

## Companies in this report

<b>GUD Holdings Limited</b>	<b>ST BUY LT BUY</b>	\$8.11
Earnings update	David Arter	

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# GUD Holdings Limited

## Earnings update



WilsonHTM  
INVESTMENT GROUP

28 May, 2004

**\$8.11**

Short Term Long Term

**BUY BUY**

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### Price Performance



### Security/Capital Details

ASX Code	GUD
Market Cap	\$493 M
Issued Shares	60.8 M
Avg Mth T'over	2.61 M
12 Mth High – Low	\$8.29 - \$4.20

### Key Data/Ratios – FY 2004

EBITDA / Sales	16.0%
EBIT / Sales	13.4%
Net Debt / Equity	3.4%
Interest Cover	19.5 x
ROE	25.3%
EPS Growth	58.4%
PEG Ratio	0.24 x
NTA / Share	\$ 1.52
DCF	\$ 8.37
12 Mth Price Target	\$ 8.40

### Recommendation

GUD has confirmed the continuation of solid trading conditions during the 2H of FY04. Strong trading profits for FY04 have been foreshadowed, partially offset by 'non-recurring' costs for the year of \$9.0M (pre-tax). As a result of yesterday's update, our reported EBIT forecast of \$53.1M for FY04 remains essentially unchanged, while we have increased our FY05 forecast by 2.0%. We continue to view GUD's shares as offering a low-risk investment proposition. We retain our BUY recommendation, particularly for yield-conscious investors, however we would moderate this to HOLD should the shares reach our revised valuation of \$8.40 p/share.

### Key Points

- GUD has confirmed it expects trading EBIT to be at the upper-end of market forecasts of \$54M - \$62M.
- This guidance confirms the continuation of solid trading conditions for GUD during the 2H of FY 2004. In particular, strong underlying results have been achieved by the Sunbeam and Filtration businesses, assisted further by the relative strength of the AUD/USD exchange rate.
- GUD has acquired the New Zealand based business of Spa-Quip, a supplier of pumps, filters and electronic controllers in the pool and spa markets in Australia and New Zealand. This business provides a complimentary add-on acquisition for GUD's Davey Pump business, with GUD's superior distribution network to assist the sales expansion of Spa-Quip's product range. Spa-Quip has annual revenue of \$14M, and implied EBIT of \$3.0M.
- GUD has also announced pre-tax 'non-recurring' charges of \$6.0M to be incurred in the 2H of FY 2004. This includes \$3.0M in additional environmental remediation costs at the Campsie site, as well as a \$3.0M restructuring charge related to it's electric blanket business in New Zealand.
- The total 'non-recurring' costs for FY 2004 amounts to \$9.0M, given the 1H result included a restructuring charge for the Filtration business of \$3.0M.
- Our FY 2004 EBIT forecast remains essentially unchanged at \$53.1M, and reflects an assumption of trading profit of \$62.0M less total 'non-recurring' costs of \$9.0M.
- We have increased our FY 2005 EBIT forecast by 2% to \$60.9M, providing corresponding EPS (pre-g'will) of 68.9 cents.
- GUD has a strong balance sheet, with net debt at the end of FY 2004 forecast at a modest \$5.0M. Given an absence of suitable (& sizeable) acquisitions, shareholders should benefit from further increases in dividends.
- We value GUD at \$8.40 p/share (FY 2005 EV/EBITA multiple of 8.0x), and retain our BUY recommendation.

June	NPAT (Rep)	EPS (Norm)	PER	P/CF	P/BV	EV/EBITDA	DPS	Div Yld	Franking
	\$M	c	x	x	x	x	c	%	%
2003a	21.8	37.4	21.7	11.9	3.9	10.8	26.0	3.2	100
2004e	34.5	59.2	13.7	11.6	3.4	7.8	38.0	4.7	100
2005e	40.5	68.9	11.8	10.7	3.0	6.7	42.0	5.2	100
2006e	44.7	75.7	10.7	8.6	2.7	6.0	46.0	5.7	100



## Earnings summary

A summary of our earnings forecasts for GUD is detailed in the table below.

