Harley-Davidson Inc. (HOG)

Updated March 1st, 2022 by Samuel Smith

Key Metrics

Current Price:	$41.3	**5 Year CAGR Estimate:**	11.6%	**Market Cap:**	$6.3 B
Fair Value Price:	$55.8	**5 Year Growth Estimate:**	3.1%	**Ex-Dividend Date:**	05/25/22[1]
% Fair Value:	74%	**5 Year Valuation Multiple Estimate:**	6.3%	**Dividend Payment Date:**	06/18/22[2]
Dividend Yield:	1.5%	**5 Year Price Target**	$65	**Years Of Dividend Growth:**	1
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	36.4%

Overview & Current Events

Since 1903, Harley Davidson has been making American-style motorcycles. They take pride in being the pioneers of the style of bikes they manufacture and finance the sale of. Harley Davidson also makes and sells parts, accessories, merchandise and maintenance/repair services. Harley Davidson has a current market capitalization of $6.3 billion.

Harley-Davidson reported Q4 results on 02/08/2022. GAAP EPS came in at $0.14. Revenue increased by 53.69% year-over-year to $816.02 million. Gross margin stood at 19.5%, down from 21.6% year-over-year. Adjusted diluted EPS stood at $0.15. Meanwhile, Harley-Davidson, for the full-year 2022, expects HDMC operating income growth of 11% to 12%, HDMC revenue growth of 5% to 10%, capital investment of $190 million to $220 million. Lastly, the company also expects HDFS operating income to decline by 20% to 25%.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$2.72	$3.28	$3.88	$3.62	$3.83	$3.02	$3.19	$3.04	$0.77	$4.21	***$4.29***	***$5.00***
DPS	$0.62	$0.84	$1.10	$1.24	$1.40	$1.46	$1.48	$1.50	$0.44	$0.60	***$0.63***	***$2.00***
Shares[3]	226.1	220.0	211.9	184.7	176.3	168.1	159.5	152.8	153.3	153.9	***153.9***	***162.8***

Harley-Davidson is using a three-pronged approach to growth development called "New Roads". They are focused on new products, broader access, and stronger dealers. In terms of new products, this past year the company premiered its first electric motorcycle. Also, 23 new physical stores were opened in Asia to expand their market. Harley-Davidson is also expanding with e-commerce, opening a storefront on Amazon and Tmall, a large Chinese e-commerce site.

That said, the company has been hammered by the coronavirus outbreak and turned in a very disappointing performance in 2020, which forced them to cut their dividend that year and keep it low since then as they seek to conserve cash and retain some of their cash flows for reinvestment in their business, as well as balance sheet repair. That said, the business has fully recovered from COVID-19 impacts and has a much rosier outlook moving forward.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/E	16.9	17.8	17.1	15.5	12.9	15.6	11.9	11.5	13.6	10.3	***9.6***	***13.0***
Avg. Yld.	1.3%	1.4%	1.7%	2.2%	2.8%	3.1%	3.9%	4.3%	4.2%	1.6%	***1.5%***	***3.1%***

Based on their historical averages and a recent recovery in the company's performance as the COVID-19 headwinds continue to dissipate in the U.S., we assume a fair value multiple of 13 times earnings. As a result, we expect the multiple to expand in the years to come, providing a meaningful tailwind to total returns.

We expect the yield to rise substantially in the coming years through dividend growth as the company looks to rebuild its prior payout.

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[1] Estimate

[2] Estimate

[3] In millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	23.0%	26.0%	28.0%	34.0%	36.0%	43.0%	46.4%	49.3%	5.6%	16.7%	***14.7%***	***40.0%***

Harley-Davidson has a competitive advantage with its history, unique style and name brand recognition. Harley-Davidson has crafted their image through careful marketing such as licensing deals with TV shows such as 'Sons of Anarchy' that convey the brand's image.

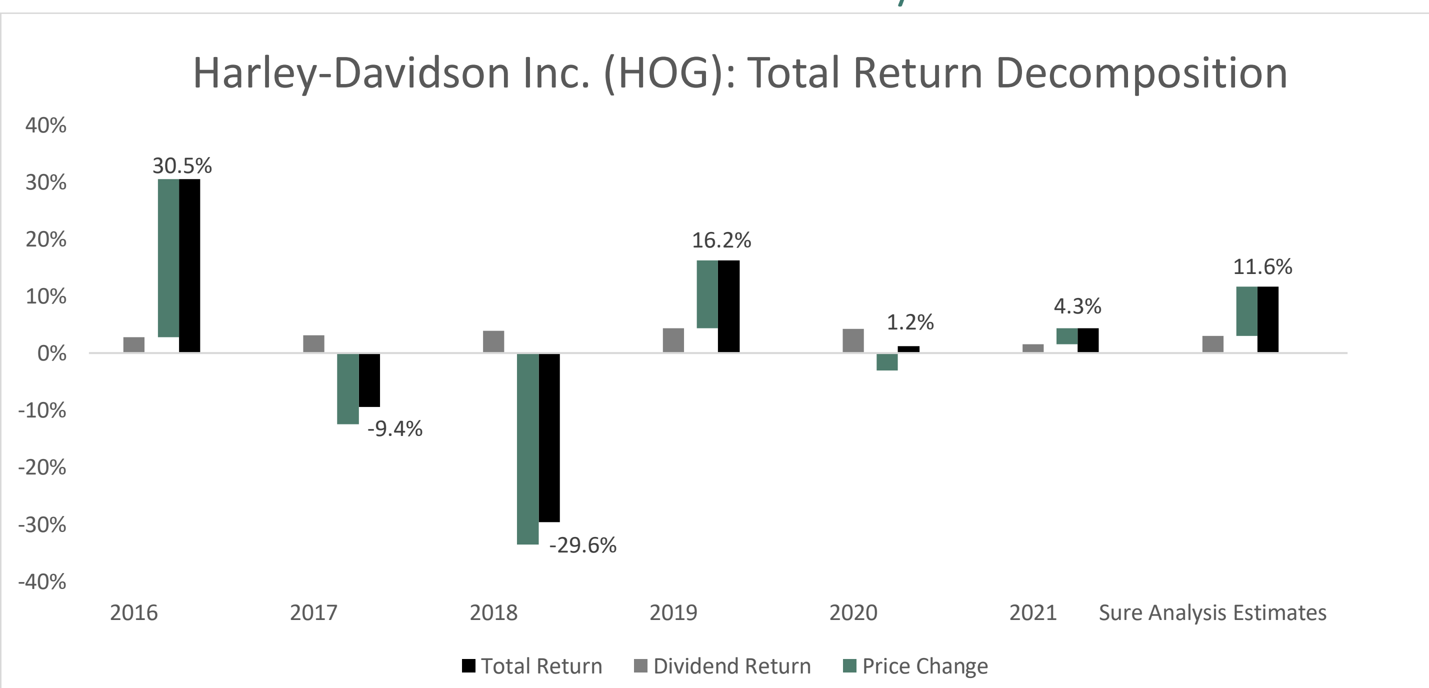
The company's dividend history has been good except for the last recession, when the dividend was cut from $1.29 in 2008 to $0.40 in 2009. This change came as their earnings per share fell from $3.77 in 2008 to $1.11 in 2009. As their motorcycles are mainly luxury items, Harley Davidson's sales are significantly impacted by economic downturns. During the Great Recession, Harley-Davidson was hit hard, losing 86% of its market capitalization. Earnings per share also dropped to $0.06 in 2009. The company cut its payout during the 2020 recession as well.

