

29 January 2004

Trading data (local/US\$)

52-wk. range	A\$7.29-3.82/US\$5.65-2.27
Market cap.	A\$0.46bn/US\$0.35bn
Shares o/s	61m (ORD)/61m (ADR)
ADR Ratio	1 ADR:1 ORD
Free float	100%
Avg. daily volume ('000)	113/OTC
Avg. daily value (A\$m)	0.7

Balance sheet data 06/04E

Shareholders' equity	A\$0.16bn
P/BV (UBS)	3.1x
Net cash (debt)	A\$0.00bn

Forecast returns

Forecast price appreciation	+5.2%
Forecast dividend yield	5.2%
Forecast stock return	+10.4%
Market return assumption	10.3%
Forecast excess return	+0.1%

EPS (UBS, A\$)

	06/04		Cons.	06/03
	From	To		Actual
H1E	0.29	0.38	-	0.24
H2E	0.27	0.27	-	0.15
06/04E	0.57	0.64	0.56	
06/05E	0.62	0.67	0.59	

UBS Investment Research
GUD Holdings Limited
H1 04 Result Review: Sunbeam Shines
An excellent interim result

GUD has reported an excellent H1 04 result, with reported NPAT of \$20.3m outstripping our forecast by \$5.1m and representing a 52% improvement on the pcp. A dividend of 17cps ff was declared, in line with our forecast.

Sales in line, higher margins the driver

The strong result was driven by higher margins, particularly in Sunbeam Victa, while revenue was in line with our estimates. Higher margins arose from the successful launch of premium products at higher price points and the lower A\$ cost of products imported in US\$. A \$3m pre-tax charge was booked for the restructuring of part of Ryco.

Positive outlook, forecasts upgraded 10%

The increasingly strong market position of the Sunbeam domestic appliance business, a much improved contribution from Victa and the benefits of the stronger A\$ felt by Sunbeam, Wesfil and a restructured Ryco lead us to remain highly positive on the outlook for GUD. We have upgraded our normalised eps forecast for FY 04 by 10% to 64.3cps and by 8% to 66.7cps in FY 05.

Valuation: Up 9.8% to \$7.96 per share

We have increased our DCF valuation and price target by 9.8% from \$7.25 per share to \$7.96 per share. Our DCF valuation parameters are unchanged: WACC 11.5%, β 1.1, LTGR 3.0%. Our price target is equal to our valuation and implies an FY 04E normalised P/E of 12.4x.

Highlights (A\$m)	06/02	06/03	06/04E	06/05E	06/06E
Revenues	398	376	401	430	446
EBIT	14	37	54	57	59
Net income (UBS)	6	22	38	40	42
EPS (UBS, A\$)	0.12	0.38	0.64	0.67	0.70
Net DPS (UBS, A\$)	0.17	0.26	0.35	0.40	0.41

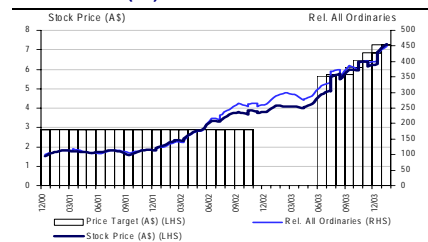
Profitability & Valuation	5-yr hist. av.	06/03	06/04E	06/05E	06/06E
EBIT margin %	-	9.9	13.4	13.3	13.3
ROIC (EBIT) %	-	21.9	33.9	38.4	41.0
EV/EBITDA x	-	5.6	7.2	6.5	6.0
PE (UBS) x	-	10.2	11.8	11.3	10.9
Dividend yield %	-	6.7	4.6	5.3	5.4

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\$7.57 on 29 Jan 2004

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Performance (A\$)


Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 7

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The Essentials

GUD has reported an excellent H1 04 result, with reported NPAT of \$20.3m outstripping our forecast by \$5.1m and representing a 52% improvement on the pcg. A dividend of 17cps ff was declared, in line with our forecast.

