Mid-Cap Update

10 October, 2003

Companies in this report

G.U.D. Holdings Limited	BUY	$5.95
Positive start to FY 2004	David Arter	

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G.U.D. Holdings Limited

Positive start to FY 2004

10 October, 2003

$5.95

Short Term	**Long Term**
BUY	HOLD

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Recommendation

GUD has confirmed a solid start to FY 2004, with 1Q profit exceeding both budget and the 1Q last year. This supports GUD's forecast of achieving double-digit earnings growth in FY 2004. The tone of the AGM address was positive, and the trading update is good news for shareholders. GUD has acquisition ambitions, however suitable targets appear scarce. In the absence of an acquisition, GUD has considerable capacity to declare significantly higher dividends. Based on existing forecasts, our valuation for GUD is $6.00 p/share, and given the potential for positive earnings and dividend surprises, we rate the stock as a short-term BUY.

Key Points

- GUD held its FY 2003 in Melbourne yesterday. The formal business of the meeting was relatively straight forward, and included the re-election of Directors Roger Wodson and Doug Curlewis.
- Confirmation of a positive trading performance in the 1Q provides further confidence in management's double-digit earnings growth target for FY 2004.
- Sunbeam-Victa remains well placed for another strong year of growth. The release of new products at Sunbeam (eg. juicers, shavers, coffee makers), as well as reduced costs resulting from recent gains in the AUD/USD exchange rate should underpin a positive year for Sunbeam. For Victa, the easing of the drought, new product releases, and the benefits from rationalising the Campsie site should provide for improved financial returns from the business.
- The Filtration Business ('Ryco', Wesfil' & 'Goss') is likely to be confronted by heightened import competition in the year ahead given the stronger AUD. However the strength of GUD's brands, as well as ongoing production efficiencies (& reduced costs of imported product) underpin our forecast for an improved earnings contribution in FY 2004 (refer overleaf).
- Management is forecasting further growth for Davey Pumps in FY 2004, depsite FY 2003 being an exceptional year given the positive effect on sales from the drough and bush fires. New product & capital improvements support this view, however are forecasts take a conservative view (refer overleaf).
- The main risk to GUD's earnings outlook is in the event of a marked downturn in consumer spending (notably at Sunbeam). On balance, the outlook for GUD remains positive, and we remain comfortable with our EPS (pre-g'will) growth forecasts of 14% and 12% for FY 2004 and FY 2005 respectively.
- In the absence of an acquisition being made, GUD should be essentially debt-free by year-end. This should support an ongoing on-market share buy-back, and provides scope for our existing DPS forecasts to be exceeded.
- We value GUD at $6.00 p/share (EV/EBITA of 7.5x, yield of 5.0%). Given the bias towards potential profit and dividend surprises, we endorse a BUY recommendation, based on an expected 6-month trading range of $5.80 - $6.50 p/share.

Security/Capital Details

ASX Code	GUD
Market Cap	$360M
Issued Shares	60.5M
Avg Mth T'over	2.78M
12 Mth High – Low	$6.00/$3.50

Key Data/Ratios – FY 2004

EBITDA / Sales	15.0%
EBIT / Sales	6.8%
Net Debt / Equity	0.0%
Interest Cover	17.9x
ROE	22.0%
EPS Growth	14.0%
PEG Ratio	0.8x
NTA / Share	$1.49
Valuation	$6.00

Financial summary

Y/e: 30 June		FY 2001	FY 2002	FY 2003	FY 2004(e)	FY 2005(e)
Sales revenue	($M)	341.2	365.9	372.4	383.3	405.2
Other revenue		2.2	32.3	2.4	2.1	2.2
Total revenue		**343.5**	**398.2**	**374.8**	**385.4**	**407.4**
EBITDA		36.3	44.2	54.2	57.6	61.1
Depreciation		9.7	9.2	9.0	9.3	9.7
Divisional EBIT:						
Sunbeam Victa		11.0	15.9	20.8	23.7	25.6
Filtration		9.7	12.7	15.2	16.0	16.6
Davey (pumps)		4.8	5.6	7.4	6.7	7.2
Lock Focus (locks)		1.8	1.8	2.1	2.2	2.3
Unallocated		-0.7	-1.0	-0.3	-0.3	-0.3
Total EBIT		26.6	35.0	45.2	48.3	51.4
- margin		*7.8%*	*9.6%*	*12.1%*	*12.6%*	*12.7%*
G'will amort		1.3	1.3	1.0	1.1	1.1
EBIT		25.1	34.9	45.2	48.3	51.4
- growth (%)		*4%*	*39%*	*30%*	*7%*	*7%*
Net int exp		6.5	5.3	3.7	2.7	0.5
Pre-tax profit		**18.6**	**29.6**	**41.5**	**45.5**	**50.9**
Tax exp		7.0	8.7	14.1	14.5	16.1
- tax rate (%)		*38%*	*29%*	*34%*	*32%*	*32%*
NPAT (adj) *****		**11.6**	**20.9**	**27.4**	**31.1**	**34.8**
Significant items (net)		1.0	14.5	5.6	0.0	0.0
NPAT (reported)		10.7	6.4	21.8	31.1	34.8
EPS (pre g'will) *	(cents)	19.0	35.1	46.6	53.3	59.5
- growth	*(%)*	*8%*	*84%*	*33%*	*14%*	*12%*
DPS	(cents)	15.0	16.5	26.0	30.0	34.0
OCF	($M)	13.2	35.7	41.5	55.2	58.5
Net debt	($M)	73.0	38.0	20.9	0.0	-19.3
Interest cover	(x)	3.9	6.6	12.1	17.8	102.9
Earnings multiples:						
EV / EBITA	(x)	18.0	11.9	8.5	7.4	6.6
PER (pre g'will)	(x)	31.3	17.0	12.8	11.2	10.0
Yield	(%)	2.5	2.8	4.4	5.0	5.7

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

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 nil securities in G.U.D. Holdings Limited. They also advise that Wilson HTM Ltd and Wilson HTM Corporate Finance Ltd A.B.N. 65 057 547 323 and their associates may receive commissions or fees from G.U.D. 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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