

UBS Investment Research

GUD Holdings Limited

Margin enhancements underpin earnings upgrades

› Earnings upgrades reflect strength of outlook

We have upgraded our NPAT forecasts for FY 05 and FY 06 by 8% and 5% respectively to reflect our growing confidence in the strength of the outlook for GUD's business. This confidence is underpinned by the comments at today's AGM, our recent meeting with management and the positive outlook for consumer spending.

› Efficiency gains, new products & consumer spend the drivers

We believe that there are three main factors driving GUD's strong anticipated growth: 1) Gains in operating efficiency; 2) Successful rollout of new, higher margin products; and 3) Strong environment for consumer spending. Our forecast EBIT margin in FY 05 has increased from 14.9% to 15.8% to reflect our expectation of the effects of ongoing cost rationalisation and GUD's product pipeline.

› Neutral 2 rating retained

At the current share price of \$10.35 per share, GUD is trading at a FY 06E P/E (n) of 11.9x. The FER to our price target is +0.1% and we retain a Neutral 2 rating.

› Valuation: \$10.88 per share

Our DCF valuation (WACC 10.6%, 1.11) increases by 8% from \$10.10 to \$10.88 per share as a result of the changes to our earnings estimates and a reduction in our WACC assumption due to the use of a lower rfr. Our price target is equal to our valuation and increases accordingly. Our price target implies a FY 06E P/E (n) of 12.5x.

Highlights (A\$m)	06/03	06/04	06/05E	06/06E	06/07E
Revenues	375.7	396.7	444.0	460.5	477.5
EBIT	45.2	62.6	70.3	73.3	76.0
Net income (UBS)	27.3	41.7	48.6	50.7	52.6
EPS (UBS, A\$)	0.47	0.72	0.84	0.87	0.90
Net DPS (UBS, A\$)	0.26	0.40	0.50	0.53	0.55

Profitability & Valuation	5-yr hist. av.	06/04	06/05E	06/06E	06/07E
EBIT margin %	-	15.8	15.8	15.9	15.9
ROIC (EBIT) %	-	36.5	40.1	43.1	47.2
EV/EBITDA x	-	5.9	7.7	7.1	6.7
PE (UBS) x	-	9.5	12.4	11.9	11.5
Net dividend yield %	-	5.8	4.8	5.1	5.3

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\$10.35 on 20 Oct 2004

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Global Equity Research

Australia

Auto Parts

Rating **Neutral 2**
Unchanged

Price target **A\$10.88/US\$7.91**
Prior: A\$10.10/US\$7.34

Price **A\$10.35/US\$7.36**

RIC: GUD.AX BBG: GUD AU

20 October 2004

Trading data (local/US\$)

52-wk. range	A\$10.43-5.92/US\$7.36-4.27
Market cap.	A\$0.63bn/US\$0.45bn
Shares o/s	60.9m (ORD)
Free float	100%
Avg. daily volume ('000)	127
Avg. daily value (A\$m)	1.2

Balance sheet data 06/05E

Shareholders' equity	A\$0.18bn
P/BV (UBS)	3.8x
Net cash (debt)	A\$0.01bn

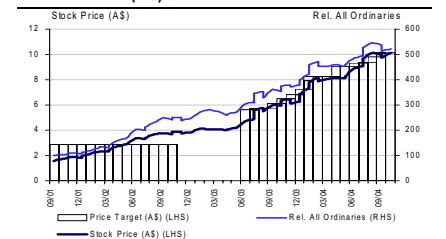
Forecast returns

Forecast price appreciation	+5.1%
Forecast dividend yield	5.1%
Forecast stock return	+10.2%
Market return assumption	10.1%
Forecast excess return	+0.1%

EPS (UBS, A\$)

	06/05E			06/04
	From	To	Cons.	Actual
H1E	0.41	0.44	-	0.38
H2E	0.37	0.39	-	0.34
06/05E	0.78	0.84	0.77	
06/06E	0.83	0.87	0.81	

Performance (A\$)



Source: UBS

www.ubs.com/investmentresearch

AGM commentary indicates positive outlook

The tone at GUD's FY 04 AGM today was positive. The company confirmed that trading so far this year has been "strong" and the first quarter result exceeded last year's. The expectation of management is that strong trading will continue for the remainder of H1 05 and that the full year result will show "further improvements" in FY 04. The improved performance expected by GUD is likely to be "reflected in improved fully franked dividends".