The strong result was driven by higher margins, particularly in Sunbeam Victa, while revenue was in line with our estimates. Higher margins arose from the successful launch of premium products at higher price points and the lower A\$ cost of products imported in US\$.

We have upgraded our normalised eps forecast for FY 04 by 10% to 64.3cps. Our price target has also increased by 10% to \$7.96 per share. Our rating remains Neutral 2.

The Result

Income

GUD has reported net income of \$20.3m for the six months to 31 December 2003. This is up 52% on the pcg and 34% ahead of our forecast of \$15.2m (Table 1). Net income of \$20.3m is reported after charging a significant item of \$3.0m pre-tax (\$2.1m post-tax) for restructuring in the automotive filtration division. The company indicated its intention to charge this amount in December 2003.

Table 1: Summary of the H1 04 result

	H1 03A	H1 04A	% Change	UBS FY 03E
Operating Revenue	197.9	211.8	7.0	225.2
EBITDA	26.0	35.8	37.9	29.7
Depreciation & Amortisation	(4.8)	(5.5)	(13.5)	(4.7)
EBIT	21.2	30.4	43.4	24.9
Net Interest Expense	(2.0)	(1.4)	31.4	(0.4)
Earnings before Tax	19.1	29.0	51.4	24.5
Tax Expense	(5.8)	(8.7)	(50.5)	(9.3)
Reported Net Profit	13.3	20.3	51.8	15.2
Net Abnormals	(1.4)	(2.2)	(53.6)	(2.0)
Net Profit after Abnormals	14.7	22.4	52.0	17.2
Reported eps (cents)	21.7	33.4	52.7	28.5
Interim Dividend (cents)	11.0	17.0	54.5	17.0
Dividend Franking (%)	100	100	0.0	100

Source: GUD Holdings, UBS estimates

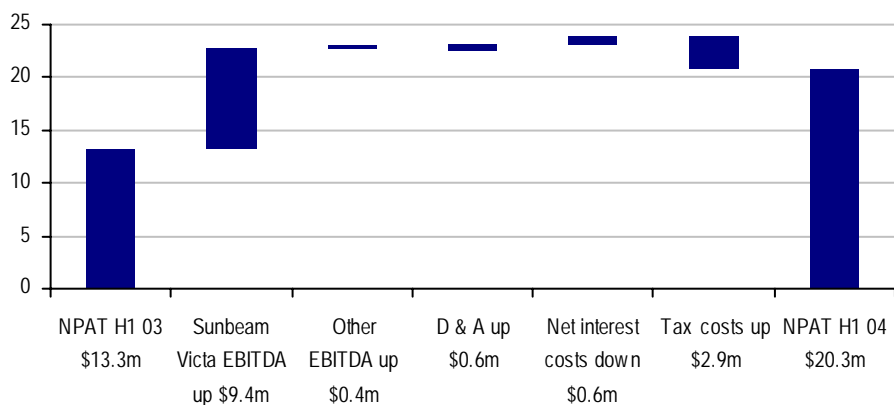
Operating revenue was up 7% to \$212m, a little below our forecast of \$225m. The main cause of surprise in the result was the strength of GUD's operating margins. The overall EBIT margin was 14.3%, compared with 10.7% in the pcg and our H1 04 forecast of 11.1%. This was primarily driven by substantial improvements in the profitability of the largest division, Sunbeam Victa.

Slightly lower net interest costs contributed \$0.6m to NPBT. The effective tax rate was 30.0%. Chart 1 illustrates the extent to which EBITDA growth in

Sunbeam Victa was primarily responsible for the improvement in GUD's interim earnings.

Reported eps was 33.4cps (up 54% from 21.7cps). Pre-significant items eps was 36.9cps (up 54% from 24.0cps) and eps normalised for goodwill and significant items was 37.4cps (up 50% from 24.8cps).

