



GUD Holdings

GUD

Buy

\$3.85

Capital utilisation in absence of acquisitions increasingly important

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Following a 1H03 result that exceeded BBY expectations, the operating environment remains supportive for GUD, which provides confidence that full-year forecasts (that assume a 1H bias) remain achievable. Although acquisitions appear increasingly unlikely, GUD continues to offer a compelling investment profile given its proven management and undemanding fundamentals including a +6% yield (with special dividends a possibility), single-digit PER and \$4.50 DCF valuation.

- ▶ **Post-Christmas environment supportive for Sunbeam;** The Sunbeam operations benefited from a strong Christmas season in 1H03, with post-Christmas restocking and ongoing trading levels exceeding management expectations. With appliance purchases likely to pickup in May for Mothers' Day gifts and also in the leadup to Winter (with Sunbeam a major participant in electric blanket sales) we remain positive on the outlook for the division for the remainder of 2H03.
- ▶ **Victa FY03 result likely to be poor despite recent rain;** Despite a lower cost-base following the relocation of Victa's manufacturing from Campsie to Moorebank and recent rains supporting an improved sales outlook, we do not expect a substantial earnings turnaround for Victa in FY03 given the impact of the drought on previous months.
- ▶ **Acquisitions unlikely;** We consider an acquisition as increasingly unlikely given management's strict acquisitions criteria and few opportunities available, as indicated by ALS's recent purchase which appeared to be motivated by increasing the company's revenue base more so than value-accretion.
- ▶ **Increased dividends an increasingly likely utilisation of capital;** With debt expected to decrease over the forecast period and a share buyback already in place we consider increased dividends or a special dividend as possible given the under-utilised balance sheet.
- ▶ **FY04 upside should further cost-savings eventuate;** Our FY04 eps growth forecasts are primarily driven by lower interest expense and the benefit of the share buyback, with EBIT growth of only 4%. Thus further Sunbeam cost savings and an improved Victa result offer additional upside, although some caution is appropriate given the slowing housing cycle and potential impact of global economic uncertainty on consumer sentiment.

Company Information

Price		\$3.85
Target Price (12 month)		\$4.50
Difference		+ 17%
Shares (diluted)	59.6M	Market cap. \$229M
High/low (12 month)	\$4.30/\$2.26	Monthly turnover \$10.8M

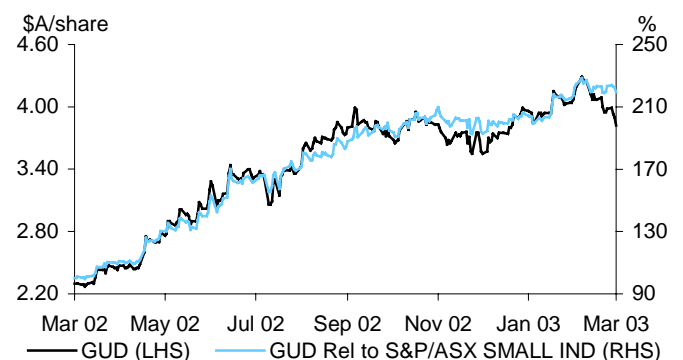
Earnings Summary

Year ending Jun	2001	2002	2003F	2004F
NPAT (reported) (A\$M)	11.7	20.8	26.4	28.7
BBY adj NPAT (A\$M)	13.0	22.1	27.4	29.7
EPS (¢)	19.3	34.3	44.4	50.0
PER	20.0 x	11.2 x	8.7 x	7.7 x
EPS Growth	6%	78%	29%	13%
EV / EBITDA	8.4 x	5.9 x	5.0 x	4.5 x
CFPS (¢)	19.4	55.3	55.0	64.4
Price / CF	19.8 x	7.0 x	7.0 x	6.0 x
Dividend (¢)	15.0	16.5	24.0	27.0
Yield	3.9%	4.3%	6.2%	7.0%
Franking	100%	55%	100%	100%
NTA per share	\$1.13	\$1.15	\$1.40	\$1.65

