

GUD Holdings Limited

Cooking with Sunbeam



Wilson HTM
INVESTMENT GROUP

29 July, 2004

\$9.15

Short Term Long Term
HOLD **HOLD**

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Price Performance



Security/Capital Details

ASX Code GUD
Market Cap \$557 M
Issued Shares 60.9 M
Avg Mth T'over 2.61 M
12 Mth High – Low \$9.26/\$5.40

Key Data/Ratios – FY 2005

EBITDA / Sales 17.7%
EBIT / Sales 14.9%
Net Debt / Equity -0.2%
Interest Cover 23.0 x
ROE 28.0%
EPS Growth 18.5%
PEG Ratio 0.69 x
NTA / Share \$ 1.63
DCF \$ 8.81
12 Mth Price Target \$ 9.00

Recommendation

GUD has confirmed a strong lift in earnings for FY 2004, with NPAT of \$35.5M (+63%) slightly above our forecast of \$34.5M. This is an excellent result from GUD, particularly from the Sunbeam-Victa business. Cash flow and the balance sheet remain strong, and shareholders have been rewarded with a FY DPS of 40.0 cents (pcp: 26.0 cents). We have increased our FY 2005 EPS forecast by 10% to 72.6 cents, and while we remain attracted to the earnings outlook, recent share price gains provide a fair value for GUD. We value the shares at \$9.00, and endorse a HOLD recommendation.

Key Points

- GUD has reported a strong lift in FY 2004 NPAT to \$35.5M (+63%), slightly above our forecast of \$34.5M.
- Normalised EBIT of \$62.6M compared to our forecast of \$62.0M. Previously foreshadowed restructuring charges and remediation costs of \$8.9M (\$6.2M after-tax) were also brought to account, providing reported EBIT of \$53.7M.
- A final DPS of 23.0 cents was declared, 2.0 cents above our forecast of 21.0 cents. This takes the FY payout to 40.0 cents (pcp: 26.0 cents).
- Driving the strong profit performance was improved results across GUD's four business units, in particular a strong result from Sunbeam-Victa.
- Sunbeam-Victa contributed revenue of \$223M (+11%), and normalised EBITA of \$37.2M (+63%). The strong result reflects the benefits of new product releases, a higher-margin product mix, and an easing of the drought (for Victa). Margins were also assisted by favourable exchange rates, with Sunbeam-Victa likely to have accrued most of the \$6M in group FX gains.
- Filtration (Ryco/Wesfil) also posted a solid result, with underlying EBITA of \$18.8M (+22%). Reported EBITA was reduced by restructuring charges of \$3.0M related to the company's import replacement program.
- Davey posted a solid result (EBIT \$8.3M, +12%), while Lock Focus provided a sound EBIT contribution of \$2.1M. For further divisional comments refer overleaf.
- Strong cash flow (OCF: \$49.4M) contributed to year-end net debt of \$17.6M.
- We have increased our NPAT forecast for FY 2005 by 10% to \$42.4M (previously \$38.5M). This assumes improved divisional results, and that the the \$6.0M of FX benefits accrued in FY 2004 are not repeated in FY 2005.
- Our forecasts assume EPS growth of 19% and 7% for FY 2005 and FY 2006.
- Based on our revised forecasts, we value GUD at \$9.00 p/share, based on the average of an EV/EBITA multiple of 8.5x and PER of 12.5x. We endorse a HOLD recommendation.

June	NPAT (Rep)	EPS (Norm)	PER	P/CF	P/BV	EV/EBITDA	DPS	Div Yld	Franking
	\$M	c	x	x	x	x	c	%	%
2004a	35.5	61.2	14.9	11.2	3.9	8.8	40.0	4.4	100
2005e	42.4	72.6	12.6	11.3	3.5	7.3	44.0	4.8	100
2006e	45.5	77.5	11.8	9.4	3.1	6.7	48.0	5.3	100
2007e	49.6	84.1	10.9	8.8	2.8	6.1	52.0	5.7	100



Earnings overview

A summary of GUD's FY 2004 result, and our 3-year forecasts, are detailed in the table below.

