



GUD Holdings

GUD

Buy

\$9.15

Earnings momentum expected to continue into FY05

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GUD reported FY04 NPAT of \$41.7m (pre one-off items) on revenue of \$396m, which was consistent with BBY forecasts and represents a result slightly ahead of the top end of managements' operating profit range of 27 May 04. Whilst the company has experienced some success at undertaking acquisitions over the past year (as demonstrated by the recent \$9m Spa-Quip purchase) we see the market for bolt-on industrials operations as remaining competitive, thus see prospects for a large-scale acquisition as somewhat unlikely in the short-term. Whilst the continued PER discount of 18% appears to indicate market concern towards a potential consumer downturn, we consider managements' proven skills counter this potential risk and see FY05 earnings momentum remaining positive. Thus following the FY04 result (and despite 66% shareprice appreciation over the past 12 months) we maintain our Buy recommendation.

- ▶ **Sunbeam Victa drives result;** The division continued to generate strong operating profit growth in 2H04 (noting a 1H04 earnings bias given the boost to Sunbeam from Christmas trading), with the continued strong \$A/\$US, new product development and also a market recovery for lawnmowers key contributors.
- ▶ **Balance sheet utilisation a key catalyst;** Despite the Spa-Quip acquisition gearing continued to reduce over the year to 12%, and management continue to target further acquisitions, offering potential upside to forecasts. However, given a competitive market for bolt-ons we see a continued buildup of cash as more likely.

Year ending June	2004	2003	%chg
Sales revenue	396	372	6%
EBITDA	74.4	54.3	37%
Dep'n and amort'n	11.9	10.0	19%
EBIT	62.6	44.3	41%
Net interest expense	2.4	3.7	-35%
Pre-tax profit	60.2	40.6	48%
Tax expense	18.4	13.2	40%
Net profit (pre abn's)	41.7	27.4	53%
Abn's / extra's	-6.2	-5.6	11%
Reported profit	35.5	21.8	63%
Tax rate (%)	30.6%	32.5%	
EBIT margin (%)	15.8%	11.9%	
EPS	71.1	46.0	54%
DPS	40.0	26.0	54%

Company Information

Price	\$9.15
Target Price (12 month)	\$10.50
Difference	+ 14%
Shares (diluted)	60.9M
Market cap.	\$557M
High/low (12 month)	\$9.26/\$5.30
Monthly turnover	\$20.5M

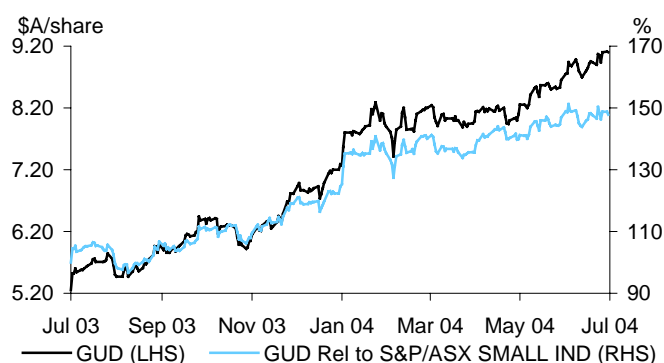
Earnings Summary

Year ending Jun	2003	2004	2005F	2006F
NPAT (reported) (A\$M)	27.4	41.7	48.3	53.7
BBY adj NPAT (A\$M)	28.4	43.4	49.3	54.7
EPS (¢)	46.0	71.1	79.9	88.7
PER	19.8 x	12.9 x	11.4 x	10.3 x
EPS Growth	34%	54%	15%	11%
EV / EBITDA	10.6 x	7.7 x	6.9 x	6.1 x
CFPS (¢)	67.3	80.9	77.4	101.0
Price / CF	13.5 x	11.3 x	11.8 x	9.0 x
Dividend (¢)	26.0	40.0	46.0	51.0
Yield	2.9%	4.4%	5.1%	5.6%
Franking	100%	100%	100%	100%
NTA per share	\$1.26	\$1.39	\$2.13	\$2.57

