

GUD Holdings Limited

A sizzling 1H result!



WilsonHTM
INVESTMENT GROUP

30 January, 2004

\$7.57

Short Term Long Term

BUY BUY

David Arter

03 9640 3828

david.arter@wilsonhtm.com.au

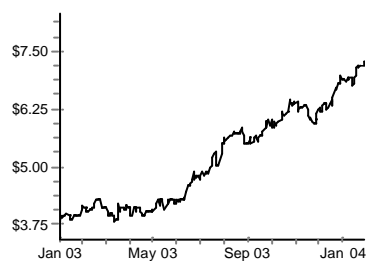
Recommendation

GUD has posted a stronger than expected 1H profit, and rewarded shareholders with an increase in the interim DPS to 17.0 cents. NPAT of \$20.3M exceeded our forecast of \$17.5M, with a particularly strong performance from Sunbeam-Victa providing the 'surprise' in the result. We have increased our FY 2004 and FY 2005 EPS forecasts by an additional 8% for each year. We view GUD as a relatively low-risk investment, and based on our revised our share price target to \$8.20 p/share, we retain our BUY recommendation.

Key Points

- GUD has reported 1H NPAT of \$20.3M (pcp: \$13.3M), comfortably above our forecast of \$17.5M.
- An interim DPS of 17.0 cents was declared (pcp: 11.0 cents), exceeding our forecast of 15.0 cents.
- Driving the strong profit performance was improved results across GUD's four business units, with a particularly strong result from Sunbeam-Victa.
- Sunbeam-Victa's strong EBIT contribution of \$18.2M (adj. +58%) was a particular highlight of the 1H earnings performance. Sales of \$121.7M (+14%) reflects the benefits of new product releases for both appliances and mowers. A higher-margin product mix, a partial recovery from last year's drought (for mowers), and the benefits from favourable exchange rate movements, all contributed to the strong uplift in margin and overall profit contribution.
- Filtration (Ryco/Wesfil) posted a solid underlying result, with EBIT of \$6.5M (pcp: \$7.1M) delivered after allowing for the previously foreshadowed restructuring charge of \$3.0M. Reported earnings should show strong improvement in future periods as the benefits of the import replacement program (relating to the restructuring change) bear fruit. This will also be assisted by improved pricing overall, and further diversification of distribution channels.
- Davey posted a solid result (EBIT \$4.3M +12%), while Lock Focus provided a sound EBIT contribution of \$1.3M. For further divisional comments refer overleaf.
- The quality of the result was high from both the earnings and cash flow perspective. Further improvement in working capital management was evident in the 1H (notably inventory), and GUD remains on-track to be debt free by year-end.
- We have increased our NPAT forecast for FY 2004 to \$34.7M (previously \$32.0M), and for FY 2005 to \$40.1M (previously \$36.9M). This provides reported EPS (pre-g'will) growth of 60% and 15% respectively.
- Corresponding DPS forecasts have been increased to 38.0 cents & 42.0 cents. In the absence of a major acquisition being made, and subject to franking availability, further increases in the dividend are possible.
- We have revised our share price target to \$8.20 p/share (FY 2005 PER of 12x, EV/EBITA of 8x), and retain our BUY recommendation.

Price Performance



Security/Capital Details

ASX Code	GUD
Market Cap	\$457 M
Issued Shares	60.4 M
Avg Mth T'over	2.61 M
12 Mth High - Low	\$7.57 - \$3.82

Key Data/Ratios - FY 2004

EBITDA / Sales	16.0%
EBIT / Sales	13.4%
Net Debt / Equity	-1.2%
Interest Cover	21.1 x
ROE	25.5%
EPS Growth	60.9%
PEG Ratio	0.22 x
NTA / Share	\$ 1.53
DCF	\$ 7.83
12 Mth Price Target	\$ 8.20

Year to	NPAT (Rep)	EPS (Norm)	PER	P/CF	P/BV	EV/EBITDA	DPS	Div Yld	Franking
June	\$M	c	x	x	x	x	c	%	%
2003a	21.8	37.4	20.3	11.1	3.6	10.1	26.0	3.4	100
2004e	34.7	59.8	12.7	10.4	3.1	7.2	38.0	5.0	100
2005e	40.1	68.6	11.0	9.2	2.8	6.2	42.0	5.5	100
2006e	44.3	75.4	10.0	8.0	2.5	5.5	46.0	6.1	100