Chart 1: Sunbeam Victa was the key driver of earnings improvement



Source: GUD Holdings, UBS estimates

Performance by Division

Table 2: Revenue by Division

\$m	1H03	1H04	Change
Sunbeam Victa	107.0	121.7	14%
Ryco Wesfil	43.8	44.2	1%
Davey Pumps	40.1	38.6	-4%
Lock Focus	7.0	7.1	2%
Unallocated	-0.1	0.1	-
Total	197.9	211.8	7%

Source: GUD Holdings

Table 3: EBIT by division

\$m	1H03	1H04	Change
Sunbeam Victa	9.5	18.2	91%
Ryco Wesfil	7.1	6.5	-9%
Davey Pumps	3.9	4.3	12%
Lock Focus	0.6	1.3	107%
Unallocated	0.0	0.1	-
Total	21.2	30.4	43%

Source: GUD Holdings

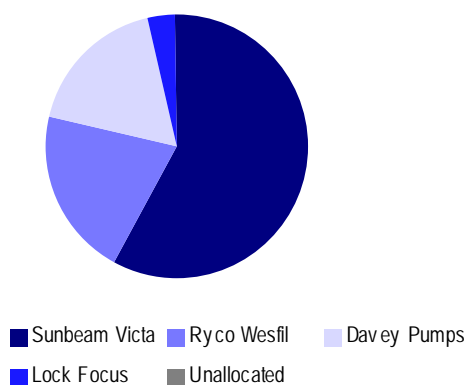
Table 4: EBIT margin by division

%	1H03	1H04	Change
Sunbeam Victa	8.9	15.0	68%
Ryco Wesfil	16.2	14.6	-10%
Davey Pumps	9.7	11.2	16%
Lock Focus	8.7	17.7	104%
Unallocated	-	-	-
Total	10.7	14.3	34%

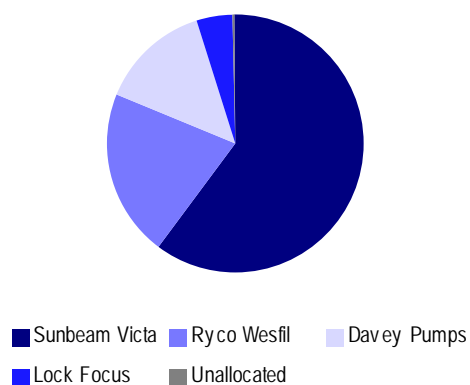
Source: GUD Holdings

Sunbeam Victa*New products at higher price points, A\$-assisted, drought recovery*

EBIT at Sunbeam Victa nearly doubled to \$18.2m (UBSe: \$14.6m) from \$9.5m on 14% higher sales; the increase driven by the rollout of new products in both the domestic appliances business (Sunbeam) and the lawnmower business (Victa). The pcp result was reported after charging \$2m (pre-tax) for environment remediation at Campsie. Excluding this, EBIT was up 58%. Revenue of \$121.7m was close to our forecast of \$122.0m but margins were substantially higher at 15.0%, compared to our forecast of 12.0% and 8.9% in the pcp (10.7% excluding significant item). Sunbeam Victa accounted for 58% of group sales in H1 04 (H1 03: 54%) and 60% of group EBIT (H1 03: 45%) – see Charts 2 and 3.

Chart 2: Sunbeam Victa accounts for 58% of group revenue

Source: GUD Holdings

Chart 3: Sunbeam Victa accounts for 60% of group EBIT

Source: GUD Holdings

Sunbeam has continued to improve its position in the domestic electrical appliances market. New products such as the *Café Juice* stainless steel juicer, *Café Series* coffee makers and the rechargeable wine chiller as well as a number of 'novelty items' sold well over the crucial Christmas sales period, aided by a highly visible marketing campaign.

In total, 70 new products were launched for the Christmas sales period. Significantly, many of these products are positioned at the premium end of the market, commanding higher price points and delivering higher margins.

In addition, the decision to close the Sunbeam factory at Campsie in 2002 and source most of the product range from dedicated suppliers in Asia, continues to boost margins by reducing costs substantially. The strong appreciation of the A\$ over the period has lifted margins further as most products are procured under US\$-denominated contracts.