### Earnings summary

Y/e: 30 June	FY 2003	1h'04	2h'04(e)	FY 2004(e)	FY 2005(e)	FY 2006(e)
<b>Revenue:</b>						
Sunbeam Victa	201.8	121.7	102.3	224.0	236.3	250.5
Filtration	85.8	44.2	44.2	88.4	105.0	108.2
Davey (pumps)	71.9	38.6	33.0	71.6	75.6	79.8
Lock Focus (locks)	13.5	7.1	6.7	13.8	14.4	14.9
Unallocated	0.2	0.0	0.0	0.0	0.0	0.0
<b>Total revenue</b>	<b>373.3</b>	<b>211.6</b>	<b>186.2</b>	<b>397.8</b>	<b>431.3</b>	<b>453.5</b>
<b>EBIT:</b>						
Sunbeam Victa	13.8	18.2	10.7	28.9	30.3	32.6
Filtration	15.2	6.5	8.0	14.5	20.3	21.1
Davey (pumps)	7.4	4.3	3.3	7.6	8.2	8.9
Lock Focus (locks)	1.2	1.3	1.2	2.5	2.6	2.7
Unallocated	-0.3	0.1	-0.4	-0.3	-0.4	-0.4
<b>Total EBIT</b>	<b>37.3</b>	<b>30.4</b>	<b>22.7</b>	<b>53.1</b>	<b>60.9</b>	<b>64.9</b>
<b>Margin (%):</b>						
Sunbeam Victa	6.8	15.0	10.5	12.9	12.8	13.0
Filtration	17.7	14.7	18.1	16.4	19.3	19.5
Davey (pumps)	10.3	11.1	10.0	10.6	10.8	11.2
Lock Focus (locks)	8.9	18.3	17.3	17.8	18.0	18.2
Unallocated	n/a	n/a	n/a	n/a	n/a	n/a
<b>Total margin</b>	<b>10.0</b>	<b>14.4</b>	<b>12.2</b>	<b>13.4</b>	<b>14.1</b>	<b>14.3</b>
Interest	-3.7	-1.4	-1.2	-2.5	-1.5	0.4
<b>Pre-tax profit</b>	<b>33.6</b>	<b>29.0</b>	<b>21.6</b>	<b>50.6</b>	<b>59.4</b>	<b>65.4</b>
Tax	-11.8	-8.7	-7.4	-16.1	-18.8	-20.7
<b>NPAT</b>	<b>21.8</b>	<b>20.3</b>	<b>14.2</b>	<b>34.5</b>	<b>40.5</b>	<b>44.7</b>
EPS (pre'g'will)	37.4	34.6	24.6	59.2	68.9	75.7
- growth (reported)	207%	53%	67%	58%	16%	10%
DPS	26.0	17.0	21.0	38.0	42.0	46.0

Source: GUD & WHTM

**INVESTMENT FUNDAMENTALS**

Yr Ending June	2002A	2003A	2004E	2005E	2006E
EPS Reported (c)	10.1	35.7	56.8	66.7	73.6
<b>EPS Normalised (c)</b>	<b>12.0</b>	<b>37.4</b>	<b>59.2</b>	<b>68.9</b>	<b>75.7</b>
EPS Growth (%)		212.6	58.4	16.5	9.8
<b>PER Normalised (x)</b>	<b>67.9</b>	<b>21.7</b>	<b>13.7</b>	<b>11.8</b>	<b>10.7</b>
DPS (c)	16.5	26.0	38.0	42.0	46.0
Payout (%)	163.4%	72.8%	66.9%	63.0%	62.5%
Yield (%)	2.0%	3.2%	4.7%	5.2%	5.7%
Franking (%)	50%	100%	100%	100%	100%

**VALUATION DATA**

Yr Ending June	2002A	2003A	2004E	2005E	2006E
EV / EBITA (x)	34.4	13.2	9.1	7.8	6.9
EV / EBITDA (x)	21.8	10.8	7.8	6.7	6.0
CFPS (c)	56.5	68.2	69.7	75.6	94.5
<b>Price / CF</b>	<b>14.4</b>	<b>11.9</b>	<b>11.6</b>	<b>10.7</b>	<b>8.6</b>
Book Value / Share (\$)	1.97	2.10	2.40	2.66	2.96
<b>Price / Book (x)</b>	<b>4.1</b>	<b>3.9</b>	<b>3.4</b>	<b>3.0</b>	<b>2.7</b>

**PROFIT & LOSS (\$m)**

Yr Ending June	2002A	2003A	2004E	2005E	2006E
Sales Revenue	365.9	372.4	397.9	431.3	453.5
EBITDA	24.7	47.3	63.5	71.7	76.2
Depreciation	9.1	8.4	8.9	9.4	9.9
<b>EBITA</b>	<b>15.6</b>	<b>38.8</b>	<b>54.6</b>	<b>62.3</b>	<b>66.3</b>
Amortisation	1.4	1.5	1.5	1.4	1.3
<b>EBIT</b>	<b>14.2</b>	<b>37.3</b>	<b>53.1</b>	<b>60.9</b>	<b>64.9</b>
Net Interest Expense	5.3	3.7	2.5	1.5	-0.5
<b>Pre-tax Profit</b>	<b>9.1</b>	<b>33.6</b>	<b>50.6</b>	<b>59.4</b>	<b>65.4</b>
Tax	2.7	11.8	16.1	18.8	20.7
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
<b>Net Profit</b>	<b>6.4</b>	<b>21.8</b>	<b>34.5</b>	<b>40.5</b>	<b>44.7</b>
Abn's / Extraord's	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	6.4	21.8	34.5	40.5	44.7
Revenue Growth (%)		1.8%	6.9%	8.4%	5.1%
EBIT Growth (%)		162.6%	42.5%	14.6%	6.7%
NPAT Growth (%)		240.2%	58.4%	17.6%	10.3%