Harley-Davidson has a strong interest coverage ratio and is making strides towards decreasing long-term debt. The largest risk to Harley-Davidson is an economic slowdown or recession. This is highly sensitive to the United States economy as 60%+ of all retail sales in recent years were in the United States. The COVID-19 outbreak had a huge impact on sales and earnings, and we expect Harley-Davidson to see a continued recovery in demand in the coming years.

Final Thoughts & Recommendation

As the "Rewire" restructuring takes hold and new customers come forward, HOG is expected to rebound. That being said, it will likely be a rough road fraught with risk given the unstable nature of the global economy and the company's persistently disappointing results. Notwithstanding, we expect total annualized returns for Harley-Davidson to be 11.6% over the next half decade, and therefore view the stock as a Buy. It is certainly not a stock that conservative dividend growth investors should favor as there has already been a recent steep dividend cut, but it still offers substantial upside potential for more aggressive investors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	5,581	5,900	6,229	5,995	5,996	5,647	5,717	5,362	4,054	5,336
Gross Profit	2,162	2,338	2,521	2,477	2,397	2,195	2,172	1,922	1,372	1,900
Gross Margin	38.7%	39.6%	40.5%	41.3%	40.0%	38.9%	38.0%	35.8%	33.8%	35.6%
SG&A Exp.	1,111	1,125	1,160	1,220	1,214	1,180	1,258	1,199	1,051	1,048
D&A Exp.	169	167	179	198	210	222	265	233	186	165
Operating Profit	1,029	1,154	1,281	1,156	1,046	882	807	588	140	827
Operating Margin	18.4%	19.6%	20.6%	19.3%	17.4%	15.6%	14.1%	11.0%	3.4%	15.5%
Net Profit	624	734	845	752	692	522	531	424	1	650
Net Margin	11.2%	12.4%	13.6%	12.5%	11.5%	9.2%	9.3%	7.9%	0.0%	12.2%
Free Cash Flow	612	769	914	840	918	799	992	687	1,047	856
Income Tax	338	380	439	398	332	342	155	134	(17)	169

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	9,171	9,405	9,528	9,973	9,890	9,973	10,666	10,528	12,011	11,051
Cash & Equivalents	1,068	1,067	907	722	760	688	1,204	834	3,257	1,875
Accounts Receivable	1,973	2,035	2,164	2,301	2,361	2,436	2,521	2,532	1,653	1,648
Inventories	394	425	449	586	500	538	556	604	523	713
Goodwill & Int. Ass.	30	30	28	54	53	63	61	75	76	71
Total Liabilities	6,613	6,396	6,619	8,133	7,970	8,128	8,892	8,724	10,288	8,498
Accounts Payable	257	240	197	236	235	228	285	294	291	375
Long-Term Debt	5,103	5,259	5,505	6,872	6,808	6,988	7,599	7,445	8,987	6,889
Shareholder’s Equity	2,558	3,009	2,909	1,840	1,920	1,844	1,774	1,804	1,723	2,553
LTD/E Ratio	2.00	1.75	1.89	3.74	3.55	3.79	4.28	4.13	5.22	2.70

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.6%	7.9%	8.9%	7.7%	7.0%	5.3%	5.2%	4.0%	0.0%	5.6%
Return on Equity	25.1%	26.4%	28.5%	31.7%	36.8%	27.7%	29.4%	23.7%	0.1%	30.4%
ROIC	7.9%	9.2%	10.1%	8.8%	7.9%	5.9%	5.8%	4.5%	0.0%	6.5%
Shares Out.	226.1	220.0	211.9	184.7	176.3	168.1	159.5	152.8	153.3	153.9
Revenue/Share	24.34	26.33	28.61	29.43	33.21	32.66	34.33	33.98	26.34	34.43
FCF/Share	2.67	3.43	4.20	4.12	5.09	4.62	5.96	4.35	6.80	5.52

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.