HMY's substantial tax losses reside.

Figure 8. Earnings revisions (A\$m)

	FY25E			FY26E			FY27E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Interest income	136.1	134.2	-1%	150.5	148.0	-2%	164.9	162.3	-2%
Other income	0.3	0.3	+0%	0.3	0.3	+0%	0.3	0.3	+0%
Total Income	136.3	134.5	-1%	150.8	148.3	-2%	165.2	162.5	-2%
Interest expense	(65.1)	(63.2)	-3%	(68.6)	(67.4)	-2%	(71.6)	(70.3)	-2%
Impairment expense	(32.9)	(28.2)	-14%	(36.8)	(34.4)	-6%	(41.3)	(40.6)	-2%
Customer acquisition expense/marketing	(10.8)	(12.3)	+13%	(11.1)	(12.6)	+13%	(11.5)	(13.0)	+13%
Personnel expenses	(12.6)	(12.6)	-0%	(13.6)	(13.2)	-2%	(14.1)	(13.6)	-3%
Customer servicing expenses	(6.4)	(5.7)	-11%	(7.1)	(6.2)	-13%	(7.8)	(6.7)	-14%
Technology expenses	(5.0)	(4.9)	-2%	(5.1)	(5.1)	+1%	(5.3)	(5.3)	+1%
General and administrative expenses	(2.9)	(2.5)	-14%	(3.0)	(2.6)	-14%	(3.1)	(2.7)	-14%
Depreciation and amortisation expenses	(1.7)	(1.7)	+0%	(2.4)	(2.4)	+0%	(3.0)	(3.0)	+0%
Profit/(Loss) before income tax expense	(1.1)	3.5	n/a	2.9	4.2	+45%	7.6	7.4	-3%
Income tax benefit / (expense)	-	-	n/a	(1.1)	(0.5)	-52%	(1.6)	(1.0)	-36%
Reported NPAT	(1.1)	3.5	n/a	1.8	3.7	+103%	6.0	6.4	+6%
Movement in expected credit loss provision	3.3	(1.1)	-132%	6.0	4.1	-31%	5.6	5.6	-1%
Normalised NPAT (FB preferred metric)	2.3	2.4	+6%	7.8	7.8	+1%	11.6	12.0	+3%
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%	2.4	2.4	+0%	3.0	3.0	+0%
Cash NPAT (HMY metric)	5.5	5.6	+3%	12.2	12.3	+0%	16.7	17.0	+2%

Source: Forsyth Barr analysis

HMY is on the cusp of significant operating leverage

HMY issued first-time Cash NPAT guidance for FY25 of A\$5m and set an FY26 target of at least A\$10m in cash NPAT, demonstrating its growing confidence in the earnings growth outlook. These targets are broadly consistent with our expectations (cash NPAT of A\$5.6m and A\$12.3m in FY25 and FY26 respectively), with HMY's FY26 target (in particular) likely to be somewhat conservative.

Incorporating our relatively conservative assumptions, we estimate HMY will require an average loan book of ~A\$821m in FY26 in order to report at least A\$10m in cash NPAT in FY26. This equates to ~+10% loan book growth from FY24 (~5% CAGR). We see this as a very attainable level of growth given the trend in Australian originations and likely pick-up in credit demand as interest rates fall in both Australia and New Zealand.

Figure 9. FY26 scenario analysis

	Minimum for A\$10m target	Forsyth Barr forecasts	Comment
Average loan book (A\$m)	828.9	877.6	Green = loan book needed to hit A\$10m target
Growth CAGR from FY24	+5%	+8%	
Total income (A\$m)	139.8	148.0	
Interest yield (%)	16.9%	16.9%	Forsyth Barr assumption
Risk adjusted income (RAI)	47.8	50.6	
RAI yield (%)	5.8%	5.8%	Forsyth Barr assumption
Customer acquisition expenses (A\$m)	(12.6)	(12.6)	Forsyth Barr assumption
Cash operating expenses (A\$m)	(25.1)	(25.1)	Forsyth Barr assumption
Cost to income (%)		17%	
Income tax	-	(0.5)	
Cash NPAT	10.0	12.3	

Source: Company, Forsyth Barr analysis

Additional data

Figure 10. Share price performance



Source: LSEG, Forsyth Barr analysis

Figure 11. Substantial shareholders

Shareholder	Latest Holding
Lookman Family Trust	8.9%
Heartland Group Holdings	8.6%
Kirwood Capital	8.6%