Although the financial performances of Sunbeam and Victa are not segregated for reporting purposes, we understand that Victa contributed significantly more to the group result in H1 04 than it did in H1 03. The improvement was built largely on the very successful launch of the *Razor* mower during the period. In addition, the recovery of much of Australia from the drought conditions of the pcp lifted consumer demand for lawncare products.

Ryco Wesfil

Tougher competitive environment for Ryco but the stronger A\$ boosts Wesfil

EBIT in the automotive filtration division was down 9% from \$7.1m (UBSe: \$7.2m) to \$6.5m on 1% higher sales. A \$3.0m pre-tax charge is included in this result, however, relating to the restructure of part of the *Ryco* business. Excluding this, EBIT was up 34% to \$9.5m. Margins were 14.6% (21.5% excluding the significant item) compared to 16.2% in H1 03. The filtration division accounted for 21% of both group sales and EBIT in H1 04.

Ryco filters (which are primarily sourced domestically) experienced more intense competitive pressure during the period as the stronger A\$ made alternative imported products cheaper and kept overall sales relatively flat. GUD also owns the largest imported automotive filter business in Australia (*Wesfil*), however, and the stronger A\$ has had a beneficial effect on margins.

Davey Pumps

Better manufacturing efficiency but sales down

Davey Pumps grew EBIT 12% p/p to \$4.3m (UBSe: \$4.4m) on 4% lower sales. Bushfires across the country pushed up demand for the *Firefighter* product in the pcp. Sales were slower in H1 04. In addition, the stronger A\$ has made life more difficult for Davey's export market, impacting both sales and margins. Overall, however, margins were improved by greater efficiency in domestic manufacturing from 9.7% in the pcp to 11.2% in H1 04. Davey made up 18% of group sales and 14% of EBIT in the period.

Lock Focus

Steady improvement

Lock Focus, the medium-security lock business, is a relatively small contributor to group sales (3% in H1 04) and EBIT (4%). The business continues to improve with EBIT doubling to \$1.3m (UBSe: \$0.7m) on 2% higher sales, the margin improvement reflecting the effects of recent capital investments in manufacturing process.

Cash Flow and Balance Sheet

Operating cash flow was very strong at \$10.9m (H1 03: -\$4.1m) in what is generally the weaker cash flow half. This was an effect of tighter collections and high inventory utilisation. Capital expenditure on fixed assets and acquired businesses was \$0.2m lower down at -\$4.9m (H1 03: -\$5.1m). There was a \$5.1m net pay down of debt during the period. Net debt at 31 December 2003 stood at \$23.6m, half the value at the same time last year (\$53.3m) and just slightly above the 30 June figure (\$20.9m). Gearing (defined as net debt/equity) was 17% compared to 42% at 30 December 2002.

Dividend

A 17cps ff interim dividend was declared. The payout was flat at 51% of reported eps. We had forecast the same dividend (17cps) but a higher payout ratio (60%) given our lower eps forecast. We suspect that the company's stated intention of making a substantial acquisition – should it find something suitable (no sign yet!) – leads it to maintain a steady interim payout ratio.

Outlook and Forecasts

The increasingly strong market position of the Sunbeam domestic appliance business, a much improved contribution from Victa and the benefits of the stronger A\$ felt by Sunbeam, *Wesfil* and increasingly from a restructured Rycos lead us to remain highly positive on the outlook for GUD in the second half of FY 04. If the A\$ does not lose ground against the US\$ in H2 04 (as UBS expects), an even stronger lift may be felt as GUD's hedging contracts expire and new stock is bought at higher A\$/US\$ rates.

The inclusion of today's interim result and some changes to our expected tax rate and EBIT margin assumptions lead us to upgrade reported NPAT by 5% to \$36.1m and normalised eps by 10% to 64.3cps. The key changes to our forecasts are summarised in Table 5.

