

UBS Investment Research

GUD Holdings Limited

Strong FY 03 result in line with expectations

■ Strong result with a generous dividend

GUD has reported FY 03 NPAT before significant items of \$27.4m. This is in line with our forecast of \$27.0m and 31% ahead of the prior year. The strong result was driven by robust consumer spending on domestic appliances, rationalisation of the cost base and improved market penetration. The final dividend of 15cps ff was higher than expected.

■ Sunbeam the key driver

Excluding significant items, the main driver of growth was the Sunbeam Victa division, the adjusted EBIT of which grew by 31%. Although the two parts of this division are not reported separately, we understand that the improvement was driven by Sunbeam, offset by a poor drought-affected result from Victa. The other divisions achieved steady sales growth with significantly improved profitability.

■ Minor changes to forecasts, outlook good

We have not changed our forecasts significantly following the result. Our forecast for NPAT in FY 04 increases to \$28.7m from \$28.0m. We believe that there are clear opportunities for GUD to grow organically through expansion of the product range, premium pricing strategies and reduced costs of manufacture. GUD continues to seek appropriate acquisition opportunities.

■ Valuation: \$5.75, rating changed to Neutral 2

Following our forecast changes, we value GUD Holdings at \$5.75 per share on a DCF basis, applying a WACC of 11.4%. Our price target is equal to our valuation. The recent strong appreciation of the share price has brought the stock close to our target and the excess return potential is now less than 5%. We have changed our rating to Neutral 2 from Buy 2 as a result. Our '2' predictability rating reflects the difficulty in forecasting trends in the competitive environment and consumer spending cycle.

Highlights (A\$m)	06/01	06/02	06/03E	06/04E	06/05E
Revenues	344	398	376	413	428
EBITDA	35	25	47	56	58
EBIT	24	14	37	46	48
Net income (UBS)	11	6	22	29	31
EPS (UBS, A\$)	0.18	0.12	0.38	0.50	0.54

Profitability & Valuation	5-yr hist. av.	06/02	06/03E	06/04E	06/05E
EBIT margin %	-	3.6	9.9	11.2	11.2
ROIC (EBIT) %	-	7.4	21.9	28.6	30.5
EV/revenues x	-	0.5	1.1	0.9	0.8
EV/EBITDA x	-	8.0	8.4	6.7	6.3
PE (UBS) x	-	17.4	14.2	10.8	10.0

Source: Company accounts, Thomson Financial, UBS estimates. UBS EPS is stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of A\$5.42 on 28 Jul 2003

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Global Equity Research

Australia

Auto Parts

Rating **Neutral 2**

Price target **A\$5.75/US\$3.81**

RIC: GUD.AX BBG: GUD AU

29 July 2003

Potential returns

Price target upside	+6.1%
Dividend per share (E)	A\$0.26/US\$0.17
Dividend yield (E)	4.8%/5.0%
Total return potential	+11.0%
Trend EPS growth rate	+45%

Trading data (local/US\$)

Price	A\$5.42/US\$3.48
52-wk. range	A\$5.30-3.15/US\$3.48-1.69
Market cap.	A\$0.37bn/US\$0.23bn
Shares o/s	67m (ORD)
Free float	100%
Average volume ('000)	108
Convertible	No
Volatility	Low

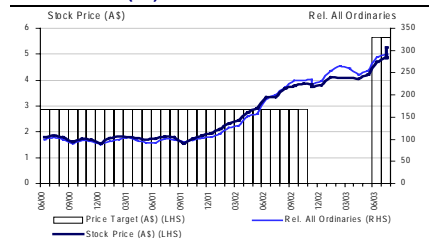
Balance sheet data 06/03E

Shareholders' equity	A\$0.14bn
P/BV (UBS)	2.5x
Net cash (debt)	(A\$0.02bn)

EPS (UBS, A\$)

	06/02	06/03E	Prior	Cons.
H1	(0.05)	0.23	-	-
H2	0.17	0.15	-	-
FY	0.12	0.38	-	0.44

Performance (A\$)



Source: UBS

www.ubs.com/investmentresearch

Synopsis

GUD has reported net income before significant items of \$27.4m for the year to 30 June 2003. This is in line with our forecast of \$27.0m and represents a 31% appreciation on \$20.9m achieved in the prior year. The strength of the result was built on three primary factors:

Strong consumer spending, reduced cost base and greater market penetration

- (1) Robust consumer spending on small domestic appliances;
- (2) Lower cost base following restructuring of manufacturing capability and improved financial and operational discipline; and
- (3) Improved market penetration by Sunbeam through greater brand leverage and broader product range.