What is driving this growth?

In our opinion, there are three main factors driving the strong anticipated growth in earnings in FY 05:

(1) Gains in operating efficiency

- The transformation of margins at GUD's largest division, Sunbeam Victa, began with the closure in 2002 of the factory at Campsie, NSW and the reorganisation of the supply chain to source proprietary products from contracted suppliers overseas. Adjusted EBIT margins in this division improved from 5.2% in FY 01 to 15.4% in FY 04. The story does not stop there. Sunbeam's electric blanket factory in New Zealand was closed in FY 04 and the remaining Ryco manufacturing activities are to be closed by February 2005. These restructuring efforts have been matched by tight cost control and a focus on improving CVA returns. We forecast group EBIT margins in FY 05 to be sustained at the strong level of FY 04 (15.8%) with improvements in operating efficiency compensating for non-recurrence of the ~\$6m EBIT gain resulting from currency movements in FY 04.

(2) Successful rollout of new, higher margin products

- Much of GUD's success in growing its revenues and margins lies in the success of new products that have been well designed and marketed at a higher price point than antecedent products. Sunbeam's *Café Series* coffee makers and Victa's *Razor* mower are arguably the best recent examples of new products that have been met with strong demand and have generated high margins. Much of today's AGM focused on new products currently in the pipeline. These include Victa's *Tornado* mower and around 70 new Sunbeam products launched for the Christmas season.

(3) Strong environment for consumer spending

- The primary macroeconomic driver for the strength of demand for GUD's products is consumer spending. Consumer sentiment in Australia is very strong at present; the Westpac-Melbourne Institute consumer confidence index hit a 10-year high in September. The rebound in imports and the improvement in business confidence and activity reported by the ACCI yesterday also suggests that underlying growth momentum in the domestic economy and consumer spending remains firm.

Upgrades to our earnings estimates

We have upgraded our forecasts for earnings by around 8% in FY 05 and 5% in FY 06 to reflect our growing confidence in the strength of the outlook for GUD's business. This confidence is underpinned by the comments at today's AGM, our recent meeting with management and the positive outlook for consumer spending. The key changes to our forecasts are shown in Table 1.

Table 1: Changes to forecasts

	Current	Previous	%	Current	Previous	%
	FY 05E	FY 05E	Change	FY 06E	FY 06E	Change
Revenue	444.0	439.5	1.0%	460.5	455.8	1.0%
EBITDA	82.3	77.3	6.5%	85.4	81.6	4.6%
EBIT	70.3	65.3	7.7%	73.3	69.6	5.4%
EBIT margin	15.8%	14.9%	6.6%	15.9%	15.3%	3.9%
Reported NPAT	48.6	45.1	7.7%	50.7	48.1	5.4%
Reported EPS (cps)	79.9	74.1	7.7%	84.3	80.0	5.4%
Adjusted EPS (cps)	83.6	77.9	7.4%	87.1	82.8	5.2%

Source: UBS estimates

Investment case

Valuation and price target

Our DCF valuation (WACC 10.6%, 1.11) increases by 8% from \$10.10 per share to \$10.88 per share as a result of the changes to our earnings estimates and a reduction in our WACC assumption from 10.7% to 10.6% due to the use of a lower rfr (linked to bond yields). Our price target is equal to our valuation and increases by the same amount. Our price target implies a FY 06E P/E (n) of 12.5x.