Table 5: Key changes to FY 04 and FY 05 forecasts

	New	Prev.	%	New	Prev.	%
	2004E	2004E	Change	2005E	2005E	Change
Revenue	400.9	423.9	-5.4%	430.1	440.3	-2.3%
EBITDA	64.7	61.3	5.7%	68.1	63.8	6.8%
EBIT	53.8	51.4	4.7%	57.2	53.9	6.2%
PBT	51.6	50.6	2.0%	57.1	55.4	3.0%
Reported Net Profit	36.1	32.8	4.8%	39.9	35.9	11.2%
Net Profit (pre-abnormals)	38.3	34.8	9.9%	39.9	35.9	11.2%
EPS (pre-abnormals)	63.0	57.3	10.0%	65.5	59.5	10.2%
EPS (normalised)	64.3	58.4	10.1%	66.7	62.0	7.7%
DPS	35.0	34.0	2.9%	40.0	37.0	8.1%

Source: UBS estimates

The H1/H2 normalised eps split in FY 04E is 58:42, compared with 62:38 in FY 03. We expect a stronger first half as it includes the Christmas sales season, but we are forecasting a slightly more even ratio in FY 04 largely because we expect

the stronger A\$ to boost earnings in H2 04 even more than in H1 04 for the reasons discussed above.

Investment Case

The changes to our forecasts increase our DCF valuation by 9.8% from \$7.25 per share to \$7.96 per share. Our DCF valuation parameters are unchanged: WACC 11.5%, β 1.1, LTGR 3.0%. Our price target is equal to our valuation and implies an FY 04E normalised P/E of 12.4x. Following the stock's 4% rise today, GUD is trading on 11.8x our FY 04E normalised eps forecast. We retain a Neutral 2 rating as GUD offers just +0.1% forecast excess return to our price target.

■ 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, greater competitive pressure from imported goods 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.

Required Disclosures

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Global ratings: Definitions and allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage ¹	IB services ²
Buy 1	FSR is > 10% above the MRA, higher degree of predictability	Buy 2	FSR is > 10% above the MRA, lower degree of predictability	Buy	38%	35%
Neutral 1	FSR is between -10% and 10% of the MRA, higher degree of predictability	Neutral 2	FSR is between -10% and 10% of the MRA, lower degree of predictability	Hold/Neutral	51%	32%
Reduce 1	FSR is > 10% below the MRA, higher degree of predictability	Reduce 2	FSR is > 10% below the MRA, lower degree of predictability	Sell	11%	26%

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

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

Source: UBS; as of 31 December 2003.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (an approximation of the equity risk premium).

Predictability Level The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Rating/Return Divergence (RRD) This qualifier is automatically appended to the rating when stock price movement has caused the prevailing rating to differ from that which would be assigned according to the rating system and will be removed when there is no longer a divergence, either through market movement or analyst intervention.

EXCEPTIONS AND SPECIAL CASES

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.

Core Banding Exceptions (CBE): Exceptions to the standard +/-10% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned table in the relevant research piece.

