

Rating **Neutral 2**
Unchanged
Price target **A\$9.05/US\$6.42**
Prior:A\$8.25/US\$5.85
Price **A\$8.10/US\$5.65 (ADR)**

RIC: GUD.AX BBG: GUD AU

27 May 2004

Trading data (local/US\$)

52-wk. range	A\$8.29-4.20/US\$6.52-2.71
Market cap.	A\$0.49bn/US\$0.34bn
Shares o/s	61m (ORD)/61m (ADR)
ADR ratio	1 ADR :1 ORD
Free float	100%
Avg. daily volume ('000)	120/OTC
Avg. daily value (A\$m)	1.0

Balance sheet data 06/04E

Shareholders' equity	A\$0.16bn
P/BV (UBS)	3.3x
Net cash (debt)	(A\$0.01bn)

Forecast returns

Forecast price appreciation	+11.7%
Forecast dividend yield	5.9%
Forecast stock return	+17.6%
Market return assumption	10.3%
Forecast excess return	+7.3%

EPS (UBS, A\$)

	06/04		Cons.	06/03
	From	To		Actual
H1	0.38	0.38	-	0.23
H2E	0.27	0.32	-	0.23
06/04E	0.64	0.70	0.62	
06/05E	0.67	0.75	0.67	

UBS Investment Research
GUD Holdings Limited
Strong Blend of Growth and Stability
Strong trading has continued throughout FY 04

GUD has issued guidance that its trading EBIT for FY 04 will be at the upper end of the range \$54-62m. All divisions are performing ahead of budget, but much of the strength lies in Sunbeam and Victa where new products at higher price points have driven growth. We understand that the higher A\$ has also been a benefit to GUD this year.

Three significant items this year totalling \$9m pre-tax

A pre-tax charge of \$3.0m was recognised in H1 04 in respect of restructuring at Ryco/Wesfil. Today GUD announced \$3.0m for restructuring in Sunbeam, where the electric blanket plant in New Zealand will be shut, and \$3.0m additional costs of environmental remediation at Campsie.

Forecast Upgrades

We have upgraded our forecast for trading EBIT in FY 04 by 13% from \$56.8m to \$60.8m. NPAT excluding significant items increases by 7% to \$41.0m from \$38.3m. FY 05E EBIT also rises 11% from \$57.2m to \$63.6m. We have increased our forecast FY 04 final dividend from 18cps ff to 23cps ff.

Valuation: \$9.05 per share (up from \$8.25 per share)

Our DCF valuation increases from \$8.25 to \$9.05 per share. We apply a WACC of 11.3%. Our price target is equal to our valuation and implies a FY 05E normalised P/E of 12.0x. At current trading, GUD is on a FY 05E normalised P/E of 10.8x and continues to offer value.

Highlights (A\$m)	06/02	06/03	06/04E	06/05E	06/06E
Revenues	398.3	375.7	410.0	450.3	467.0
EBIT	34.8	44.3	60.8	63.6	66.0
Net income (UBS)	20.7	26.7	41.1	44.4	46.4
EPS (UBS, A\$)	0.35	0.46	0.70	0.75	0.79
Net DPS (UBS, A\$)	0.17	0.26	0.40	0.47	0.50

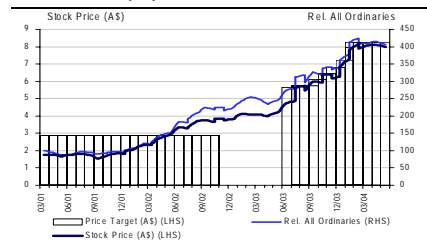
Profitability & Valuation	5-yr hist. av.	06/03	06/04E	06/05E	06/06E
EBIT margin %	-	11.8	14.8	14.1	14.1
ROIC (EBIT) %	-	26.1	36.4	39.9	44.6
EV/EBITDA x	-	4.9	7.1	6.5	5.9
PE (UBS) x	-	8.4	11.5	10.8	10.3
Net dividend yield %	-	6.7	4.9	5.8	6.2

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\$8.10 on 27 May 2004

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Performance (A\$)


Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 4

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Trading Update

GUD has issued an update on trading so far this year in an open briefing to the ASX. It has indicated that it expects trading EBIT (ie EBIT before significant items) to be at the upper end of the consensus range, \$54-62m. This follows a strong performance in H1 04, in which GUD reported trading EBIT of \$33.4m (\$30.4m reported EBIT + \$3.0m Ryco/Wesfil restructuring costs) and a second half performance by all divisions that the company has described as 'ahead of budget'.