**PROFITABILITY RATIOS**

Yr Ending June	2002A	2003A	2004E	2005E	2006E
<b>EBIT / Sales (%)</b>	<b>3.9%</b>	<b>10.0%</b>	<b>13.4%</b>	<b>14.1%</b>	<b>14.3%</b>
ROA (%)		17.4%	25.0%	28.0%	29.5%
<b>ROE (%)</b>		<b>17.5%</b>	<b>25.3%</b>	<b>26.3%</b>	<b>26.2%</b>
ROFE (%)		25.2%	36.6%	41.1%	44.8%

**INTERIMS (\$m)**

Half Yr	Dec 02	Jun 03	Dec 03	Jun 04	Dec 04
Yr Ending June	1H A	2H A	1H A	2H E	1H E
Sales Revenue	198.0	174.4	211.7	186.2	234.0
EBIT	21.2	16.1	30.4	22.8	36.0
<b>Net Profit</b>	<b>13.3</b>	<b>8.4</b>	<b>20.3</b>	<b>14.2</b>	<b>23.2</b>
EBIT / Sales (%)	10.7%	9.2%	14.3%	12.2%	15.4%

**BALANCE SHEET (\$m)**

Yr Ending June	2002A	2003A	2004E	2005E	2006E
Cash	11.1	21.8	20.7	21.4	46.0
Receivables	55.2	49.9	53.3	57.8	60.7
Inventories	57.4	60.0	64.1	69.5	73.0
Other	7.5	5.7	5.8	5.9	5.9
<b>Current Assets</b>	<b>131.2</b>	<b>137.3</b>	<b>143.8</b>	<b>154.6</b>	<b>185.7</b>
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	7.0	7.3	7.6
<b>Non-current Assets</b>	<b>98.1</b>	<b>95.1</b>	<b>90.7</b>	<b>86.2</b>	<b>81.3</b>
<b>Total Assets</b>	<b>229.3</b>	<b>232.4</b>	<b>234.5</b>	<b>240.7</b>	<b>267.0</b>
Current Payables	36.3	40.0	42.7	46.3	48.7
Current Debt	12.6	20.3	20.3	5.3	5.3
Non-Current Debt	36.4	22.4	5.4	5.4	5.4
Provisions	0.0	0.0	0.0	0.0	0.0
Other	22.3	22.9	20.4	21.8	27.7
<b>Total Liabilities</b>	<b>107.6</b>	<b>105.6</b>	<b>88.8</b>	<b>78.8</b>	<b>87.1</b>
Equity	111.8	107.1	107.3	107.3	107.3
Reserves	0.1	0.9	0.9	0.9	0.9
Retained Profits	9.8	18.8	37.6	53.8	71.8
Minorities	0.1	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>121.7</b>	<b>126.8</b>	<b>145.7</b>	<b>162.0</b>	<b>179.9</b>
<b>Total Funds Employed</b>	<b>159.7</b>	<b>147.7</b>	<b>150.7</b>	<b>151.2</b>	<b>144.6</b>

**LIQUIDITY & LEVERAGE RATIOS**

Yr Ending June	2002A	2003A	2004E	2005E	2006E
Net Debt (Cash) (\$m)	38.0	20.9	5.0	-10.8	-35.4
<b>Net Debt / Equity (%)</b>	<b>31.2%</b>	<b>16.5%</b>	<b>3.4%</b>	<b>-6.7%</b>	<b>-19.7%</b>
Interest Cover (x)	2.6	9.4	19.5	33.6	76.4
<b>Debt / CashFlow (x)</b>	<b>1.4</b>	<b>1.0</b>	<b>0.6</b>	<b>0.2</b>	<b>0.2</b>

**CASHFLOW (\$m)**

Yr Ending June	2002A	2003A	2004E	2005E	2006E
EBIT	14.2	37.3	53.1	60.9	64.9
Dep'n and Amort'n	10.5	10.0	10.4	10.8	11.2
Net Int Rec'd (Paid)	-5.3	-3.7	-2.5	-1.5	0.5
Tax Paid	-3.4	-9.0	-9.4	-12.9	-15.1
Dec / (Inc) W'kg Cap	11.3	6.5	-4.8	-6.3	-4.2
Other	8.4	0.5	-4.5	-5.0	0.0
<b>Operating Cash Flow</b>	<b>35.7</b>	<b>41.5</b>	<b>42.3</b>	<b>46.0</b>	<b>57.4</b>
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	9.3	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>15.5</b>	<b>-7.4</b>	<b>3.5</b>	<b>-5.9</b>	<b>-6.1</b>
Equity Raised	-6.9	-4.7	0.2	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	-24.3	-26.7
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>-55.1</b>	<b>-23.3</b>	<b>-37.6</b>	<b>-39.3</b>	<b>-26.7</b>
<b>Net Cash Flow</b>	<b>-3.8</b>	<b>10.9</b>	<b>8.2</b>	<b>0.8</b>	<b>24.6</b>

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