Rating

At the current share price of \$10.35 per share, GUD is trading at a FY 06E P/E (n) of 11.9x. The forecast excess return to our price target is +0.1% and we retain a Neutral 2 rating.

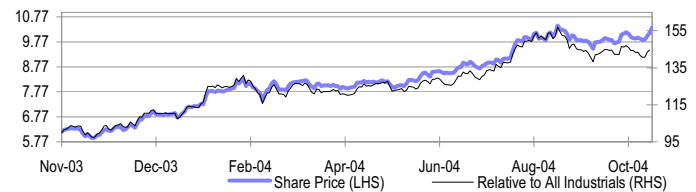
GUD Holdings (GUD.AX)

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MARKET INFORMATION

Rating:	Neutral 2
Price (as of 20-Oct-04):	\$10.35
Valuation (Per Share):	-
Share Price Target (12 months):	\$10.88
52 Week High:	\$10.43
52 Week Low:	\$5.92
Issued Capital:	61m
Market Capitalisation:	\$630m
Major Shareholders:	

SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS

Year End Jun		2004	2005E	2006E	2007E
Net Profit [reported]	\$m	35.5	48.6	50.7	52.6
Net Profit [reported excl abnormals]	\$m	41.7	48.6	50.7	52.6
EPS [reported diluted]	¢	58.5	79.9	84.3	87.4
EPS [reported excl abnormals]	¢	68.7	79.9	84.3	87.4
EPS [normalised]	¢	72.4	83.6	87.1	90.1
...Growth	%	53.2	15.4	4.1	3.5
PER [normalised]	x	14.3	12.4	11.9	11.5
PER Relative [excl. financials weighted. avg]	%	86.1	89.5	89.0	86.2
Free Cash Flow per share	¢	73.5	96.8	91.4	82.7
Price/Free Cash Flow	x	14.1	10.7	11.3	12.5
Dividend	¢	40.0	50.0	53.0	55.0
Payout Ratio	%	58.2	62.6	62.8	62.9
Yield	%	3.9	4.8	5.1	5.3
Franking	%	100.0	100.0	100.0	100.0
Issued Shares (year end)	m	61.0	60.9	60.9	60.9

COMPANY DESCRIPTION

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.

PROFIT & LOSS ANALYSIS

(A\$m)	2004	2005E	2006E	2007E
Sales	396.7	444.0	460.5	477.5
Operating EBITDA	74.4	82.3	85.4	88.1
Depreciation	(10.2)	(10.3)	(10.3)	(10.3)
Operating EBITA	64.3	72.0	75.0	77.7
Investment Income/Non Operating Items	0.0	0.0	0.0	0.0
Goodwill Amortisation	(1.7)	(1.7)	(1.7)	(1.7)
EBIT	62.6	70.3	73.3	76.0
Division 1	34.5	37.7	39.2	40.8
Division 2	18.4	20.8	21.9	22.5
Division 3	8.3	10.1	10.5	10.9
Division 4	2.1	2.2	2.2	2.3
Division 5	(0.6)	(0.5)	(0.5)	(0.5)

ENTERPRISE VALUE FUNDAMENTALS

		2004	2005E	2006E	2007E
Enterprise Value	\$m	438.8	619.6	594.6	576.7
EV/EBITDA	x	6.8	8.6	7.9	7.4
EV/EBITDA	x	5.9	7.5	7.0	6.5
EV/Sales	%	1.1	1.4	1.3	1.2
EV/Operating Free Cash Flow	x	7.5	7.7	7.6	7.8