Earnings Forecast Changes

	2003F	2004F
NPAT (BBY adj) Change (%)	0%	0%
EPS (BBY adj) Change (%)	0%	0%

GUD versus Small Industrials Index





GUD Holdings (GUD:\$3.85)

Buy

Valuation data

Year ending Jun	2000	2001	2002	2003F	2004F
EPS pre goodwill (¢)	18.2	19.3	34.3	44.4	50.0
P/E ratio	21.1 x	20.0 x	11.2 x	8.7 x	7.7 x
P/E relative *			78	67	68
EPS growth	-9%	6%	78%	29%	13%
EPS pre abn's (¢)	16.6	17.3	32.3	42.8	48.3
P/E ratio	23.2 x	22.2 x	11.9 x	9.0 x	8.0 x
P/E relative *			83	69	70
EPS growth	-10%	5%	86%	33%	13%
EV / EBIT	12.3 x	12.0 x	7.7 x	6.1 x	5.5 x
EV / EBITDA	8.5 x	8.4 x	5.9 x	5.0 x	4.5 x
CFPS (¢)	43.0	19.4	55.3	55.0	64.4
Price / CF	9.0 x	19.8 x	7.0 x	7.0 x	6.0 x
DPS (¢)	15.0	15.0	16.5	24.0	27.0
Yield	3.9%	3.9%	4.3%	6.2%	7.0%
Franking	0%	100%	55%	100%	100%
NTA per share	\$1.04	\$1.13	\$1.15	\$1.40	\$1.65
Pr / NTA	3.7 x	3.4 x	3.3 x	2.7 x	2.3 x

Profit and loss (\$M)

Year ending Jun	2000	2001	2002	2003F	2004F
Sales revenue	328.2	341.2	365.9	362.2	374.6
growth over pcp	-3%	4%	7%	-1%	3%
EBITDA	34.8	36.2	45.4	50.8	52.6
Dep'n and amort'n	9.6	9.7	9.2	8.4	8.4
EBITAg	25.2	26.4	36.2	42.4	44.2
Goodwill amortisation	1.2	1.3	1.3	1.0	1.0
EBIT	24.1	25.1	34.9	41.4	43.2
growth over pcp	-5%	4%	39%	19%	4%
Net interest expense	6.6	6.5	5.3	3.7	2.2
Pre-tax profit	17.5	18.6	29.6	37.7	41.0
Tax	6.1	6.9	8.8	11.3	12.3
Effective tax rate	35.0%	37.3%	29.9%	30.0%	30.0%
Preference dividends	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
BBY adjustments	1.2	1.3	1.3	1.0	1.0
BBY adj profit	12.5	13.0	22.1	27.4	29.7
Reported profit (pre abn)	11.4	11.7	20.8	26.4	28.7
One-off items (post tax)	(0.4)	(1.0)	(14.4)	0.0	0.0
Reported net profit	11.0	10.7	6.4	26.4	28.7

Ratio analysis

Year ending Jun	2000	2001	2002	2003F	2004F
EBITDA / sales	10.6%	10.6%	12.4%	14.0%	14.0%
EBITAg / sales	7.7%	7.7%	9.9%	11.7%	11.8%
EBIT / sales	7.3%	7.4%	9.5%	11.4%	11.5%
Return on assets	9%	10%	15%	19%	19%
Return on equity	10%	10%	17%	22%	21%
Dividend cover	1.2 x	1.3 x	2.1 x	1.8 x	1.9 x
Net debt / (cash) (\$M)	67.9	73.0	38.0	24.3	8.5
Debt / equity	53%	67%	40%	27%	13%
Net debt / equity	53%	56%	31%	18%	6%
Interest cover	3.7 x	3.9 x	6.6 x	11.2 x	19.8 x