Divisional earnings analysis

Earnings summary

Y/e: 30 June	1h'03	2h'03	FY 2003	1h'04	2h'04(e)	FY 2004(e)	FY 2005(e)	FY 2006(e)
Revenue:								
Sunbeam Victa	107.0	94.8	201.8	121.7	102.3	224.0	236.3	250.5
Filtration	43.8	42.0	85.8	44.2	44.2	88.4	91.0	93.8
Davey (pumps)	40.1	31.8	71.9	38.6	33.0	71.6	75.6	79.8
Lock Focus (locks)	7.0	6.5	13.5	7.1	6.7	13.8	14.4	14.9
Unallocated	0.0	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Total revenue	197.9	175.4	373.3	211.6	186.2	397.8	417.3	439.0
EBIT:								
Sunbeam Victa	9.5	4.3	13.8	18.2	10.7	28.9	30.8	33.2
Filtration	7.1	8.1	15.2	6.5	8.0	14.5	18.4	19.4
Davey (pumps)	3.9	3.5	7.4	4.3	3.4	7.7	8.2	8.9
Lock Focus (locks)	0.6	0.6	1.2	1.3	1.2	2.5	2.6	2.7
Unallocated	0.1	-0.4	-0.3	0.1	-0.4	-0.3	-0.3	-0.3
Total EBIT	21.2	16.1	37.3	30.4	22.9	53.3	59.7	63.9
Interest	-2.0	-1.7	-3.7	-1.4	-1.0	-2.3	-1.0	0.8
Pre-tax profit	19.1	14.4	33.6	29.0	22.0	51.0	58.7	64.7
Tax	-5.8	-6.0	-11.8	-8.7	-7.5	-16.2	-18.6	-20.5
NPAT	13.3	8.4	21.8	20.3	14.5	34.7	40.1	44.3
EPS (pre'g'will)	22.6	14.8	37.4	34.6	25.2	59.8	68.6	75.4
- growth (reported)	n/a	-16%	207%	53%	71%	60%	15%	10%
DPS	11.0	15.0	26.0	17.0	21.0	38.0	42.0	46.0

Source: GUD & WHTM

Sunbeam-Victa contributed EBIT of \$18.2M (+58% adj) on sales of \$121.7M (+14%). The improved sales performance reflects the benefits of leveraging the Sunbeam appliance brand with new products (eg. coffee makers, juicers, home heating). Sales also benefitted from an improvement from from Victa (mowers) following the launch of new product, as well as the partial recovery from last year's drought. Strong profit growth was driven by a focus on selling higher-margin products, improved operating efficiencies, as well as favourable exchange rate movements. The favourable earnings outlook should be underpinned by further leveraging of the Sunbeam and Victa brands into new and higher margin products, improved operating efficiencies, and the favourable exchange rate environment.

The **Filtration Division** (Ryco, Wesfil) posted a strong underlying result, with an EBIT contribution of \$6.5 (pcp: \$7.1M) being delivered after accounting for a previously foreshadowed restructuring charge of \$3.0M. GUD will progress with its import replacement program which, with the elimination of the restructuring charge and the flow of related margin gains, will underpin positive growth over the forecast period.

Davey (pumps) posted a solid improvement in EBIT contribution to \$4.3M (+12%). This is a creditable result given lower demand for firefighting pumps, and a more difficult export environment given the rising AUD. The improved result reflects new product releases, a broadening of the product portfolio, and cost and overall margin improvements. This trend should continue for Davey, and would be assisted further by a recovery in export growth.

The smallest division, **Lock Focus** posted an EBIT contribution of \$1.3M (pcp: \$0.6). Earnings are expected to remain relatively stable going forward, given the business' mature status.