GUD guides that FY 04 trading EBIT will be at the 'upper end' of \$54-62m range

The strength in trading, while founded across the board, can be largely attributed to the largest division, Sunbeam Victa. Sunbeam, the market leader in household small electrical appliances, performed well at the critical sales period before Mother's Day in early May. It has also benefited from the stronger A\$ as it largely sources its products from suppliers in China in US\$. The market leader in lawnmowers, Victa, also performed well on the basis of a successful new product, Razor. There has also been a positive currency effect in the filters business.

Sunbeam and Victa the drivers with the A\$ also a benefit

Restructuring

The GUD story remains a work in progress. In the first half, a \$3.0m pre-tax restructuring charge was taken for the closure of parts of the domestic manufacturing operations of Ryco (Table 1).

Electric blankets will no longer be made in New Zealand

Today the company has announced further restructuring of the Sunbeam business with the closure of the electric blanket manufacturing plant in New Zealand. From FY 05, Sunbeam electric blankets will be made in China as part of a three-way joint venture between GUD, a Chinese manufacturer and Imetec, an Italian family-owned business that is the largest manufacturer of electric blankets in Europe. A one-off charge of \$3.0m before tax will be recognised in respect of this in FY 04 (Table 1).

Electric blankets will be made in China - \$3.0m restructuring

Environmental remediation at Campsie to incur additional costs

Following the closure of the Sunbeam Victa facility at Campsie in the western suburbs of Sydney, the toxic substance Trichloroethene was found to be contaminating the site. GUD undertook to eliminate the contaminant and took a \$7m pre-tax provision in FY 03 in respect of the costs of doing so. It has since become necessary to increase this provision by \$3m pre-tax and this will be recognised in the FY 04 results as a significant item (Table 1).

More costs at Campsie - \$3.0m restructuring

Table 1: Significant Items in FY 04

Significant item	Value before tax (\$m)
Restructuring of Ryco/Wesfil	3.0
Restructuring of electric blanket facility in New Zealand	3.0
Additional cost of environmental remediation at Campsie	3.0
Total	9.0

Source: GUD Holdings

Forecast Upgrades

We have upgraded our forecast for trading EBIT in FY 04 by 13% from \$56.8m (\$53.8m + \$3.0m restructuring costs) to \$60.8m. Forecast FY 04 sales increase to \$410m from \$401m. Forecast FY 04 NPAT (excluding significant items) increases by 7% to \$41.0m from \$38.3m.

Forecast FY 04 EBIT rises 13% to \$61m

We have also increased our forecasts for subsequent years, with FY 05E trading EBIT rising to \$63.6m from \$57.2m and NPAT to \$44.4m from \$39.9m. Our revised forecasts imply trading EBIT growth of 5%. We understand that GUD's EBIT would have benefited materially from the higher value of the A\$ during the year and we are unwilling to forecast a similar currency-related uplift in FY 05, hence the lower-than-trend growth assumption.

It seems likely that the strength in the company's trading this year and its balance sheet will be translated into a significant increase in the dividend. Our revised forecast is for DPS of 40cps ff, implying a final dividend of 23cps ff (previous forecast 18cps ff). We have taken the significant items in Table 1 into account as well and have the following key forecasts (Table 2):

Final dividend of 23cps ff forecast

Table 2: Key Forecasts

	FY 04	FY 05
Sales	410.0	450.3
Trading EBIT	60.8	63.6
NPAT including significant items	34.7	44.4
Significant items before tax	-9.0	0.0
Significant items after tax	-6.4	0.0
NPAT excluding significant items	41.1	44.4
Reported EPS (cents)	57.1	72.9
EPS normalised for goodwill and significant items (cents)	70.2	75.3
DPS (cents)	40.0	47.0

Source: UBS estimates

Investment Case

The changes to our forecasts have led to a 9.7% increase in our DCF valuation of GUD from \$8.25 to \$9.05 per share. We apply a WACC of 11.3%, a β of 1.11, a risk-free rate of 6.0% and a nominal long-run growth rate of 2.0%. Our price target is equal to our valuation and implies a FY 05E normalised P/E of 12.0x. At current trading, GUD is on a FY 05E normalised P/E of 10.8x and continues to offer value. The forecast excess return is currently +7.1%, causing us to retain our Neutral 2 rating at this stage.

\$9.05 per share valuation

■ 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.

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UBS Investment Research 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	41%	36%
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	50%	31%
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	9%	31%

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 March 2004.

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.

