



HARLEY DAVIDSON (HOG)

Business Model

Harley Davidson is probably one of the most iconic brands in North America. The company founded more than 100 years ago produces and sells heavyweight motorcycles, as well as offers motorcycle parts, accessories, and related services. It operates in two segments, Motorcycles and Related Products, and Financial Services.

The Company in a Nutshell

- Harley Davidson has built an iconic brand in the motorcycle industry.
- HOG is a market leader in custom and touring segments.
- HOG size and wide network generate an economy of scale.

Investment Thesis

There is no doubt HOG is a leader in its market and enjoys a very strong brand. Many riders would not buy anything but a Harley Davidson. The company uses its strong cash flow generation abilities coming from the North American territory to expand in emerging markets. Can HOG build a similar reputation in India and China? This is the whole debate. While management came with an aggressive growth plan, what we see in the market is a slowdown in motorcycles sales. With interest rate rising, access to credit (which HOG is highly dependent) will be reduced. We don't think HOG can grow as fast as management thinks it can. Recent numbers are on our side.

VALUATION

Dividend Growth Rate Years 1-10: 3%

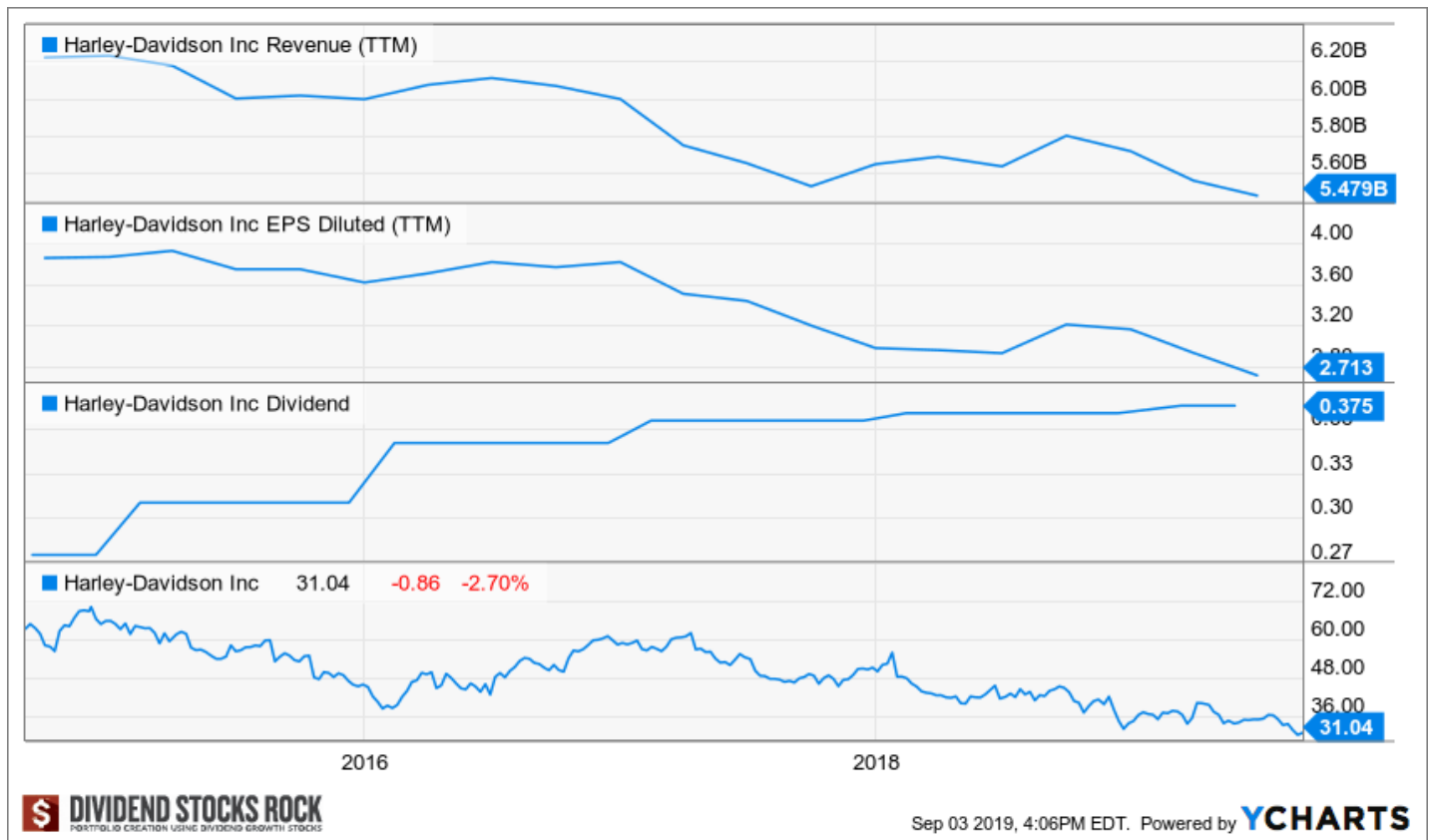
Terminal Dividend Growth Rate: 3%

	Discount Rate (Horizontal)		
Margin of Safety	9.00%	10.00%	11.00%
20% Premium	\$30.90	\$26.49	\$23.18
10% Premium	\$28.33	\$24.28	\$21.24
Intrinsic Value	\$25.75	\$22.07	\$19.31
10% Discount	\$23.18	\$19.86	\$17.38
20% Discount	\$20.60	\$17.66	\$15.45



DSR STOCK CARD

09/03/2019



Potential Risks

HOG demographic is aging. While HOG remains dominant, it is losing market shares to other brands going after younger customers by offering similar models for a cheaper price. Motorcycles are often bought through loans. Access to credit could slow down and affect HOG sales. HOG growth plan is highly dependant on international sales. It's time for management to pull out some growth vectors.

Dividend Growth Perspective

The company had to cut its dividend following the last recession (2009). Since 2011, HOG has consecutively increased its payouts, but the latest increases (4.2% (2017) ,1.4% (2018), 1.4% (2019)) are smaller than the previous ones. The payout ratio is still under control, but the company has growth challenges to take care before raising its paycheck. Therefore, expect a dividend growth following the inflation (2-3%) going forward.