Balance sheet (\$M)

Year ending Jun	2000	2001	2002	2003F	2004F
Cash	0.1	14.6	11.1	11.1	11.1
Receivables	44.4	50.2	55.2	65.2	67.4
Inventories	68.5	74.0	57.4	61.6	63.7
Other	8.7	7.9	7.5	7.5	7.5
Current assets	121.7	146.7	131.2	145.4	149.7
Net PPE	65.5	58.6	40.9	34.6	33.3
Investments	0.0	0.0	0.0	0.0	0.0
Goodwill	13.3	12.0	11.2	10.2	9.2
Other intangibles	45.5	46.6	39.9	39.8	39.7
Other	5.6	3.7	6.1	6.1	6.1
Non-current assets	130.0	120.8	98.1	90.7	88.3
Total assets	251.7	267.5	229.3	236.1	238.0
Debt	68.0	87.6	49.0	35.3	19.6
Provisions	17.3	11.5	22.3	25.0	27.1
Other	38.7	37.6	36.3	43.5	45.0
Total liabilities	124.0	136.7	107.6	103.8	91.6
Equity / reserves	122.5	118.6	111.9	104.7	104.7
Retained profits	5.2	12.1	9.8	27.6	41.6
Total s/h funds	127.6	130.7	121.7	132.2	146.3
Minorities	0.1	0.1	0.1	0.1	0.1
Total funds emp.	251.7	267.5	229.3	236.1	238.0

Cashflow (\$M)

Year ending Jun	2000	2001	2002	2003F	2004F
EBIT	24.1	25.1	34.9	41.4	43.2
Net interest paid	(6.7)	(6.2)	(5.3)	(3.7)	(2.2)
Dep'n and amort'n	10.8	11.0	10.5	9.4	9.4
Tax paid	(4.6)	(3.4)	(3.4)	(8.8)	(11.3)
Gross cash from op'ns	23.5	26.5	36.7	38.3	39.1
(Inc) / dec in wk'g cap	14.2	(13.4)	11.3	(6.9)	(2.8)
Other	(7.8)	0.1	(12.3)	2.7	2.1
Operating cashflow	29.9	13.2	35.7	34.0	38.4
growth over pcp	121%	-56%	170%	-5%	13%
<i>Investing cashflows</i>					
Capital expenditure	(8.0)	(3.9)	(7.9)	(6.0)	(7.0)
Asset sales	2.8	1.4	10.9	4.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Divestments	1.0	0.0	12.5	0.0	0.0
<i>Financing cashflows</i>					
Equity raised	0.0	(4.2)	(6.9)	(7.2)	0.0
Dividends paid	(12.8)	(8.8)	(9.5)	(11.1)	(15.6)
Chg in loans	12.9	17.2	(38.7)	(13.7)	(15.8)
Other non-op flows	(27.0)	(0.4)	(1.7)	0.0	(0.1)
Net chg in cash	(0.0)	14.0	(3.8)	0.0	0.0

Interims (\$M)

Half yearly	1h01	2h01	1h02	2h02	1h03
Sales revenue	183.5	157.8	192.7	173.1	198.0
EBITDA	22.8	13.4	22.8	22.6	28.0
EBIT	17.3	7.9	17.4	17.5	23.2
BBY adj profit	10.0	3.0	11.1	11.0	15.2
Reported profit	9.4	2.3	10.5	10.3	14.7
EBIT / sales	9.4%	5.0%	9.0%	10.1%	11.7%
EPS (¢)	14.6	4.5	17.1	17.2	24.6
DPS (¢)	7.5	7.5	7.5	9.0	11.0
% of FY sales	53.8%	46.2%	52.7%	47.3%	54.7%
% of FY EBIT	68.7%	31.3%	49.8%	50.2%	56.0%

* Relative to BBY growth companies universe



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Approved by TWG on 14/03/03 at 4:30pm