



Haverty Furniture Companies Inc (HVT)

Updated November 2nd, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$22	5 Year CAGR Estimate:	9.2%	Market Cap:	\$360 M
Fair Value Price:	\$18	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	11/27/24
% Fair Value:	124%	5 Year Valuation Multiple Estimate:	-4.2%	Dividend Payment Date:	12/13/24
Dividend Yield:	5.8%	5 Year Price Target	\$26	Years Of Dividend Growth:	11
Dividend Risk Score:	F	Retirement Suitability Score:	d	Rating:	Hold

Overview & Current Events

Haverty Furniture Companies was founded in 1885 in Atlanta, GA by J.J. Haverty. Since then, the company has grown to more than 120 stores in 16 U.S. states. Haverty is a specialized retailer of residential furniture and accessories. The company's products are used throughout the home, including in living rooms, bedrooms, dining rooms, office, and outdoor spaces. The company generates annual revenue of more than \$860 million.

On November 1st, 2024, Haverty reported third quarter earnings results for the period ending September 30th, 2024. For the quarter, revenue decreased 20.2% to \$175.9 million, which was \$18.8 million less than expected. GAAP earnings-per-share of \$0.29 compared very unfavorably to \$1.02 in the prior year and was \$0.18 below estimates.

Comparable sales for the period decreased 20.2%. Due to the year-over-year weakness, gross margins contracted 60 basis points to 60.2%. SG&A expenses decreased \$11.8 million to \$100.9 million, but represented 57.4% of total sales compared to 51.1% in the prior year due to the lower sales total. Haverty ended the period with \$127.4 million in cash and equivalents. The company has no outstanding debt and credit availability of \$80 million.

We expect that Haverty will earn \$1.27 per share in 2024, down from \$1.48 previously. This would represent, which would be a 62% decline from the prior year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$0.37	\$1.23	\$1.30	\$0.98	\$1.42	\$1.08	\$3.15	\$4.91	\$5.26	\$3.36	\$1.27	\$1.87
DPS	\$0.32	\$0.36	\$0.44	\$0.54	\$0.72	\$0.76	\$0.77	\$0.97	\$1.09	\$1.18	\$1.28	\$1.88
Shares¹	23	23	22	22	21	20	19	19	17	17	16	15

Haverty has increased its earnings-per-share with a compound annual growth rate of nearly 28% over the last decade. That growth rate has slowed to 6.5% since 2019. The company has leveraged its leadership position in a multitude of categories to grow its EPS by strong rates over the last 10 years. We believe earnings growth will be close to 8% annually for the medium term given the recent growth rate and the low base from which EPS is expected to start at for 2024. Applying this growth rate to our EPS estimates for this year results in 2029 earnings-per-share estimate of \$1.87. Also contributing to results will be a declining share count as Haverty has reduced the float by 3.3% annually since 2014.

Haverty has increased its dividend for 11 consecutive years, with the company providing pretty aggressive dividend raises for much of this time period. The dividend has a CAGR of 15.6% and 11% since 2014 and 2019, respectively. The company has also issued a sizeable special dividend in five out of the last six years. These are not included in our base dividend amounts, but would add meaningfully to annual results if they were to continue.

We note that the projected payout ratio for 2024 is above 100%. This could indicate a slowing in the dividend growth or even a potential cut if the business is not able to return to growth. For now, we maintain our DPS growth estimate. Base dividends are projected to grow at the same 8% rate as EPS.

¹ In millions of shares.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	59.5	17.4	18.2	23.1	13.2	18.7	8.8	6.2	5.7	10.6	17.3	14.0
Avg. Yld.	1.5%	1.7%	1.9%	2.4%	3.8%	3.8%	2.8%	3.2%	3.7%	3.3%	5.8%	7.2%

Shares of Haverty have declined \$5, or 18.5%, since our August 26th, 2024 report. The stock has a 10-year average price-to-earnings (P/E) ratio of 18.1, but this includes several years of either very high or very low figures. We believe that 14 times earnings-per-share represent fair value for the stock. Currently, Haverty trades with a P/E of 17.3. Reverting to our target multiple by 2029 would reduce annual returns by 4.2% over this period.

Even excluding the special dividends, Haverty has often paid a market beating yield. Today, the yield is well ahead of its long-term average of 2.8%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	86%	29%	34%	55%	51%	70%	24%	20%	21%	35%	101%	101%

Haverty is the rare company in its industry not encumbered by a heavy debt burden as the company has no outstanding debt obligations. This positions the company well and protects it from the negative impacts of higher interest rates. Haverty benefits from a solid footprint, allowing it to reach its customers in a variety of locations.