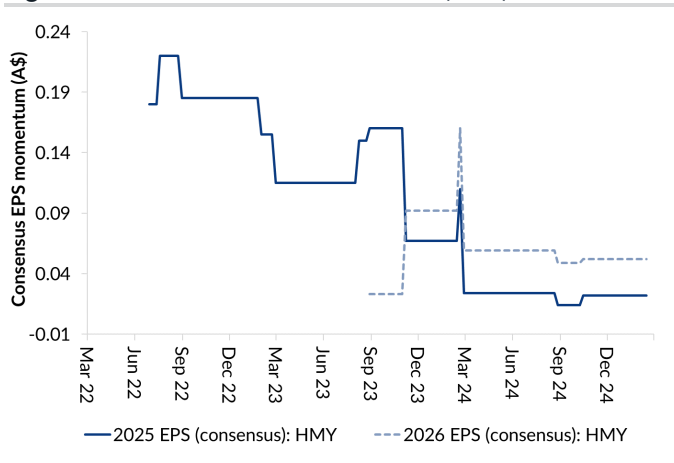
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 12. 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	2yr	1yr	2yr	1yr	2yr	
Harmoney	HMY AT	A\$0.69	A\$70	18.6x	10.6x	>75x	74.1x	>75x	>75x	0.0%
Humm Group	HUM AT	A\$0.63	A\$310	4.4x	3.7x	56.3x	50.1x	29.4x	26.4x	4.9%
Moneyme	MME AT	A\$0.21	A\$168	6.4x	4.0x	55.9x	35.3x	44.5x	30.4x	0.0%
Plenti Group	PLT AT	A\$0.83	A\$146	<0x	18.0x	>75x	>75x	>75x	>75x	0.0%
Solvar	SVR AT	A\$1.36	A\$276	7.9x	7.3x	7.1x	6.8x	7.3x	6.9x	9.6%
Latitude Group Holdings	LFS AT	A\$1.15	A\$1,196	11.2x	n/a	38.3x	n/a	42.0x	n/a	4.4%
Wisr	WZR AT	A\$0.04	A\$54	<0x	<0x	>75x	>75x	<0x	>75x	0.0%
ANZ	ANZ AT	A\$29.15	A\$86,733	12.4x	12.3x	n/a	n/a	12.7x	12.3x	5.8%
CBA	CBA AT	A\$156.34	A\$261,629	25.2x	24.6x	13.3x	12.8x	n/a	n/a	3.2%
NAB	NAB AT	A\$34.78	A\$106,766	15.1x	14.8x	n/a	n/a	2.8x	2.7x	4.9%
Westpac	WBC AT	A\$31.07	A\$106,586	15.3x	14.9x	21.0x	20.1x	10.2x	9.9x	5.1%

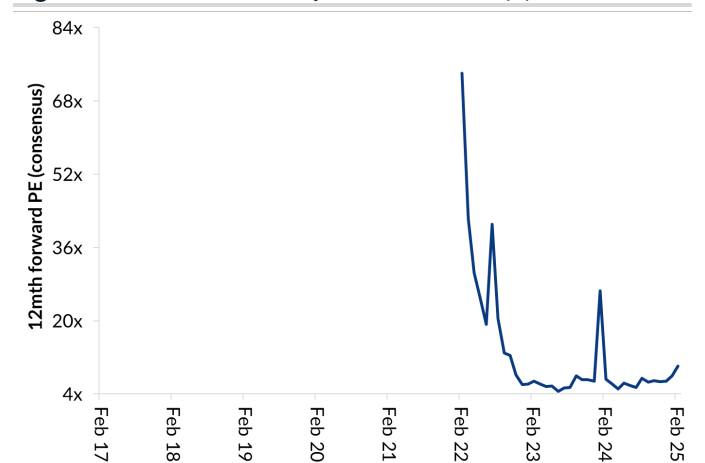
Source: Forsyth Barr analysis, Bloomberg, NOTE: all multiples based on Bloomberg consensus estimates, EV = market cap+net debt+lease liabilities+min interests-investments

Figure 13. Consensus EPS momentum (NZ\$)



Source: Bloomberg, Forsyth Barr analysis

Figure 14. Consensus one year forward PE (x)



Source: LSEG, Forsyth Barr analysis, NOTE: Data excluded when PE<0x or >75x

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