Financial summary

Y/e: 30 June	FY 2002	FY 2003	FY 2004	Chg (%)	FY 2005e	FY 2006e	FY 2007e
Sales revenue (\$M)	365.9	372.4	393.8	6%	429.0	449.6	471.0
Group EBIT	34.9	44.3	62.6	41%	64.1	67.3	70.9
NPAT (normalised)	20.8	27.4	41.7	52%	42.4	45.5	49.6
Significant items (net)	-14.4	-5.6	-6.2	10%	0.0	0.0	0.0
NPAT (reported)	6.4	21.8	35.5	63%	42.4	45.5	49.6
EPS (pre g'will (cents)	12.2	37.4	61.2	64%	72.6	77.5	84.1
- growth (%)	-38%	207%	64%		19%	7%	9%
DPS (cents)	16.5	26.0	40.0	54%	44.0	48.0	52.0

Source: GUD & WHTM. * Note: EPS is pre-g'will & assumes no further shares are acq. under the buy-back

Group overview:

- NPAT of \$35.5M exceeded our forecast of \$34.5M, and confirms another year of strong underlying profit growth for GUD.
- Cash flow remains strong, and even after funding the Spa-Quip acquisition (EV: \$15M), and increased dividends, net debt at year-end was reduced to \$17.6M (pcp: \$20.9M).
- GUD is expected to be debt-free during FY 2005, and retains considerable capacity to internally fund add-on acquisitions (of up to \$200M). The Company remains acquisitive, however suitable opportunities appear scarce.
- In the absence of a major acquisition being made, we expect the Board to continue to pay annual dividends to the extent that they can remain fully franked.
- Overall, we view GUD as a low risk investment proposition. While the shares remain attractive to yield conscious investors, the recent rally in the share price sees the stock fairly priced relative to our valuation of \$9.00 p/share.

Divisional overview:

Divisional earnings are detailed in the table below, with comments overleaf.

Divisional summary

Y/e: 30 June	FY 2002	FY 2003	FY 2004	Chg (%)	FY 2005e	FY 2006e	FY 2007e
Revenue:							
Sunbeam Victa	205.6	201.8	223.2	11%	234.3	246.0	258.3
Filtration	84.2	85.8	86.0	0%	89.5	92.1	94.9
Davey (pumps)	63.7	71.9	72.8	1%	91.1	96.6	102.4
Lock Focus (locks)	12.4	13.5	13.4	-1%	14.1	14.8	15.4
Unallocated	0.0	0.2	0.4	lge	0.0	0.0	0.0
Total revenue	365.9	373.3	395.8	6%	429.0	449.6	471.0
EBIT (reported):							
Sunbeam Victa	15.9	13.8	28.5	107%	32.6	34.7	36.7
Filtration	12.7	15.2	15.5	2%	18.0	18.4	19.0
Davey (pumps)	5.6	7.4	8.3	11%	11.8	12.3	13.2
Lock Focus (locks)	1.8	1.2	2.1	71%	2.2	2.3	2.4
Unallocated	-1.1	-0.3	-0.6	110%	-0.4	-0.4	-0.4
Total EBIT	34.9	37.3	53.7	44%	64.1	67.3	70.9

Source: GUD & WHTM



Sunbeam-Victa contributed EBIT of \$28.5M (+107%), after allowing for \$6M of costs associated with environmental remediation of Campsie (\$3M) and the closure of the Palmerston North electric blanket factory (\$3M). Sales of \$223.2M (+11%) were achieved, reflecting the benefits of new products from Sunbeam (eg. coffee makers, electric blankets, portable heating) and Victa (ie. Victa Razor alloy-based mowers). The full earnings potential of the Victa business continues to be restrained by the ongoing drought. Strong profit growth was driven by a focus on selling higher-margin products, improved operating efficiencies, and favourable exchange rate movements. We have assumed that the foreign exchange benefits of FY 2004 are eliminated in FY 2005. Forecast earnings growth in FY 2005 should be underpinned by further leveraging of the Sunbeam and Victa brands into new and higher margin products.