These factors should put GUD in a good position to drive ongoing revenue and earnings growth. We expect to see further improvements in sales and market share, leveraging the strength of the existing brands across a greater product range at generally higher price points. Rationalisation of the manufacturing base should ensure costs remain low compared to the historical average, while a stronger A\$ will reduce the local currency cost of Sunbeam products manufactured in Asia. With the balance sheet looking in good shape, GUD appears able to make a meaningful acquisition (which we estimate could be anything up to \$300m in size) should it find a target that meets its criteria and thereby enter a new phase of strong growth.

The result

Income

GUD has reported NPAT of \$21.8m for the year to 30 June 2003 (Table 1). This is after charging a \$7.0m pre tax (\$5.6m post-tax) provision for environmental remediation at the vacated Campsie manufacturing site, as flagged to the market on 16 June. Excluding this significant item, NPAT was \$27.4m – 1.5% ahead of our forecast of \$27.0m. This was 31% higher than FY 02 NPAT (pre-significant items) of \$20.9m. Significant items of \$14.5m post tax in the prior year primarily related to costs associated with the closure of Campsie. No further costs associated with Campsie are anticipated.

NPAT excluding significant items of \$27.4m is a 31% increase on prior year

Operating revenue was effectively flat at \$373m (FY 02: \$372m) with steady growth in all other divisions offsetting a 4% decline in Sunbeam Victa as a result of the sale of Sunbeam Rural and low, drought-affected demand for Victa mowers. Lower levels of debt drove net interest expense down to \$3.7m (FY 02: \$5.3m). Interest cover is 13x, compared to 7x in FY 02.

The final dividend was surprisingly generous at 15cps ff, bringing DPS for the year to 26cps ff (FY 02: 16.5cps ff) – representing a payout ratio of 73% on reported EPS of 35.7cps or 57% on EPS excluding significant items of 45.3cps. At current trading levels, this represents an FY 03 yield of 4.7%.

15cps ff final dividend surprisingly generous

Table 1: GUD Holdings FY 03 result summary

Full year result	2002A	2003A	% change	2003E UBS
Operating revenue	371.8	373.3	0%	374.3
EBITDA	24.9	47.3	90%	45.3
Depreciation and amortisation	10.5	10.0	-5%	9.8
EBIT	14.3	37.3	160%	35.5
Net interest income/(expense)	-5.3	-3.7	-29%	-3.7
NPBT	9.1	33.6	270%	31.8
Income tax	2.7	11.8	340%	9.6
NPAT	6.4	21.8	240%	22.1
Significant items after tax	14.5	5.6	-62%	4.9
NPAT excluding significant items	20.9	27.4	31%	27.0
Reported EPS	10.1	35.7	255%	36.2
DPS	16.5	26.0	58%	22.0
Dividend franking	100%	100%	0%	100%

Source: UBS estimates, GUD Holdings

Balance sheet and cash flow

Operating cash flow was strong at \$41.5m (FY 02: \$35.7m). Working capital has come down significantly, with inventories, debtors and creditors all well under control. Net debt is down to \$20.9m from \$38.0m at June 2002. The ratio of net debt to equity is a very healthy 16%, compared to 31% at the pcp. Capital expenditure of \$7.6m is around 90% of depreciation (FY 02: 87%).

