



## GUD Holdings

GUD

Buy

\$7.18

### Sunbeam Christmas trading the key 1H04 upside risk driver

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A buoyant Xmas trading period for Sunbeam offers potential for earnings surprise at the 1H04 result on 29 January (and subsequent full-year upgrade), with strong post-Christmas sales and benefits from the restructure of Ryco expected to generate a similarly positive 2H outcome. With internal efficiency gains continuing to generate cash (offering a balance sheet likely to be almost debt-free by the end of FY04), we see mgts' utilisation of capital as being a key issue given the apparent absence of suitable acquisition targets. Whilst we consider GUD appropriately priced on its current earnings profile and noting shareprice appreciation of +80% over the past year, given the likelihood of positive earnings surprise and the potential for higher dividends we remain comfortable with our Buy recommendation.

- ▶ **Strong end of year for Sunbeam offers potential upside to management forecasts;** Management had anticipated "double-digit" profit growth in 1H04 after the \$3.2m Ryco restructure expense based on the five months ending November. Given what appears to have been a positive Christmas period for Sunbeam, with strong consumer demand and a lack of competitor discounting, we see potential for this 1H04 NPAT growth to exceed our expectations (which are at low double-digit levels).
- ▶ **Solid start to 2H04;** Post-Christmas sales activity has provided a solid start to 2H04 for Sunbeam (noting a traditional 1H earnings bias), and we expect the division to continue to benefit from the strong \$A although retailers are targeting concessions. We expect the restructure of Ryco to generate 2H04 margin benefits given the shift to a greater level of imports (indeed management anticipate a 12 month payback for the restructure), although we still expect a decline in margins for this division in FY04 with a pickup in FY05.
- ▶ **Watch the dividend;** Prospects for a large-scale acquisition continue to appear remote given continued competitive diversified industrials activity has pushed prices to such an extent that GUD's strict criteria cannot be met. As the company is likely to approach being debt-free by the end of FY04 we see capital utilisation as a likely management initiative given an lowly-g geared balance sheet will make core return on capital benchmarks harder to achieve. We have already assumed a higher payout ratio in FY04 of 70% compared to 56% in FY03, nonetheless we see the prospect of still higher dividend payments as possible over the next twelve months.

#### Company Information

Price		\$7.18
Target Price (12 month)		\$7.80
<b>Difference</b>		<b>+ 9%</b>
Shares (diluted)	61.2M	Market cap. \$439M
High/low (12 month)	\$7.18/\$3.73	Monthly turnover \$13.8M

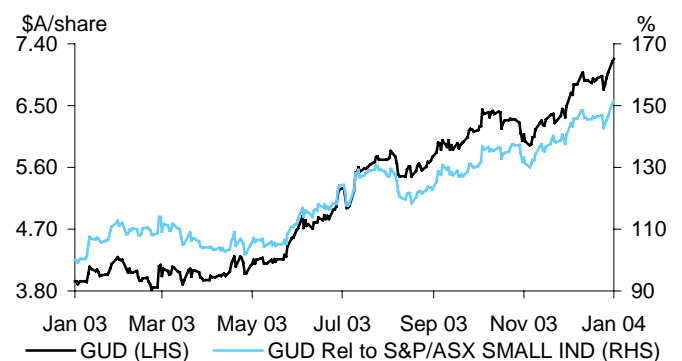
#### Earnings Summary

Year ending Jun	2002	2003	2004F	2005F
NPAT (reported) (A\$M)	20.8	27.4	32.7	35.9
BBY adj NPAT (A\$M)	22.1	28.4	33.7	36.9
EPS (¢)	34.3	46.0	55.1	60.3
PER	20.9 x	15.6 x	13.0 x	11.9 x
EPS Growth	78%	34%	20%	9%
EV / EBITDA	10.5 x	8.5 x	7.5 x	6.9 x
CFPS (¢)	55.3	67.3	67.0	68.9
Price / CF	13.0 x	10.7 x	10.7 x	10.4 x
Dividend (¢)	16.5	26.0	38.0	42.0
Yield	2.3%	3.6%	5.3%	5.8%
Franking	55%	100%	100%	100%
NTA per share	\$1.15	\$1.26	\$1.54	\$1.79