The **Filtration Division** (Ryco, Wesfil) delivered an EBIT contribution of \$15.5M (pcp: \$15.2M), after accounting for a 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 \$8.3M (+12%) despite lower demand for firefighting pumps, and a more difficult export environment given the rising AUD. The improved result reflects new product growth, a broadening of the product portfolio (promoted by the acquisition of Spa-Quip in April 2004) and tight cost controls. This trend is expected to continue for Davey, and will be assisted by a full-year contribution from Spa-Quip (EBIT contribution ~\$3M).

Lock Focus posted an EBIT contribution of \$2.1M (pcp: \$1.2M). Profitability improved despite lower demand from most major customers, which was partially offset by growth in export sales. Earnings are expected to remain relatively stable going forward given the business' mature status, with steady growth to be achieved through investments in factory automation to support product quality and higher margins.

INVESTMENT FUNDAMENTALS

Yr Ending June	2003A	2004A	2005E	2006E	2007E
EPS Reported (c)	35.7	58.5	69.6	74.7	81.4
EPS Normalised (c)	37.4	61.2	72.6	77.5	84.1
EPS Growth (%)		63.9	18.5	6.8	8.5
PER Normalised (x)	24.5	14.9	12.6	11.8	10.9
DPS (c)	26.0	40.0	44.0	48.0	52.0
Payout (%)	72.8%	68.4%	63.2%	64.3%	63.9%
Yield (%)	2.8%	4.4%	4.8%	5.3%	5.7%
Franking (%)	100%	100%	100%	100%	100%

VALUATION DATA

Yr Ending June	2003A	2004A	2005E	2006E	2007E
EV / EBITA (x)	14.8	10.3	8.5	7.7	7.0
EV / EBITDA (x)	12.1	8.8	7.3	6.7	6.1
CFPS (c)	68.2	81.3	81.1	96.9	103.8
Price / CF	13.4	11.2	11.3	9.4	8.8
Book Value / Share (\$)	2.10	2.34	2.62	2.91	3.22
Price / Book (x)	4.4	3.9	3.5	3.1	2.8

PROFIT & LOSS (\$m)

Yr Ending June	2003A	2004A	2005E	2006E	2007E
Sales Revenue	372.4	393.8	429.0	449.6	471.0
EBITDA	47.3	65.6	76.0	79.6	83.8
Depreciation	8.4	9.6	10.1	10.6	11.3
EBITA	38.8	56.0	65.9	69.0	72.5
Amortisation	1.5	2.3	1.8	1.7	1.7
EBIT	37.3	53.7	64.1	67.3	70.9
Net Interest Expense	3.7	2.4	1.9	0.6	-0.6
Pre-tax Profit	33.6	51.3	62.2	66.6	71.5
Tax	11.8	15.8	19.8	21.2	21.9
Tax rate (%)	35.1%	30.7%	31.9%	31.8%	30.7%
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	21.8	35.5	42.4	45.5	49.6
Abn's / Extraord's	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	21.8	35.5	42.4	45.5	49.6
Revenue Growth (%)		5.8%	8.9%	4.8%	4.8%
EBIT Growth (%)		44.0%	19.3%	5.0%	5.3%
NPAT Growth (%)		63.2%	19.2%	7.3%	9.1%

PROFITABILITY RATIOS

Yr Ending June	2003A	2004A	2005E	2006E	2007E
EBIT / Sales (%)	10.0%	13.6%	14.9%	15.0%	15.0%
ROA (%)		24.7%	28.1%	29.2%	30.9%
ROE (%)	26.4%	28.0%	27.0%	26.6%	
ROFE (%)		36.4%	41.2%	44.4%	48.8%