INVESTMENT FUNDAMENTALS

Yr Ending June	2002A	2003A	2004E	2005E	2006E
EPS Reported (c)	10.1	35.7	57.5	66.4	73.3
EPS Normalised (c)	12.0	37.4	59.8	68.6	75.4
EPS Growth (%)		253.8	60.9	15.5	10.4
PER Normalised (x)	63.4	20.3	12.7	11.0	10.0
DPS (c)	16.5	26.0	38.0	42.0	46.0
Payout (%)	163.4%	72.8%	66.1%	63.3%	62.8%
Yield (%)	2.2%	3.4%	5.0%	5.5%	6.1%
Franking (%)	50%	100%	100%	100%	100%

VALUATION DATA

Yr Ending June	2002A	2003A	2004E	2005E	2006E
EV / EBITA (x)	32.3	12.3	8.3	7.2	6.3
EV / EBITDA (x)	20.4	10.1	7.2	6.2	5.5
CFPS (c)	56.5	68.2	73.1	82.2	94.4
Price / CF	13.4	11.1	10.4	9.2	8.0
Book Value / Share (\$)	1.97	2.10	2.41	2.68	2.97
Price / Book (x)	3.8	3.6	3.1	2.8	2.5

PROFIT & LOSS (\$m)

Yr Ending June	2002A	2003A	2004E	2005E	2006E
Sales Revenue	365.9	372.4	397.9	417.3	439.0
EBITDA	24.7	47.3	63.7	70.5	75.1
Depreciation	9.1	8.4	8.9	9.4	9.9
EBITA	15.6	38.8	54.8	61.1	65.2
Amortisation	1.4	1.5	1.5	1.4	1.3
EBIT	14.2	37.3	53.3	59.7	63.9
Net Interest Expense	5.3	3.7	2.3	1.0	-0.9
Pre-tax Profit	9.1	33.6	51.0	58.7	64.7
Tax	2.7	11.8	16.2	18.6	20.5
Tax rate (%)	29.5%	35.1%	31.9%	31.7%	31.6%
Minorities / pref divs	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
Net Profit	6.4	21.8	34.7	40.1	44.3
Abn's / Extraord's	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	6.4	21.8	34.7	40.1	44.3
Revenue Growth (%)		1.8%	6.9%	4.9%	5.2%
EBIT Growth (%)		162.6%	42.9%	12.1%	6.9%
NPAT Growth (%)		240.2%	59.5%	15.5%	10.4%

PROFITABILITY RATIOS

Yr Ending June	2002A	2003A	2004E	2005E	2006E
EBIT / Sales (%)	3.9%	10.0%	13.4%	14.3%	14.6%
ROA (%)	0.0%	17.4%	25.1%	27.8%	29.6%
ROE (%)	0.0%	17.5%	25.5%	26.0%	26.0%
ROFE (%)	0.0%	25.2%	37.5%	42.9%	47.6%

INTERIMS (\$m)

Half Yr	Dec 02	Jun 03	Dec 03	Jun 04	Dec 04
Yr Ending June	1HA	2HA	1HE	2HE	1HE
Sales Revenue	198.0	174.4	211.7	186.2	226.8
EBIT	21.2	16.1	30.4	22.9	34.7
Net Profit	13.3	8.4	20.3	14.5	22.4
EBIT / Sales (%)	10.7%	9.2%	14.3%	12.3%	15.3%

BALANCE SHEET (\$m)

Yr Ending June	2002A	2003A	2004E	2005E	2006E
Cash	11.1	21.8	22.4	27.0	51.3
Receivables	55.2	49.9	53.3	55.9	58.8
Inventories	57.4	60.0	64.1	67.2	70.7
Other	7.5	5.7	5.8	5.9	5.9
Current Assets	131.2	137.3	145.5	156.0	186.7
Net PPE	40.9	37.5	34.3	30.8	27.0
Investments	0.0	0.0	0.0	0.0	0.0
Intangibles	51.1	50.8	49.4	48.0	46.7
Other	6.1	6.7	6.9	7.2	7.5
Non-current Assets	98.1	95.1	90.7	86.0	81.2
Total Assets	229.3	232.4	236.2	242.0	267.9
Current Payables	36.3	40.0	42.7	44.8	47.2
Current Debt	12.6	20.3	20.3	5.3	5.3
Non-Current Debt	36.4	22.4	0.4	0.4	0.4
Provisions	0.0	0.0	0.0	0.0	0.0
Other	22.3	22.9	27.0	29.8	35.6
Total Liabilities	107.6	105.6	90.4	80.2	88.4
Equity	111.8	107.1	107.1	107.1	107.1
Reserves	0.1	0.9	0.9	0.9	0.9
Retained Profits	9.8	18.8	37.8	53.7	71.4
Minorities	0.1	0.0	0.0	0.0	0.0
Total Equity	121.7	126.8	145.8	161.8	179.4
Total Funds Employed	159.7	147.7	144.1	140.4	133.8