**Strong balance sheet and cash flow
with gearing down to 16%**

Performance by division

Table 2: EBIT by division (\$m)

Reported EBIT	2002A	2003A	% change
Sunbeam Victa	-2.4	13.8	-670%
Ryco Wesfil	11.5	15.2	33%
Davey Pumps	5.0	7.4	47%
Lock Focus	1.8	1.2	-33%
Unallocated	0.8	-0.3	
Goodwill write-off	-2.2	-	
Total	14.3	37.3	160%

Adjusted EBIT	2002A	2003A	% change
Sunbeam Victa	15.9	20.8	31%
Ryco Wesfil	12.7	15.2	20%
Davey Pumps	5.6	7.4	31%
Lock Focus	1.8	2.1	20%
Unallocated	-1.0	-0.3	
Total	34.9	45.2	29%

Source: GUD Holdings

Table 3: Operating revenue by division (\$m)

Operating revenue	2002A	2003A	% change
Sunbeam Victa	211.3	201.8	-4%
Ryco Wesfil	84.2	85.8	2%
Davey Pumps	63.7	71.9	13%
Lock Focus	12.4	13.5	10%
Unallocated	0.2	0.2	1%
Total	371.8	373.3	0%

Sunbeam Victa

Sales in Sunbeam Victa fell by 4%, due to the sale of the under-performing Sunbeam Rural business (sheep shears and electric fences) in the prior year and weak demand for Victa mowers during the drought in Australia. GUD do not report Sunbeam and Victa separately, although it has been confirmed that Victa was profitable during the year.

Underlying EBIT in Sunbeam Victa up 31% driven by lower costs and improved market share

EBIT for the Sunbeam Victa division was \$13.8m, although this included a \$7.0m pre-tax provision for environmental remediation at Campsie. Excluding this, EBIT was \$20.8m compared to pre-significant items EBIT of \$15.9m in FY 02. The 31% growth reflects significantly lower costs of manufacturing as a result of outsourcing most of the manufacturing process to external suppliers in Asia (Sunbeam) and Australia (Victa). Underlying EBIT margins rose to 10.3% from 7.5% in the pcp. Sunbeam has met with success in a number of its new product lines, including its Café Series coffee machines, which have helped to improve its share of the small appliances market.

Ryco Wesfil

Sales of Ryco and Wesfil automotive filters grew by 2% to \$85.8m. EBIT was up 33% from \$11.5m to \$15.2m. Excluding significant items in the pcp, underlying EBIT was up 20% from \$12.7m. The improved profitability of the filtration business reflects the successful rationalisation of manufacturing, including the relocation of much of the short-run manufacturing to GUD's Avondale plant in Auckland, New Zealand.

Lower costs of manufacture boost Ryco Wesfil to \$15.2m EBIT

Davey Pumps

Drought conditions in Australia and greater exports to the Middle East and the USA pushed the sales of Davey Pumps up 13% to \$71.9m from \$63.7m in FY 02. EBIT was up to \$7.4m from \$5.0m (\$5.6m pre-significant items) in the pcp.

Steady sales and margin growth in Davey Pumps and Lock Focus

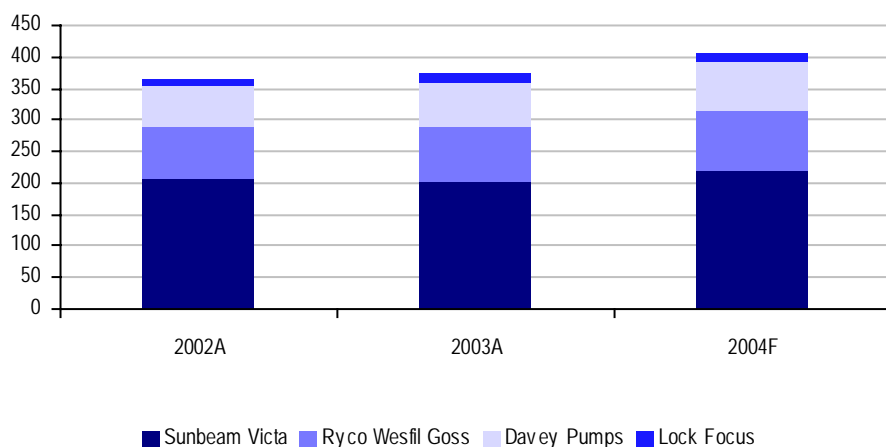
Lock Focus

Sales of Lock Focus medium-security locking devices grew by 10%. Excluding \$0.9m of Asian wind-down costs taken in the year, EBIT was \$2.1m – a 20% increase on FY 02.