INTERIMS (\$m)

Half Yr	Dec 03	Jun 04	Dec 04	Jun 05	Dec 05
Yr Ending June	1H A	2H A	1H E	2H E	1H E
Sales Revenue	211.7	182.1	233.6	195.4	244.9
EBIT	30.4	23.4	35.8	28.2	36.0
Net Profit	20.3	15.3	23.1	19.3	24.2
EBIT / Sales (%)	14.3%	12.8%	15.3%	14.5%	14.7%

BALANCE SHEET (\$m)

Yr Ending June	2003A	2004A	2005E	2006E	2007E
Cash	21.8	29.7	32.6	42.5	57.4
Receivables	49.9	51.1	55.7	58.4	61.1
Inventories	60.0	66.5	72.4	75.9	79.5
Other	5.7	4.7	5.9	5.9	5.9
Current Assets	137.3	152.0	166.7	182.7	204.0
Net PPE	37.5	36.8	32.6	28.1	24.6
Investments	0.0	0.0	0.0	0.0	0.0
Intangibles	50.8	57.9	56.1	54.3	52.7
Other	6.7	8.1	7.6	7.9	4.7
Non-current Assets	95.1	102.8	96.3	90.3	82.0
Total Assets	232.4	254.7	262.9	273.0	286.0
Current Payables	40.0	37.9	41.3	43.3	45.3
Current Debt	20.3	27.1	12.1	-2.9	-2.9
Non-Current Debt	22.4	20.2	20.2	20.2	10.2
Provisions	0.0	0.0	0.0	0.0	0.0
Other	22.9	26.9	29.9	35.5	37.3
Total Liabilities	105.6	112.1	103.5	96.1	90.0
Equity	107.1	106.4	106.4	106.4	106.4
Reserves	0.9	1.4	1.4	1.4	1.4
Retained Profits	18.8	34.9	51.7	69.2	88.3
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	126.8	142.6	159.4	176.9	196.0
Total Funds Employed	147.7	160.2	159.1	151.7	145.9

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2003A	2004A	2005E	2006E	2007E
Net Debt (Cash) (\$m)	20.9	17.6	-0.3	-25.2	-50.1
Net Debt / Equity (%)	16.5%	12.3%	-0.2%	-14.2%	-25.6%
Interest Cover (x)	9.4	18.8	23.0	38.7	82.3
Debt / CashFlow (x)	1.0	1.0	0.7	0.3	0.1

CASHFLOW (\$m)

Yr Ending June	2003A	2004A	2005E	2006E	2007E
EBIT	37.3	53.7	64.1	67.3	70.9
Dep'n and Amort'n	10.0	11.9	11.9	12.4	13.0
Net Int Rec'd (Paid)	-3.7	-2.4	-1.9	-0.6	0.6
Tax Paid	-9.0	-11.3	-12.6	-15.9	-17.0
Dec / (Inc) W'kg Cap	6.5	-9.9	-7.1	-4.2	-4.3
Other	0.5	7.4	-5.0	0.0	0.0
Operating Cash Flow	41.5	49.4	49.4	59.0	63.2
Capital Expenditure	-3.3	-8.3	-5.9	-6.1	-7.8
Asset Sales	0.0	0.0	0.0	0.0	0.0
Investments	-4.0	-11.8	0.0	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	-7.4	-20.1	-5.9	-6.1	-7.8
Equity Raised	-4.7	-0.7	0.0	0.0	0.0
Inc / (Dec) in Loans	-6.4	-1.4	-15.0	-15.0	-10.0
Dividends Paid	-12.2	-19.4	-25.6	-28.0	-30.4
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	-23.3	-21.5	-40.6	-43.0	-40.4
Net Cash Flow	10.9	7.8	2.9	9.9	14.9



Disclosure of interest - 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 2,100 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 have received and 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.

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