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2002A	2003A	2004E	2005E	2006E
Net Debt (Cash) (\$m)	38.0	20.9	-1.7	-21.3	-45.7
Net Debt / Equity (%)	31.2%	16.5%	-1.2%	-13.2%	-25.5%
Interest Cover (x)	2.6	9.4	21.1	45.5	142.0
Debt / CashFlow (x)	1.4	1.0	0.5	0.1	0.1

CASHFLOW (\$m)

Yr Ending June	2002A	2003A	2004E	2005E	2006E
EBIT	14.2	37.3	53.3	59.7	63.9
Dep'n and Amort'n	10.5	10.0	10.4	10.8	11.2
Net Int Rec'd (Paid)	-5.3	-3.7	-2.3	-1.0	0.9
Tax Paid	-3.4	-9.0	-9.4	-13.0	-14.9
Dec / (Inc) W'kg Cap	11.3	6.5	-4.8	-3.7	-4.1
Other	8.4	0.5	-3.0	-3.2	0.0
Operating Cash Flow	35.7	41.5	44.1	49.7	57.0
Capital Expenditure	3.0	-3.3	-5.8	-5.9	-6.1
Asset Sales	0.0	0.0	0.0	0.0	0.0
Investments	12.5	-4.0	0.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	15.5	-7.4	-5.8	-5.9	-6.1
Equity Raised	-6.9	-4.7	0.0	0.0	0.0
Inc / (Dec) in Loans	-38.7	-6.4	-22.0	-15.0	0.0
Dividends Paid	-9.5	-12.2	-15.7	-24.2	-26.6
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	-55.1	-23.3	-37.7	-39.2	-26.6
Net Cash Flow	-3.8	10.9	0.6	4.6	24.3

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 1,500 securities in GUD 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 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.



Disclaimer. Whilst Wilson HTM Ltd believes the information contained in this communication is based on reliable information, no warranty is given as to its accuracy and persons relying on this information do so at their own risk. To the extent permitted by law Wilson HTM Ltd disclaims all liability to any person relying on the information contained in this communication in respect of any loss or damage (including consequential loss or damage) however caused, which may be suffered or arise directly or indirectly in respect of such information. Any projections contained in this communication are estimates only. Such projections are subject to market influences and contingent upon matters outside the control of Wilson HTM and therefore may not be realised in the future.

This communication was prepared for multiple distribution and does not take account of the specific investment objectives of individual recipients and it may not be appropriate in all circumstances. Persons relying on this information should do so in light of their specific investment objectives and financial situations. Any person considering action on the basis of this communication must contact Wilson HTM Ltd for individual advice relevant to their particular circumstances and investment objectives. This communication is not to be disclosed in whole or part or used by any other party without Wilson HTM Ltd's prior written consent.

BRISBANE
Ph:07 3212 1333
Fax:07 3212 1399

SYDNEY
Ph: 02 8247 6600
Fax: 02 8247 6601

MELBOURNE
Ph:03 9640 3888
Fax:03 9640 3800

GOLD COAST
Ph:07 5557 3000
Fax:07 5574 1457

NOOSA
Ph:07 5448 0233
Fax:07 5448 0234

CAIRNS
Ph:07 4031 6882
Fax:07 4031 6874

DALBY
Ph:07 4662 3833
Fax:07 4662 4169

HERVEY BAY
Ph:07 4128 3300
Fax:07 4128 4903

TOWNSVILLE
Ph:07 4725 5787
Fax:07 4725 5104

MAROOCHYDORE
Ph:07 5456 8111
Fax:07 5456 8100

Or please visit us at www.wilsonhtm.com.au