Outlook and forecasts

GUD's FY 03 result was in line with our expectations and we have not revised our forecasts significantly following today's announcement. Our forecast for NPAT in FY 04 increases to \$28.7m from \$28.0m. Our revenue forecast increases to \$406m from \$393m (Chart 1).

Chart 1: Revenue by division (\$m)



Source: GUD Holdings, UBS estimates

We believe that there are clear opportunities for GUD to grow organically. A normalisation of rainfall patterns in Australia may lift Victa's EBIT by around \$3m in FY 04. Sales of Sunbeam appliances should benefit from a greater range of products positioned at mid- to premium price points. The small domestic appliances market is a competitive one, however, and will be increasingly so as a strong A\$ and NZ\$ attract more offshore competitors.

Organic growth

Sales of household appliances are largely driven by disposable domestic income. With interest rates and unemployment both at low levels, we expect the environment to be conducive to continued buoyancy of demand for such products in Australia. Ongoing improvements to operational efficiency across the board should continue to add positive pressure to earnings.

GUD has made no secret of its intention to grow through acquisition should a suitable target be identified. The balance sheet is looking in good shape and by raising additional debt finance we estimate that GUD could look to buy a business of up to \$300m, although we would not rule out smaller acquisitions.

Growth through acquisition

Valuation and rating

Following the changes to our forecasts, we value GUD Holdings at \$5.75 per share on a DCF basis, applying a WACC of 11.4%. Our price target is equal to our valuation. The recent strong appreciation of the share price has brought the stock close to our price target and the excess return potential is now less than 5%. We have changed our rating to Neutral 2 as a result.

Price target lifted to \$5.75 per share, rating changed to Neutral 2 on price appreciation

■ GUD Holdings Limited

GUD Holdings owns and manages a diverse group of businesses selling branded manufactured products in Australia and New Zealand. GUD operates several of Australia's most established and well-recognised consumer and industrial brands, including Sunbeam appliances, Victa lawnmowers, Ryco filters and Davey pumps. GUD was formed in 1940 and first listed in 1959.

■ Statement of Risk

Risks to our investment case include a loss of sales due to a downturn in consumer spending in Australia and New Zealand, greater competitive pressure from imported goods in a strong A\$ environment and a failure to manage any possible acquisitions effectively.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Global ratings: Definitions and allocations

UBS rating	Definition	UBS rating	Definition	Rating category ¹	Coverage ²	IB services ³
Buy 1	Excess return potential > 15%, smaller range around price target	Buy 2	Excess return potential > 15%, larger range around price target	Buy	34%	43%
Neutral 1	Excess return potential between -15% and 15%, smaller range around price target	Neutral 2	Excess return potential between -15% and 15%, larger range around price target	Hold/Neutral	57%	41%
Reduce 1	Excess return potential < -15%, smaller range around price target	Reduce 2	Excess return potential < -15%, larger range around price target	Sell	9%	38%

Excess return: Target price / current price - 1 + gross dividend yield - 12-month interest rate. The 12-month interest rate used is that of the company's country of incorporation, in the same currency as the predicted return.

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.

1: UBS Buy 1/Buy 2 = Buy; UBS Neutral 1/Neutral 2 = Hold/Neutral; UBS Reduce 1/Reduce 2 = Sell.

2: Percentage of companies under coverage globally within this rating category.

3: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS; as of 30 June 2003.