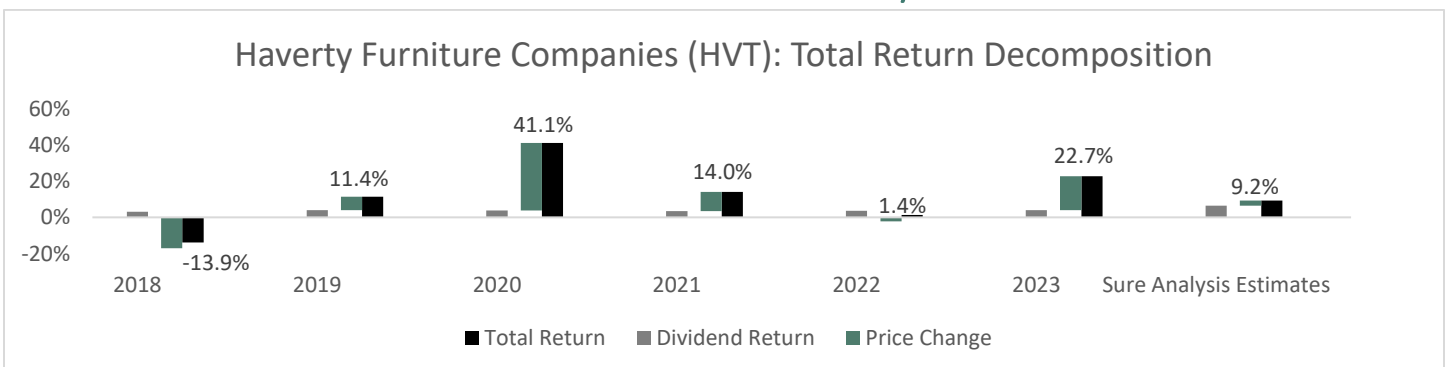
The company is not immune to recessions as Haverty had a negative earnings-per-share in both 2008 and 2009 as it dealt with the worst of the financial crisis. Haverty did return to growth the following year. The company performed much better during and after the Covid-19 pandemic as earnings-per-share set new records in 2020 through 2022. We believe that the company would see another decline in EPS during the next economic downturn as consumers tighten their budgets.

Haverty's expected dividend payout ratio for this year is elevated, which would normally be a warning sign that the dividend could be at risk for being cut. However, Haverty has an average payout ratio of 43% for the 2014 to 2023 period, indicating that the dividend is typically well covered. With no debt on the balance sheet, Haverty can prioritize continuing to make its payments until earnings growth returns.

Final Thoughts & Recommendation

After third quarter earnings results, Haverty is expected to offer a total annual return of 9.2% through 2029, up from 7.4% previously. Our projected return stems from an 8% earnings growth rate and a starting yield of 5.8% that are partially offset by a mid-single-digit headwind from multiple contraction. Haverty has struggled during weaker periods, but the company has a vast network of stores, a generous yield, and a pristine balance sheet. We have lowered our five-year price target \$4 to \$30 for Haverty, but we continue to hold rating due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	768	805	822	820	818	802	748	1,013	1,047	862
Gross Profit	412	431	443	445	447	434	419	575	604	523
Gross Margin	53.7%	53.5%	54.0%	54.3%	54.6%	54.2%	56.0%	56.7%	57.7%	60.7%
SG&A Exp.	386	385	399	403	405	407	377	456	486	456
D&A Exp.	23	26	29	31	30	21	18	16	17	19
Operating Profit	26	46	44	42	42	27	42	118	118	67
Operating Margin	3.4%	5.7%	5.3%	5.1%	5.1%	3.4%	5.6%	11.7%	11.3%	7.8%
Net Profit	9	28	28	21	30	22	59	91	89	56
Net Margin	1.1%	3.5%	3.5%	2.6%	3.7%	2.7%	7.9%	9.0%	8.5%	6.5%
Free Cash Flow	25	25	30	28	49	47	119	63	23	44
Income Tax	17	17	17	22	10	7	18	28	30	16

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	461	471	455	461	440	560	680	686	649	654
Cash & Equivalents	65	71	63	79	72	76	200	166	123	121
Acc. Receivable	7	6	4	2	2					
Inventories	107	109	102	103	106	105	90	112	118	94
Total Liabilities	169	170	173	167	166	300	427	430	360	346
Accounts Payable	24	28	26	21	20	28	31	31	23	19
Long-Term Debt	-	-	-	-	-	-	-	-	-	-
Total Equity	292	302	282	294	275	261	253	256	289	308
LTD/E Ratio	-	-	-	-	-	-	-	-	-	-

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.0%	6.0%	6.1%	4.6%	6.7%	4.4%	9.5%	13.3%	13.4%	8.6%
Return on Equity	2.9%	9.4%	9.7%	7.3%	10.7%	8.2%	23.0%	35.7%	32.8%	18.8%
ROIC	2.9%	9.4%	9.7%	7.3%	10.7%	8.2%	23.0%	35.7%	32.8%	18.8%
Shares Out.	23	23	22	22	21	20	19	19	17	17
Revenue/Share	33.50	35.30	37.61	37.96	38.40	39.60	39.52	54.62	61.46	51.40
FCF/Share	1.07	1.10	1.38	1.30	2.30	2.30	6.30	3.41	1.33	2.63

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

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