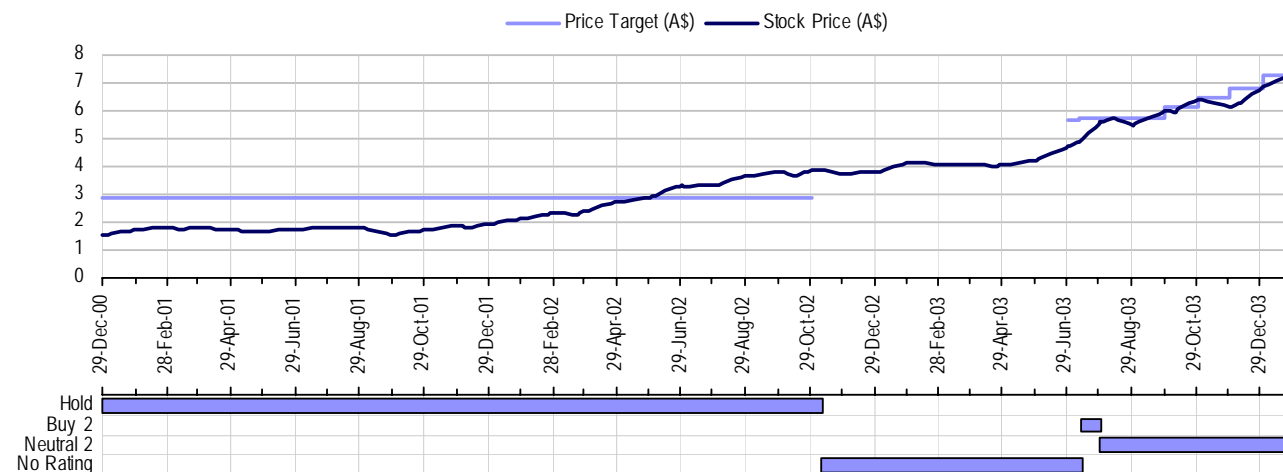
Companies mentioned

Company Name	Reuters	Rating	Price
GUD Holdings Limited	GUD.AX	Neutral 2	A\$7.27

Price(s) as of Wednesday, 28 January 2004. 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 Wednesday, 28 January 2004.

Note: On October 13, 2003, UBS adopted new definition criteria for its rating system. (See 'Global ratings: Definitions and allocations' table for details.) Between January 11 and October 12, 2003, the UBS ratings and their definitions were: Buy 1: Excess return potential > 15%, smaller range around price target; Buy 2: Excess return potential > 15%, larger range around price target; 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; Reduce 1: Excess return potential < -15%, smaller range around price target; Reduce 2: Excess return potential < -15%, larger range around price target. Prior to January 11, 2003, the UBS ratings and definitions were: 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. Under both ratings systems, excess return is defined as the difference between the FSR and the one-year local market interest rate.

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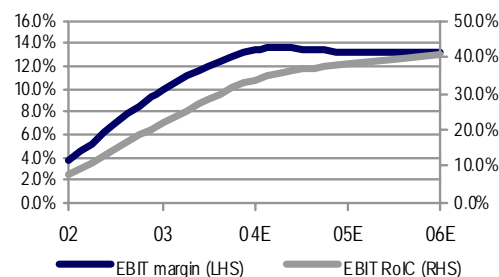