#### Earnings Forecast Changes

	2004F	2005F
NPAT (BBY adj) Change (%)	0%	0%
EPS (BBY adj) Change (%)	0%	0%

#### GUD versus Small Industrials Index





## GUD Holdings (GUD:\$7.18)

Mkt cap: \$439m

Buy

## Valuation data

Year ending Jun	2001	2002	2003	2004F	2005F
EPS pre goodwill (¢)	19.3	34.3	46.0	55.1	60.3
P/E ratio	37.3 x	20.9 x	15.6 x	13.0 x	11.9 x
P/E relative *			112	102	103
EPS growth	6%	78%	34%	20%	9%
EPS pre abn's (¢)	17.3	32.3	44.4	53.5	58.7
P/E ratio	41.4 x	22.3 x	16.2 x	13.4 x	12.2 x
P/E relative *			117	105	106
EPS growth	5%	86%	38%	20%	10%
EV / EBIT	20.4 x	13.7 x	10.4 x	9.1 x	8.2 x
EV / EBITDA	14.2 x	10.5 x	8.5 x	7.5 x	6.9 x
CFPS (¢)	19.4	55.3	67.3	67.0	68.9
Price / CF	37.0 x	13.0 x	10.7 x	10.7 x	10.4 x
DPS (¢)	15.0	16.5	26.0	38.0	42.0
Yield	2.1%	2.3%	3.6%	5.3%	5.8%
Franking	100%	55%	100%	100%	100%
NTA per share	\$1.13	\$1.15	\$1.26	\$1.54	\$1.79
Pr / NTA	6.3 x	6.2 x	5.7 x	4.7 x	4.0 x

## Profit and loss (\$M)

Year ending Jun	2001	2002	2003	2004F	2005F
Sales revenue	341.2	365.9	372.4	394.5	414.3
growth over pcp	4%	7%	2%	6%	5%
EBITDA	36.2	45.4	54.3	58.9	62.8
Dep'n and amort'n	9.7	9.2	9.0	9.2	9.2
EBITAg	26.4	36.2	45.3	49.7	53.6
Goodwill amortisation	1.3	1.3	1.0	1.0	1.0
EBIT	25.1	34.9	44.3	48.7	52.6
growth over pcp	4%	39%	27%	10%	8%
Net interest expense	6.5	5.3	3.7	1.4	0.6
Pre-tax profit	18.6	29.6	40.6	47.4	52.0
Tax	6.9	8.8	13.2	14.7	16.1
Effective tax rate	37.3%	29.9%	32.5%	31.0%	31.0%
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	1.3	1.3	1.0	1.0	1.0
BBY adj profit	13.0	22.1	28.4	33.7	36.9
Reported profit (pre abn)	11.7	20.8	27.4	32.7	35.9
One-off items (post tax)	(1.0)	(14.4)	(5.6)	(2.2)	0.0
Reported net profit	10.7	6.4	21.8	30.4	35.9

## Ratio analysis

Year ending Jun	2001	2002	2003	2004F	2005F
EBITDA / sales	10.6%	12.4%	14.6%	14.9%	15.2%
EBITAg / sales	7.7%	9.9%	12.2%	12.6%	12.9%
EBIT / sales	7.4%	9.5%	11.9%	12.4%	12.7%
Return on assets	10%	15%	21%	23%	24%
Return on equity	10%	17%	23%	25%	25%
Dividend payout ratio	78%	48%	56%	69%	70%
Net debt / (cash) (\$M)	73.0	38.0	20.9	3.3	(8.2)
Debt / equity	67%	40%	34%	18%	9%
Net debt / equity	56%	31%	16%	2%	nmf
Interest cover	3.9 x	6.6 x	11.8 x	35.7 x	nmf