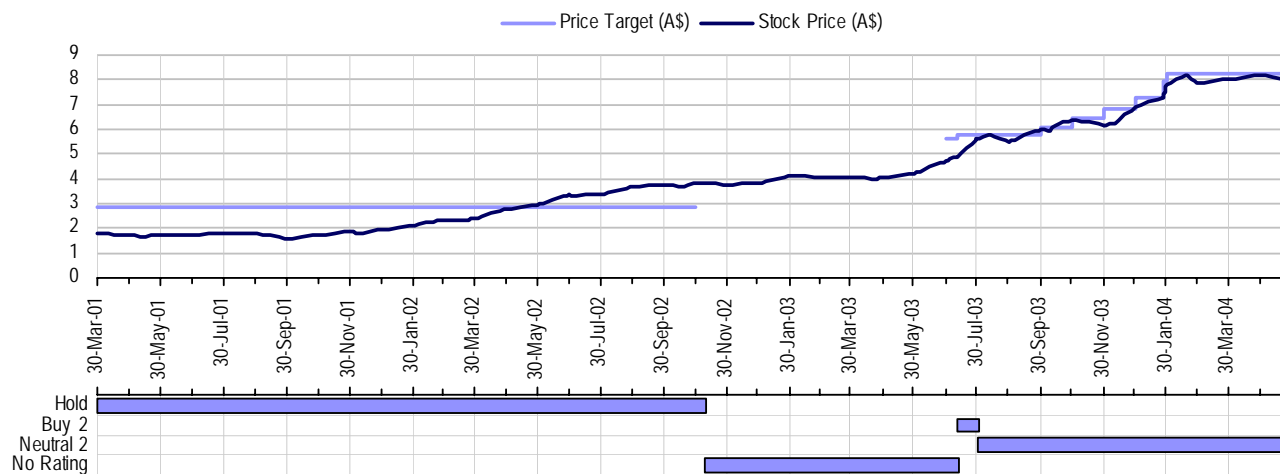
Companies mentioned

Company Name	Reuters	Rating	Price
GUD Holdings Limited	GUD.AX	Neutral 2	A\$8.00

Price(s) as of 26 May 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 26 May 2004.

Note: On October 13, 2003, UBS adopted new definition criteria for its rating system. (See 'UBS Investment Research 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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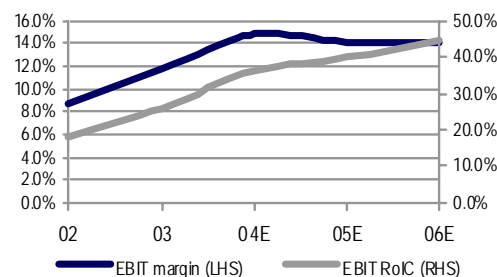