Earnings Forecast Changes

	2005F	2006F
NPAT (BBY adj) Change (%)	0%	0%
EPS (BBY adj) Change (%)	0%	0%

GUD versus Small Industrials Index



Sunbeam Victa the key 2H04 earnings driver

Result consistent with BBY's assertive forecasts

GUD reported FY04 NPAT of \$41.7m (pre one-off items) on revenue of \$396m, which was consistent with BBY forecasts and represents a result slightly ahead of the top end of managements' operating profit range of 27 May 04. Key points to the result were:

- ▶ **Strong EPS growth;** of 54% was reported on a fully diluted pre-goodwill basis, a continuation of the 52% growth achieved in 1H04.
- ▶ **Margin expansion;** Group EBIT margins expanded from 11.9% in FY03 to 15.8%, primarily driven by the Sunbeam Victa division.
- ▶ **Continued operating cashflow improvement;** Operating cashflow further improved in FY04 despite an increase in working capital, with \$49.4m reported compared to \$41.5m in FY03.
- ▶ **Additional restructuring costs;** Restructuring of the Sunbeam and Ryco operations generated costs of -\$8.9m, which we have treated as one-off items.
- ▶ **23.0c final dividend;** The fully-franked final dividend of 23.0c brought total dividends for the year to 40.0c, represented a payout ratio of 56%

Sunbeam Victa sustains continued improvement from 1H04

Table 1 below provides a segment summary of the GUD FY04 result.

TABLE 1: GUD FY04 SEGMENT RESULT SUMMARY

Margin expansion continues into 2H04 for Sunbeam Victa

		FY04	FY03	% Change	1H04	2H04
Sunbeam Victa	Revenue	223	202	11%	122	102
	EBITA	37.2	22.8	63%	19.4	17.8
	EBITA Margin	16.7%	11.3%		15.9%	17.5%
Ryco/Wesfil	Revenue	86	86	0%	44	42
	EBITA	18.8	15.4	22%	9.6	9.2
	EBITA Margin	21.9%	17.9%		21.7%	22.0%
Davey	Revenue	73	72	1%	39	34
	EBITA	8.6	7.7	12%	4.5	4.1
	EBITA Margin	11.8%	10.7%		11.7%	12.0%
Lock Focus	Revenue	13	14	-1%	7	6
	EBITA	2.8	2.8	0%	1.6	1.2
	EBITA Margin	20.9%	20.7%		22.5%	19.0%
GROUP	Revenue	395.8	373.2	6%	212	184
	EBITA	67.1	47.5	41%	35.1	32.0
	EBITA Margin	17.0%	12.7%		16.6%	17.4%

Source: GUD, BBY

- ▶ **Sunbeam Victa:** The division continued to generate strong operating profit growth in 2H04, noting the 1H04 earnings bias given the boost to Sunbeam from Christmas trading. Key drivers were the continued strong \$A/\$US, new product development and also a market recovery for lawnmowers (with conditions remain difficult in Melbourne and Sydney given water restrictions).
- ▶ **Ryco/Wesfil:** Restructuring in 1H04 supported continued performance in 2H04, with the restructure allowing the division to more effectively compete against imported products that were benefiting from the strong \$A/\$US.



- ▶ **Davey;** Continued cost-cutting sustained the margin improvements seen in 1H04, and the acquisition of Spa-Quip in Apr 04 (with revenue of \$14m and EBITA of \$3m) underpins our growth expectations for the division in FY05, with further operational efficiencies achievable from the integration of the operations.
- ▶ **Lock Focus;** Operating profit remained steady with an improvement in export sales offsetting lower domestic demand.

Earnings momentum expected to continue in FY05

Mgt anticipates further profit growth in FY05

Following the strong FY04 result, largely driven by EBIT margin expansion from 11.9% in FY03 to 15.8% in FY04, management anticipates further profit growth in FY05 from operational improvements, new product development and the Spa-Quip acquisition.

Appreciation of the \$A/\$US generated an EBITA boost of \$6.0m in FY04, and given the exchange rate appears to have stabilised we do not expect a substantial currency driven earnings benefit in FY05.

Nonetheless, as this result was consistent with expectations we have maintained our earnings growth forecasts assuming low single-digit organic revenue growth and further margin expansion.