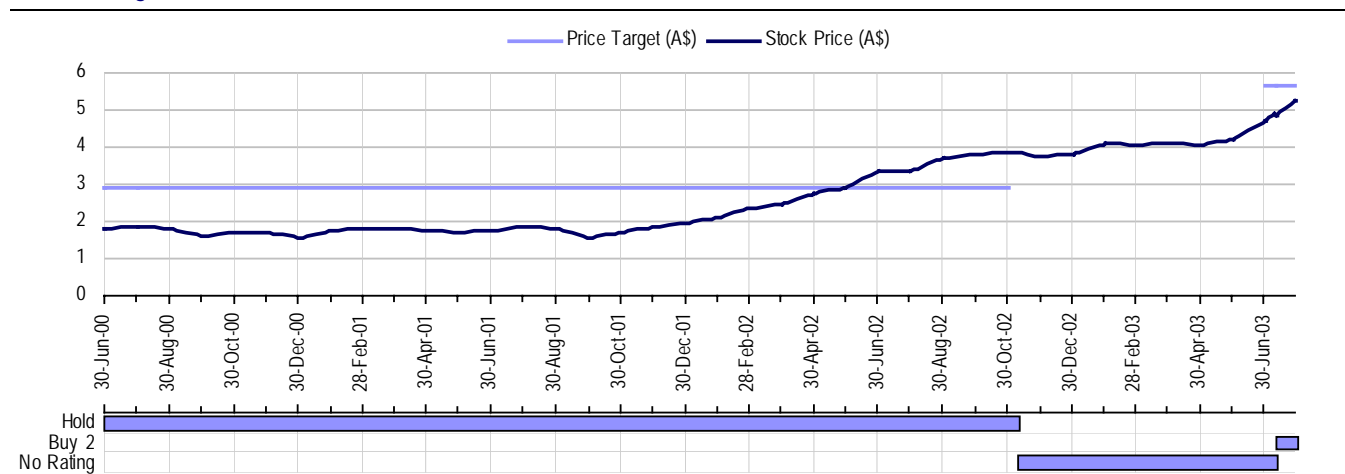
Companies mentioned

Company Name	Reuters	Rating	Price*
GUD Holdings Limited	GUD.AX	Neutral 2	A\$5.25

* As of Monday, 28 July 2003. Source: UBS.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

GUD Holdings Limited (A\$)



Source: UBS; as of Monday, 28 July 2003.

NB: On January 11, 2003 UBS adopted a new equities ratings system (see the 'Global ratings: Definitions and allocations' table for details). The former ratings and their definitions are as follows: Strong Buy: Greater than 20% excess return potential, high degree of confidence; Buy: Positive excess return potential; Hold: Low excess return potential, low degree of confidence; Reduce: Negative excess return potential; Sell: Greater than 20% negative excess return potential, high degree of confidence.

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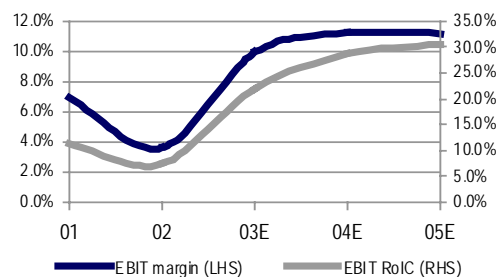