GUD Holdings Limited

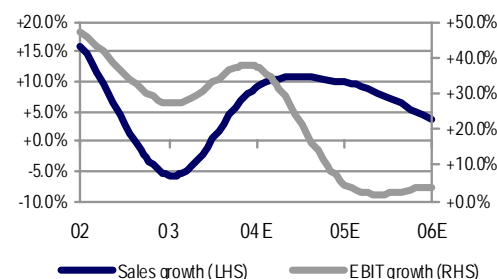
Per share (A\$)	6/02	6/03	6/04E	6/05E	6/06E
EPS	0.35	0.46	0.70	0.75	0.79
CEPS	0.49	0.60	0.86	0.91	0.94
Net DPS	0.17	0.26	0.40	0.47	0.50
BVPS	1.95	2.10	2.43	2.70	2.98
Profit & loss (A\$ m)					
Sales	398.3	375.7	410.0	450.3	467.0
EBITDA	45.4	54.3	71.8	74.6	76.9
EBIT	34.8	44.3	60.8	63.6	66.0
PBT	29.6	40.6	58.6	63.5	66.3
Net Profit	20.7	26.7	41.1	44.4	46.4
Cash flow (A\$ m)					
EBIT	34.8	44.3	60.8	63.6	66.0
Depreciation & amortisation	10.5	10.0	10.9	10.9	10.9
Change in NWC	11.7	8.4	(11.2)	18.3	(2.3)
Other (operating)	(12.6)	(8.3)	(6.6)	(0.0)	(0.0)
Operational cash flow	44.4	54.3	54.0	92.9	74.6
Tax paid	(3.4)	(9.0)	(11.8)	(19.0)	(19.9)
Capital expenditure	(7.9)	(7.6)	(7.9)	(7.5)	(7.5)
Net interest	(5.3)	(3.7)	(2.2)	(0.1)	0.4
Dividends paid	(9.5)	(12.2)	(19.4)	(28.1)	(29.9)
Net (acquisitions) / disposals	12.5	0.0	(0.7)	0.0	0.0
Other items	4.1	(4.4)	0.3	0.1	0.2
Change in net debt	34.9	17.2	12.2	38.2	17.8
Operating free cash flow (OpFCF) (A\$ m)					
Core EBITDA	45.4	54.3	71.8	74.6	76.9
Less: Maintenance capex	(4.7)	(3.8)	(4.0)	(3.8)	(3.8)
Less: Maintenance NWC	(0.9)	0.0	(17.7)	18.3	(2.3)
OpFCF	39.7	50.5	50.1	89.1	70.8
Balance sheet (A\$ m)					
Net tangible fixed assets	40.9	37.5	34.3	32.1	30.0
Net intangible fixed assets	51.1	50.8	49.6	48.1	46.6
Net working capital	83.9	75.6	86.7	68.4	70.7
Total invested capital (IC)	175.9	163.9	170.6	148.6	147.3
Financial & other fixed assets	6.1	6.7	6.3	6.3	6.3
Net cash / (debt)	(38.0)	(20.9)	(8.6)	29.8	47.9
Provisions	(20.5)	(18.5)	(14.1)	(14.1)	(14.1)
Minority interests	(0.1)	0.0	0.0	0.0	0.0
Shareholders' funds	121.7	126.8	160.3	176.7	193.5
Profitability					
EBITDA margin	11.4%	14.4%	17.5%	16.6%	16.5%
EBIT margin	8.7%	11.8%	14.8%	14.1%	14.1%
EBIT RoIC	17.9%	26.1%	36.4%	39.9%	44.6%
Net RoE	16.4%	21.5%	28.6%	26.4%	25.1%
Interest cover (EBIT)	6.6x	11.8x	27.6x	>100x	NM
Dividend cover (net)	2.1x	1.8x	1.8x	1.6x	1.6x
Productivity					
Labour % sales					
Depreciation % sales	2.6%	2.7%	2.7%	2.4%	2.3%
Capex % sales	2.0%	2.0%	1.9%	1.7%	1.6%
Invested capital turnover	2.0x	2.2x	2.5x	2.8x	3.2x
Tax rate	9.1%	29.1%	25.4%	30.0%	30.0%
Net debt / total equity	31.2%	16.5%	5.4%	Cash	Cash
Momentum					
Sales growth	+15.9%	-5.7%	+9.1%	+9.8%	+3.7%
EBIT growth	+47.2%	+27.1%	+37.3%	+4.6%	+3.7%
Net earnings growth	+94.5%	+28.5%	+54.1%	+8.1%	+4.5%
Dividend growth	+10.0%	+57.6%	+53.8%	+17.5%	+6.4%
Value*					
Market capitalisation (A\$ m)	136.5	237.3	493.9	493.9	493.9
Plus: Core net debt / (cash)	55.5	29.4	14.7	(10.6)	(38.9)
Plus: Pension provisions	-	-	-	-	-
Plus: Buy out of minorities	0.1	-	-	-	-
Less: Non-core assets	-	-	-	-	-
Enterprise value (EV, avg)	192.0	266.7	508.7	483.3	455.1
EV/Sales (core)	0.48x	0.71x	1.24x	1.07x	0.97x
EV/EBITDA (core)	4.2x	4.9x	7.1x	6.5x	5.9x
EV/EBIT (core)	5.5x	6.0x	8.4x	7.6x	6.9x
EV/OpFCF	4.8x	5.3x	10.2x	5.4x	6.4x
EV/Invested capital	1.0x	1.6x	3.0x	3.0x	3.1x
P/CE	4.4x	6.5x	9.5x	8.9x	8.6x
P/E	6.2x	8.4x	11.5x	10.8x	10.3x
Dividend yield (net)	7.69%	6.69%	4.94%	5.80%	6.17%
P/BV (average)	1.1x	1.9x	3.3x	3.0x	2.7x

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.

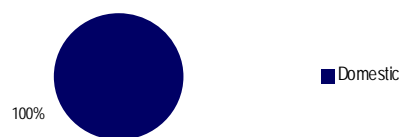
Profitability (EBIT margins & RoIC)



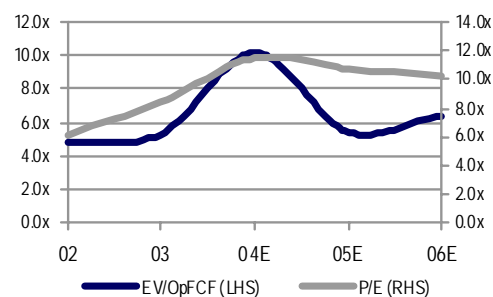
Momentum (Sales & EBIT growth)



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\$8.10 on 27/05/2004