Acquisitions a key potential catalyst given strong balance sheet

Acquisitions remain a key earnings and shareprice catalyst for GUD, with the \$9m Spa-Quip acquisition utilising a small amount of the potential balance sheet capacity. However, we see the market for smaller bolt-on operations remaining competitive amongst listed diversified industrials companies, thereby limiting prospects for a large acquisition being undertaken and this balance sheet capacity being utilised.

Indeed, we had expected GUD to be approaching a debt-free position by the end of FY04 in the absence of acquisitions, and the forecast continuation of the historical payout ratio of 50%-60% (and lack of franking credits making a substantial special dividend unlikely) supports a buildup of cash over the forecast period.

Despite strong shareprice appreciation over the past 12 months of 66%, GUD remains at a discount of 18% to the BBY Growth Companies FY05 PER aggregate, which we consider indicates the market is concerned about the impact of a potential consumer slowdown on earnings.

Proven mgt skills offset risk of consumer slowdown

Whilst we concur with this potential for a downturn in consumer activity, we are confident that the proven skills of management offsets the earnings risk of a consumer spending downturn, and see earnings momentum as remaining positive over FY05.

Thus following a result that was consistent with our expectations we continue to recommend GUD as a Buy.



GUD Holdings (GUD:\$9.15)

Mkt cap: \$558m

Buy

Valuation data

Year ending Jun	2002	2003	2004	2005F	2006F
EPS pre goodwill (¢)	34.3	46.0	71.1	83.3	91.4
P/E ratio	26.7 x	19.9 x	12.9 x	11.0 x	10.0 x
P/E relative *			86	82	84
EPS growth	78%	34%	54%	17%	10%
EPS pre abn's (¢)	32.3	44.4	68.3	79.3	87.5
P/E ratio	28.4 x	20.6 x	13.4 x	11.5 x	10.5 x
P/E relative *			89	86	88
EPS growth	86%	38%	54%	16%	10%
EV / EBIT	17.1 x	13.1 x	9.2 x	7.8 x	7.0 x
EV / EBITDA	13.1 x	10.7 x	7.7 x	6.6 x	6.0 x
CFPS (¢)	55.3	67.3	80.9	91.2	95.0
Price / CF	16.5 x	13.6 x	11.3 x	10.0 x	9.6 x
DPS (¢)	16.5	26.0	40.0	47.0	51.0
Yield	1.8%	2.8%	4.4%	5.1%	5.6%
Franking	55%	100%	100%	100%	100%
NTA per share	\$1.15	\$1.26	\$1.39	\$1.93	\$2.43
Pr / NTA	7.9 x	7.3 x	6.6 x	4.7 x	3.8 x

Profit and loss (\$M)

Year ending Jun	2002	2003	2004	2005F	2006F
Sales revenue	365.9	372.4	395.8	420.0	439.2
growth over pcp	7%	2%	6%	6%	5%
EBITDA	45.4	54.3	74.4	83.5	89.2
Dep'n and amort'n	9.2	9.0	10.2	10.4	10.4
EBITAg	36.2	45.3	64.3	73.0	78.7
Goodwill amortisation	1.3	1.0	1.7	2.4	2.4
EBIT	34.9	44.3	62.6	70.6	76.3
growth over pcp	39%	27%	41%	13%	8%
Net interest expense	5.3	3.7	2.4	0.6	(0.9)
Pre-tax profit	29.6	40.6	60.2	70.0	77.2
Tax	8.8	13.2	18.4	21.7	23.9
Effective tax rate	29.9%	32.5%	30.6%	31.0%	31.0%
Preference dividends	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
BBY adjustments	1.3	1.0	1.7	2.4	2.4
BBY adj profit	22.1	28.4	43.4	50.7	55.7
Reported profit (pre abn)	20.8	27.4	41.7	48.3	53.3
One-off items (post tax)	(14.4)	(5.6)	(6.2)	0.0	0.0
Reported net profit	6.4	21.8	35.5	48.3	53.3

Ratio analysis

Year ending Jun	2002	2003	2004	2005F	2006F
EBITDA / sales	12.4%	14.6%	18.8%	19.9%	20.3%
EBITAg / sales	9.9%	12.2%	16.2%	17.4%	17.9%
EBIT / sales	9.5%	11.9%	15.8%	16.8%	17.4%
Return on assets	15%	21%	29%	31%	32%
Return on equity	17%	23%	32%	32%	30%
Dividend payout ratio	48%	56%	56%	56%	56%
Net debt / (cash) (\$M)	38.0	20.9	17.6	(4.6)	(22.2)
Debt / equity	40%	34%	33%	21%	17%
Net debt / equity	31%	16%	12%	nmf	nmf
Interest cover	6.6 x	11.8 x	25.8 x	nmf	nmf