GUD Holdings Limited

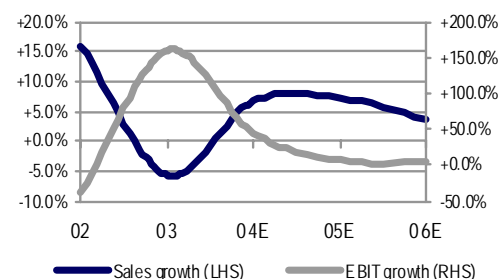
Per share (A\$)	6/02	6/03	6/04E	6/05E	6/06E
EPS	0.12	0.38	0.64	0.67	0.70
CEPS	0.27	0.52	0.81	0.83	0.86
Net DPS	0.17	0.26	0.35	0.40	0.41
BVPS	1.95	2.10	2.37	2.65	2.94
Profit & loss (A\$ m)					
Sales	398	376	401	430	446
EBITDA	25	47	65	68	70
EBIT	14	37	54	57	59
PBT	9	34	52	57	60
Net Profit	6	22	38	40	42
Cash flow (A\$ m)					
EBIT	14	37	54	57	59
Depreciation & amortisation	11	10	11	11	11
Change in NWC	12	8	6	7	(3)
Other (operating)	8	(1)	(4)	(0)	(0)
Operational cash flow	44	54	67	75	67
Tax paid	(3)	(9)	(12)	(17)	(18)
Capital expenditure	(8)	(8)	(8)	(8)	(8)
Net interest	(5)	(4)	(2)	(0)	0
Dividends paid	(10)	(12)	(19)	(23)	(24)
Net (acquisitions) / disposals	13	0	(1)	0	0
Other items	4	(4)	0	0	0
Change in net debt	35	17	24	26	17
Operating free cash flow (OpFCF) (A\$ m)					
Core EBITDA	25	47	65	68	70
Less: Maintenance capex	(5)	(4)	(4)	(4)	(4)
Less: Maintenance NWC	20	7	3	7	(3)
OpFCF	40	50	63	71	63
Balance sheet (A\$ m)					
Net tangible fixed assets	41	37	34	32	30
Net intangible fixed assets	51	51	50	49	48
Net working capital	84	76	69	63	66
Total invested capital (IC)	176	164	154	144	145
Financial & other fixed assets	6	7	6	6	6
Net cash / (debt)	(38)	(21)	4	30	47
Provisions	(20)	(19)	(14)	(14)	(14)
Minority interests	(0)	0	0	0	0
Shareholders' funds	122	127	156	172	190
Profitability					
EBITDA margin	6.2%	12.6%	16.1%	15.8%	15.7%
EBIT margin	3.6%	9.9%	13.4%	13.3%	13.3%
EBIT RoIC	7.4%	21.9%	33.9%	38.4%	41.0%
Net RoE	5.1%	17.5%	27.1%	24.3%	23.1%
Interest cover (EBIT)	2.7x	10.0x	24.4x	>100x	NM
Dividend cover (net)	0.7x	1.5x	1.8x	1.7x	1.7x
Productivity					
Labour % sales					
Depreciation % sales	2.6%	2.7%	2.7%	2.5%	2.5%
Capex % sales	2.0%	2.0%	2.1%	1.9%	1.9%
Invested capital turnover	2.0x	2.2x	2.5x	2.9x	3.1x
Tax rate	29.5%	35.1%	30.0%	30.0%	30.0%
Net debt / total equity	31.2%	16.5%	Cash	Cash	Cash
Momentum					
Sales growth	+15.9%	-5.7%	+6.7%	+7.3%	+3.7%
EBIT growth	-39.4%	+160.0%	+44.3%	+6.3%	+3.7%
Net earnings growth	-40.0%	>+200%	+75.8%	+4.4%	+4.6%
Dividend growth	+10.0%	+57.6%	+34.6%	+14.3%	+2.5%
Value*					
Market capitalisation (A\$ m)	136	237	458	458	458
Plus: Core net debt / (cash)	55	29	9	(17)	(38)
Plus: Pension provisions	-	-	-	-	-
Plus: Buy out of minorities	0	-	-	-	-
Less: Non-core assets	-	-	-	-	-
Enterprise value (EV, avg)	192	267	467	441	420
EV/Sales (core)	0.48x	0.71x	1.16x	1.03x	0.94x
EV/EBITDA (core)	7.7x	5.6x	7.2x	6.5x	6.0x
EV/EBIT (core)	13.4x	7.2x	8.7x	7.7x	7.1x
EV/OpFCF	4.8x	5.3x	7.4x	6.3x	6.7x
EV/Invested capital	1.0x	1.6x	2.9x	3.0x	2.9x
P/CE	8.1x	7.5x	9.3x	9.1x	8.8x
P/E	17.4x	10.2x	11.8x	11.3x	10.9x
Dividend yield (net)	7.69%	6.69%	4.62%	5.28%	5.42%
P/BV (average)	1.1x	1.9x	3.2x	2.9x	2.6x

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.

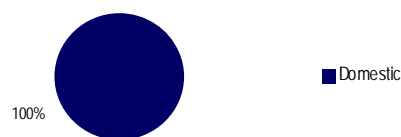
Profitability (EBIT margins & RoIC)



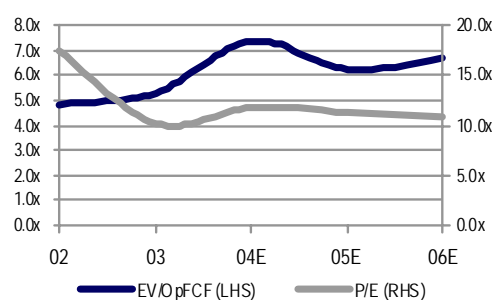
Momentum (Sales & EBIT growth)



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\$7.57 on 29/01/2004