## Balance sheet (\$M)

Year ending Jun	2001	2002	2003	2004F	2005F
Cash	14.6	11.1	21.8	21.8	21.8
Receivables	50.2	55.2	49.9	55.2	62.2
Inventories	74.0	57.4	60.0	67.1	70.4
Other	7.9	7.5	5.7	5.7	5.7
<b>Current assets</b>	<b>146.7</b>	<b>131.2</b>	<b>137.3</b>	<b>149.8</b>	<b>160.1</b>
Net PPE	58.6	40.9	37.5	35.8	34.1
Investments	0.0	0.0	0.0	0.0	0.0
Goodwill	12.0	11.2	10.2	9.2	8.2
Other intangibles	46.6	39.9	40.6	39.6	38.6
Other	3.7	6.1	6.7	6.7	6.7
<b>Non-current assets</b>	<b>120.8</b>	<b>98.1</b>	<b>95.1</b>	<b>91.4</b>	<b>87.7</b>
<b>Total assets</b>	<b>267.5</b>	<b>229.3</b>	<b>232.4</b>	<b>241.1</b>	<b>247.7</b>
Debt	87.6	49.0	42.6	25.1	13.6
Provisions	11.5	22.3	22.9	30.8	33.7
Other	37.6	36.3	40.0	43.4	45.6
<b>Total liabilities</b>	<b>136.7</b>	<b>107.6</b>	<b>105.6</b>	<b>99.3</b>	<b>92.8</b>
Equity / reserves	118.6	111.9	108.0	108.0	108.0
Retained profits	12.1	9.8	18.8	33.8	46.9
<b>Total s/h funds</b>	<b>130.7</b>	<b>121.7</b>	<b>126.8</b>	<b>141.8</b>	<b>154.9</b>
Minorities	0.1	0.1	0.0	0.0	0.0
<b>Total funds emp.</b>	<b>267.5</b>	<b>229.3</b>	<b>232.4</b>	<b>241.1</b>	<b>247.7</b>

## Cashflow (\$M)

Year ending Jun	2001	2002	2003	2004F	2005F
EBIT	25.1	34.9	44.3	48.7	52.6
Net interest paid	(6.2)	(5.3)	(3.7)	(1.4)	(0.6)
Dep'n and amort'n	11.0	10.5	10.0	10.2	10.2
Tax paid	(3.4)	(3.4)	(9.0)	(13.2)	(14.7)
<b>Gross cash from op'ns</b>	<b>26.5</b>	<b>36.7</b>	<b>41.5</b>	<b>44.4</b>	<b>47.5</b>
(Inc) / dec in wk'g cap	(13.4)	11.3	6.5	(9.1)	(8.1)
Other	0.1	(12.3)	(6.5)	5.7	2.8
<b>Operating cashflow</b>	<b>13.2</b>	<b>35.7</b>	<b>41.5</b>	<b>41.0</b>	<b>42.2</b>
growth over pcp	-56%	170%	16%	-1%	3%
<b>Investing cashflows</b>					
Capital expenditure	(3.9)	(7.9)	(7.6)	(7.0)	(7.0)
Asset sales	1.4	10.9	4.3	0.5	0.5
Investments	0.0	0.0	0.0	0.0	0.0
Divestments	0.0	12.5	0.0	0.0	0.0
<b>Financing cashflows</b>					
Equity raised	(4.2)	(6.9)	(4.7)	0.0	0.0
Dividends paid	(8.8)	(9.5)	(12.2)	(16.9)	(24.2)
<b>Chg in loans</b>	<b>17.2</b>	<b>(38.7)</b>	<b>(6.4)</b>	<b>(17.6)</b>	<b>(11.5)</b>
Other non-op flows	(0.4)	(1.7)	(4.2)	0.0	(0.0)
<b>Net chg in cash</b>	<b>14.0</b>	<b>(3.8)</b>	<b>10.9</b>	<b>0.0</b>	<b>0.0</b>

## Interims (\$M)

Half yearly	2h01	1h02	2h02	1h03	2h03
Sales revenue	157.8	192.7	173.1	198.0	174.4
EBITDA	13.4	22.8	22.6	28.0	26.3
EBIT	7.9	17.4	17.5	23.2	21.1
BBY adj profit	3.0	11.1	11.0	15.2	13.1
Reported profit	2.3	10.5	10.3	14.7	12.6
EBIT / sales	5.0%	9.0%	10.1%	11.7%	12.1%
EPS (¢)	4.5	17.1	17.2	24.6	21.5
DPS (¢)	7.5	7.5	9.0	11.0	15.0
% of FY sales	46.2%	52.7%	47.3%	53.2%	46.8%
% of FY EBIT	31.3%	49.8%	50.2%	52.3%	47.7%

\* Relative to BBY growth companies universe



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*Approved by TWG on 20/1/04 at 4:30pm*