

Harley-Davidson Hammers Down On Growth

Shares of Harley-Davidson are set up for a rebound and short-covering rally.

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It's A New Era For Harley-Davidson

The last few years have not been easy for **Harley-Davidson (NYSE: HOG)**. The combined effects of the Trump/Xi trade War and the pandemic took a bite out of Revenue the company is only just now getting back. The key takeaway here is that the company is getting that revenue back and on track to return to growth this year. Trading near \$44, the stock offers a significant value relative to the broad market and there is another factor in play as well. The stock has a rather High 13% short interest that could fuel a rally over the next few weeks and months.

A Blowout Quarter For Harley-Davidson

Harley-Davidson has managed to effect a revitalization of the brand that has it on track to produce long-term growth this year. The company's second-quarter revenue of \$1.53 billion beat the consensus by 1080 basis points and is up 77% from last year. That comp is rather easy as sales fell sharply in last year's second quarter so the 2-year comparison of +7% and 3-year comparison of flat revenue are very significant.

The sales strength was centered in the North American Market

which increased by 43% but was offset by declines in emerging markets, Asia-Pacific, and Latin America. Within the core motorcycle and related accessories segment of the business, bike sales were up 130%, parts and accessories were up 32%, and merchandise sales rose 47%. Financial Services, the smallest segment by far, grew by 2%.

Moving down the report, the company experienced significant improvements in both gross and operating margins due to revenue leverage and reopening tailwinds. The company's gross margins improved 1450 basis points to 30.6% to drive operating income of \$186 million while the operating margin improved 3200 basis points to 14% reversing a loss in the previous year. On the bottom line, both the GAAP and adjusted EPS beat the consensus with adjusted EPS of \$1.41 beating by \$0.23.

Looking forward, the company is expecting to see the strength continue as reopening continues globally. The company is now expecting the financial services segment to see operating income growth in the range of 75% to 85% and for Motorcycle revenue growth in the range of 30% to 35%. This compares to the previous outlook of 50% to 60% Financial Services growth and sub-30% growth on Motorcycle revenue for the year.

A Big Dividend Increase Is In Harley-Davidson's Future

The rebound in business has greatly improved Harley-Davidson's cash flow and reopened the avenue to dividend growth. The company cut the dividend drastically in response to the pandemic in an effort to preserve capital and those efforts worked. There has already been one increase in the wake of those efforts but the dividend is still well below the pre-COVID levels. Based on the results in the second quarter and the outlook for the year the company should be able to resume the pre-COVID payment now which means a dividend increase in the range of 100% to 200% is possible by the end of the fiscal

year. That would put the yield in the range of 2.7%.

The Technical Outlook: No Love For Harley-Davidson

Shares of Harley-Davidson opened with a gain in the wake of the Q2 release but short-sellers drove the price back down to the recent low. The good news is that support appears to be holding above the \$41.50 level and should provide a bottom. The price action may drift sideways and retest support in the near term but we expect to see a bottom form and price action to begin moving higher before the end of the summer.

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