

GUD Holdings Limited (GUD)

Recommendation: **BUY for Yield**

Share price **\$5.50**

Market Cap'n **\$332M**

FY 2003 result delivers the goods!

GUD has posted a stronger-than-expected FY 2003 result, rewarding shareholders with a 58% increase in the full-year DPS to 26 cents. In the absence of an acquisition, GUD should deliver 14% EPS growth and strong cash flow in FY 2004, and be debt free within 12-months. This provides the Board with significant scope to increase future dividends paid to shareholders. We have a current valuation of \$5.60 p/share, but expect the shares to trade up to the \$5.80 level within the short-term as investors look to lock in a high level of dividend income. **BUY for Yield.**

Earnings summary

Y/e: 30 June		FY 2000	FY 2001	FY 2002	FY 2003	FY 2004(e)	FY 2005(e)
Sales revenue	(\$M)	328.2	341.2	365.9	372.4	383.3	405.2
Total EBIT		25.2	26.6	35.0	45.2	48.3	51.4
NPAT (adj) *		11.0	11.6	20.9	27.4	31.1	34.8
Significant items (net)		0.0	1.0	14.5	5.6	0.0	0.0
NPAT (reported)		11.0	10.7	6.4	21.8	31.1	34.8
EPS (pre g'will) *	(cents)	17.7	19.0	35.1	46.6	53.3	59.5
- growth	(%)	n/a	8%	84%	33%	14%	12%
DPS	(cents)	15.0	15.0	16.5	26.0	30.0	34.0
OCF	(\$M)	29.9	13.2	35.7	41.5	55.2	58.5
Net debt	(\$M)	67.9	73.0	38.0	20.9	0.0	-19.3
Interest cover	(x)	3.7	3.9	6.6	12.1	17.8	102.9
Earnings multiples:							
EV / EBITA	(x)	17.8	16.9	11.1	7.9	6.9	6.1
PER (pre g'will)	(x)	31.2	29.0	15.7	11.8	10.4	9.3
Yield	(%)	2.7	2.7	3.0	4.7	5.4	6.2

Source: GUD & WHTM. * Note: EPS is pre-g'will & assumes no further shares are acq. under the buy-back

Result details - GUD has posted normalised NPAT of \$27.4M (+32%) for FY 2003. Reported NPAT was \$21.8M, reduced by previously foreshadowed environmental remediation costs associated with Sunbeam-Victa's recently vacated Campsie site.

EPS (pre-g'will) was 46.6 cents (+33%), and a significant highlight of the result was the declaration of a final DPS 15.0 cents, taking the FY pay-out to 26.0 cents (pcp: 16.5 cents).

The increased dividend, as well as the ongoing share buy-back, highlight the Board's resolve to return capital to shareholders given the Group's strong cash flow, and significantly reduced debt levels. Operating cash flow was \$41.5M, allowing a reduction in net debt to \$20.9M (2-years ago: \$73M).

At the Divisional level:

- **Sunbeam Victa**, had a strong year, with EBIT of \$20.8M (+31%). This result reflects a strong performance by Sunbeam appliances, as well as the benefits of cost savings resulting from the closure of the Campsie site and the sourcing of product from offshore. Victa had a difficult year given the drought, and should provide a significantly improved contribution in FY 2004.
- **Filtration** (Ryco/Wesfil) sustained further profit improvement, with EBIT of \$15.2M (+20%) delivered from improved market positioning and production efficiencies.
- **Davey Pumps** provided EBIT of \$7.4M (+31%), benefiting from increased market share and growing export sales.
- **Lock Focus** also had a sound result, with EBIT of \$2.1M (+20%).



Earnings outlook - We remain confident that GUD will deliver double digit earnings growth in FY 2004 and F 2005. This should be underpinned by our conservative 7% EBIT growth forecasts, as well as reduced interest charges given lower levels of debt. Specifically, we are forecasting EPS growth of 14% and 12% for FY 2003 and FY 2004, respectively (refer to table above).

The main drivers to the improved operating result should be a good performance by Sunbeam (new products and favourable currency), as well as a recovery in earnings from Victa. Sound results are expected from the other businesses. In addition, the trading result for FY 2003 included a pre-tax loss of \$1.8M relating to the sale of fixed assets, which should not be recurring.

The main risks to financial performance are in the event of a downturn in retail trading conditions generally within Australia, as well as a marked devaluation of the AUD/USD exchange rate.

Capital management - GUD management have successfully delivered a strong recovery in group earnings, with the Group now generating high levels of free cash flow. While the Company continues to pursue relevant acquisition opportunities, we not believe and an acquisition is imminent. In the absence of an acquisition being made, debt should be eliminated by the end of FY 2004, providing scope for the Board to maintain increased dividend payments, as well as maintaining the share buy-back.

Valuation & summary - GUD offers a favourable earnings outlook, the market is likely to price the stock by applying a 'value-style' rating until such time as it can assess the merits of any future acquisitions. On this basis, applying a FY 2004 EV / EBITA multiple of 7.0x provides a valuation of \$5.60 p/share (PER of 10.5x). In the short-term, the shares are likely to find support from yield-conscious investors, which should result in the share price testing the \$5.80 level. **BUY for Yield.**

GUD Holdings - segment summary:

Y/e: 30 June	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004(e)	FY 2005(e)
Revenue:						
Sunbeam Victa	185.4	192.9	205.6	201.8	210.9	225.7
Filtration	75.3	81.1	84.2	85.8	88.0	90.6
Davey (pumps)	57.3	57.8	63.7	71.9	70.5	74.4
Lock Focus (locks)	13.5	11.8	12.4	13.5	13.9	14.5
Unallocated	3.0	0.1	0.0	0.2	0.0	0.0
Total revenue	334.5	343.6	365.9	373.3	383.3	405.2
EBIT:						
Sunbeam Victa	11.8	11.0	15.9	20.8	23.7	25.6
Filtration	6.3	9.7	12.7	15.2	16.0	16.6
Davey (pumps)	5.8	4.8	5.6	7.4	6.7	7.2
Lock Focus (locks)	2.7	1.8	1.8	2.1	2.2	2.3
Unallocated	-1.2	-0.7	-1.0	-0.3	-0.3	-0.3
Total EBIT	25.4	26.6	35.0	45.2	48.3	51.4
Margin (%):						
Sunbeam Victa	6.4	5.7	7.7	10.3	11.2	11.3
Filtration	8.3	12.0	15.1	17.7	18.1	18.3
Davey (pumps)	10.1	8.3	8.8	10.3	9.4	9.7
Lock Focus (locks)	20.2	15.3	14.6	15.5	16.0	16.1
Unallocated	n/a	n/a	n/a	n/a	n/a	n/a
Total margin	7.6	7.7	9.6	12.1	12.6	12.7

Source: GUD & WHTM

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Disclosure of interest. Corporations Act Section 849 Declaration - The Directors of Wilson HTM Ltd A.B.N. 68 010 529 665 advise that at the date of this report they and their associates have relevant interests in 0 securities in GUD Holdings Limited including 0 securities held in managed client accounts and unit trusts. They also advise that Wilson HTM Ltd and Wilson HTM Corporate Finance Ltd A.B.N. 65 057 547 323 and their associates have received and may receive commissions or fees from GUD Holdings Limited in relation to advice or dealings in securities. Some or all Wilson HTM Ltd authorised representatives may be remunerated wholly or partly by way of commission.



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