GUD Holdings Limited

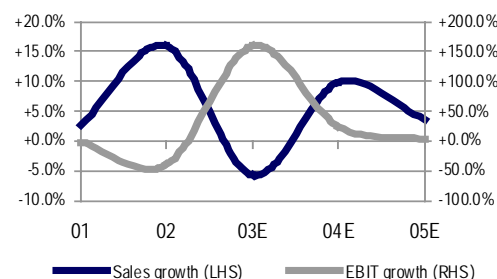
Per share (A\$)	6/01	6/02	6/03E	6/04E	6/05E
EPS	0.18	0.12	0.38	0.50	0.54
CEPS	0.33	0.27	0.52	0.64	0.68
Net DPS	0.15	0.17	0.26	0.30	0.32
BVPS	2.01	1.97	2.10	2.27	2.48
Profit & loss (A\$ m)					
Sales	344	398	376	413	428
EBITDA	35	25	47	56	58
EBIT	24	14	37	46	48
PBT	17	9	34	44	48
Net Profit	11	6	22	29	31
Cash flow (A\$ m)					
EBIT	24	14	37	46	48
Depreciation & amortisation	11	11	10	10	10
Change in NWC	(13)	12	8	(1)	(3)
Other (operating)	1	8	(1)	(0)	0
Operational cash flow	23	44	54	56	55
Tax paid	(3)	(3)	(9)	(16)	(17)
Capital expenditure	(3)	(8)	(8)	(7)	(7)
Net interest	(6)	(5)	(4)	(2)	0
Dividends paid	(9)	(10)	(12)	(18)	(19)
Net (acquisitions) / disposals	0	13	0	0	0
Other items	(4)	4	(4)	2	1
Change in net debt	(3)	35	17	15	14
Operating free cash flow (OpFCF) (A\$ m)					
Core EBITDA	35	25	47	56	58
Less: Maintenance capex	(3)	(5)	(4)	(4)	(4)
Less: Maintenance NWC	(12)	20	7	(1)	(3)
OpFCF	20	40	50	52	51
Balance sheet (A\$ m)					
Net tangible fixed assets	59	41	37	34	29
Net intangible fixed assets	59	51	51	49	48
Net working capital	96	84	76	76	79
Total invested capital (IC)	213	176	164	159	155
Financial & other fixed assets	4	6	7	7	7
Net cash / (debt)	(73)	(38)	(21)	(6)	11
Provisions	(12)	(20)	(19)	(19)	(19)
Minority interests	(0)	(0)	0	0	0
Shareholders' funds	131	122	136	146	159
Profitability					
EBITDA margin	10.1%	6.2%	12.6%	13.6%	13.5%
EBIT margin	6.9%	3.6%	9.9%	11.2%	11.2%
EBIT RoIC	11.3%	7.4%	21.9%	28.6%	30.5%
Net RoE	8.3%	5.1%	16.9%	20.4%	20.6%
Interest cover (EBIT)	3.6x	2.7x	10.0x	22.7x	NM
Dividend cover (net)	1.2x	0.7x	1.5x	1.7x	1.7x
Productivity					
Labour % sales					
Depreciation % sales	3.2%	2.6%	2.7%	2.4%	2.3%
Capex % sales	1.0%	2.0%	2.0%	1.6%	1.6%
Invested capital turnover	1.6x	2.0x	2.2x	2.6x	2.7x
Tax rate	37.9%	29.5%	35.1%	35.1%	35.1%
Net debt / total equity	55.8%	31.2%	15.4%	3.8%	Cash
Momentum					
Sales growth	+2.7%	+15.9%	-5.7%	+9.9%	+3.7%
EBIT growth	-1.7%	-39.4%	+160.0%	+24.0%	+3.6%
Net earnings growth	-3.2%	-40.0%	>+200.0%	+31.8%	+9.4%
Dividend growth	+15.4%	+10.0%	+57.6%	+15.4%	+6.7%
Value*					
Market capitalisation (A\$ m)	116	145	365	365	365
Plus: Core net debt / (cash)	70	55	29	13	(3)
Plus: Pension provisions	-	-	-	-	-
Plus: Buy out of minorities	0	0	-	-	-
Less: Non-core assets	-	-	-	-	-
Enterprise value (EV, avg)	187	200	395	378	362
EV/Sales (core)	0.54x	0.50x	1.05x	0.92x	0.85x
EV/EBITDA (core)	5.4x	8.0x	8.4x	6.7x	6.3x
EV/EBIT (core)	7.9x	14.0x	10.6x	8.2x	7.6x
EV/OpFCF	9.1x	5.0x	7.8x	7.3x	7.1x
EV/Invested capital	0.9x	1.0x	2.3x	2.3x	2.3x
P/CE	5.3x	8.1x	10.4x	8.5x	7.9x
P/E	9.5x	17.4x	14.2x	10.8x	10.0x
Dividend yield (net)	8.70%	7.69%	4.80%	5.54%	5.90%
P/BV (average)	0.9x	1.1x	2.6x	2.4x	2.2x

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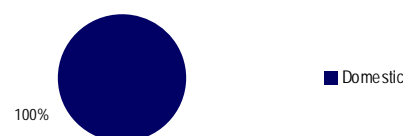
Profitability (EBIT margins & RoIC)



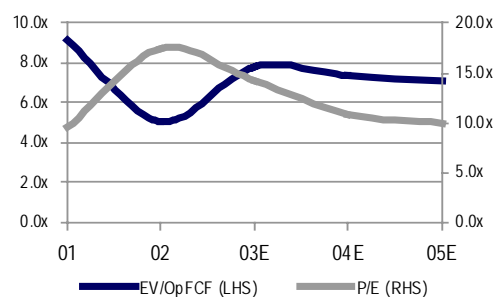
Momentum (Sales & EBIT growth)



Geographic exposure (Sales)



Value (EV/OpFCF & P/E)



Source: UBS estimates. *Historical valuations are based on an 'average for the year' share price. Current & future valuations are based on a share price of A\$5.42 on 29/07/2003