* Relative to BBY growth companies universe

Balance sheet (\$M)

Year ending Jun	2002	2003	2004	2005F	2006F
Cash	11.1	21.8	29.7	39.7	54.7
Receivables	55.2	49.9	51.1	56.7	65.9
Inventories	57.4	60.0	66.5	73.5	79.1
Other	7.5	5.7	4.7	4.7	4.7
Current assets	131.2	137.3	152.0	174.6	204.3
Net PPE	40.9	37.5	36.8	38.3	40.7
Investments	0.0	0.0	0.0	0.0	0.0
Goodwill	11.2	10.2	18.2	15.8	13.4
Other intangibles	39.9	40.6	39.7	37.3	34.9
Other	6.1	6.7	8.1	8.1	8.1
Non-current assets	98.1	95.1	102.8	99.4	97.1
Total assets	229.3	232.4	254.7	274.0	301.4
Debt	49.0	42.6	47.3	35.1	32.6
Provisions	22.3	22.9	26.9	28.6	31.0
Other	36.3	40.0	37.9	39.9	41.7
Total liabilities	107.6	105.6	112.1	103.6	105.3
Equity / reserves	111.9	108.0	107.7	107.7	107.7
Retained profits	9.8	18.8	34.9	62.7	88.4
Total s/h funds	121.7	126.8	142.6	170.4	196.1
Minorities	0.1	0.0	0.0	0.0	0.0
Total funds emp.	229.3	232.4	254.7	274.0	301.4

Cashflow (\$M)

Year ending Jun	2002	2003	2004	2005F	2006F
EBIT	34.9	44.3	62.6	70.6	76.3
Net interest paid	(5.3)	(3.7)	(2.4)	(0.6)	0.9
Dep'n and amort'n	10.5	10.0	11.9	12.8	12.8
Tax paid	(3.4)	(9.0)	(11.3)	(18.4)	(21.7)
Gross cash from op'ns	36.7	41.5	60.8	64.4	68.3
(Inc) / dec in wkg cap	11.3	6.5	(9.9)	(10.6)	(12.9)
Other	(12.3)	(6.5)	(1.5)	1.7	2.4
Operating cashflow	35.7	41.5	49.4	55.6	57.9
growth over pcp	170%	16%	19%	12%	4%
<i>Investing cashflows</i>					
Capital expenditure	(7.9)	(7.6)	(9.2)	(10.0)	(11.0)
Asset sales	10.9	4.3	0.9	0.5	0.5
Investments	0.0	0.0	(9.3)	0.0	0.0
Divestments	12.5	0.0	0.0	0.0	0.0
<i>Financing cashflows</i>					
Equity raised	(6.9)	(4.7)	(0.7)	0.0	0.0
Dividends paid	(9.5)	(12.2)	(19.4)	(23.8)	(29.8)
Chg in loans	(38.7)	(6.4)	(1.4)	(12.2)	(2.5)
Other non-op flows	(1.7)	(4.2)	(2.7)	(0.1)	(0.0)
Net chg in cash	(3.8)	10.9	7.8	10.0	15.0

Interims (\$M)

Half yearly	2h02	1h03	2h03	1h04	2h04
Sales revenue	173.1	198.0	174.4	211.7	184.1
EBITDA	22.6	28.0	26.3	38.8	35.6
EBIT	17.5	23.2	21.1	33.4	29.2
BBY adj profit	11.0	15.2	13.1	22.9	20.6
Reported profit	10.3	14.7	12.6	22.4	19.4
EBIT / sales	10.1%	11.7%	12.1%	15.8%	15.9%
EPS (¢)	17.2	24.6	21.5	37.4	33.7
DPS (¢)	9.0	11.0	15.0	17.0	23.0
% of FY sales	47.3%	53.2%	46.8%	53.5%	46.5%
% of FY EBIT	50.2%	52.3%	47.7%	53.3%	46.7%



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