HALF YEARLY ANALYSIS

(A\$m)	1H04	2H04	1H05E	2H05E
Sales	211.8	184.9	240.2	203.8
Operating EBITDA	38.9	35.6	43.5	38.8
Depreciation	(05.0)	(05.2)	(05.1)	(05.2)
Operating EBITA	33.9	30.4	38.4	33.6
Investment Income/Non Operating Items	00.0	00.0	00.0	00.0
Goodwill Amortisation	(00.5)	(01.2)	(00.5)	(01.2)
EBIT	33.4	29.2	37.9	32.4
Net Interest	(01.4)	(01.0)	(00.1)	(00.1)
Abnormal Items before Tax	(03.0)	(05.9)	00.0	00.0
Earnings Before Tax	29.0	22.3	37.9	32.3
Tax Expense	(08.7)	(07.0)	(11.6)	(09.9)
Equity Associate NPAT	00.0	00.0	00.0	00.0
Minority Int./Preference Dividend	00.0	00.0	00.0	00.0
Net Profit [reported]	20.3	15.3	26.2	22.4
Abnormal Gain/(Loss) after Tax	(02.2)	(04.1)	00.0	00.0
Net Profit [reported pre abnormals]	22.4	19.3	26.2	22.4
EPS [reported diluted]	¢	33.4	25.1	43.1
EPS [normalised]	¢	38.2	34.2	44.3
DPS	¢	17.0	23.0	24.0

Net Interest	(2.4)	(0.1)	(0.1)	(0.1)
Abnormal Items before Tax	(8.9)	0.0	0.0	0.0
Earnings Before Tax	51.3	70.2	73.2	75.9
Tax Expense	(15.8)	(21.6)	(22.5)	(23.3)
Equity Associate NPAT	0.0	0.0	0.0	0.0
Minority Int./Preference Dividend	0.0	0.0	0.0	0.0
Net Profit [reported]	35.5	48.6	50.7	52.6
Abnormal Gain/(Loss) after Tax	(6.2)	0.0	0.0	0.0
Net Profit [reported pre abnormals]	41.7	48.6	50.7	52.6
Net Profit [normalised]	44.0	50.9	53.0	54.9
...Sales Growth	%	5.6	11.9	3.7
...EBITDA Margin	%	18.8	18.5	18.5
...EBITA Margin	%	16.2	16.2	16.3
...Net Interest Cover	x	25.1	591.5	617.7
...Tax Rate	%	30.7	30.7	30.7
...Return on Assets	%	24.6	26.2	25.5
...Return On Equity	%	32.7	33.3	30.7
...Operating EBITA/Avg. Op. CE	%	43.9	48.6	52.4
...EBITA/Avg Capital Employed	%	41.7	46.1	49.6

CASH FLOW ANALYSIS

(A\$m)	2004	2005E	2006E	2007E
EBITDA	74.4	82.3	85.4	88.1
Net Working Capital Inflation	(11.3)	2.4	(3.0)	10.1
Maintenance Capital Expenditure	(4.6)	(4.1)	(4.1)	(4.1)
Operating Free Cash Flow	58.5	80.6	78.2	73.8
Net Interest Paid	(2.4)	(0.1)	(0.1)	(0.1)
Tax Paid	(11.3)	(21.6)	(22.5)	(23.3)
Free Cash Flow	44.8	58.9	55.6	50.4
Non-Maintenance Capital Expenditure	(4.6)	(4.1)	(4.1)	(4.1)
Acquisitions	(9.3)	0.0	0.0	0.0
Divestments	0.9	0.8	0.9	0.8
Other	(4.3)	0.0	0.0	0.0
Distributable Cash Flow	27.5	55.6	52.4	47.0
Gross Dividends Paid	(19.4)	(28.6)	(31.6)	(32.9)
Equity issues [incl. DRP]	1.1	0.0	0.0	0.0
Change in Net Debt [decrease/(increase)]	9.1	27.0	20.7	34.4

BALANCE SHEET ANALYSIS

(A\$m)	2004	2005E	2006E	2007E
Receivables	51.1	55.8	58.0	60.1
Inventories	66.5	60.6	62.9	52.2
Creditors & Provisions	(56.2)	(57.4)	(58.8)	(60.4)
Fixed Assets	36.8	33.6	30.4	27.2
Intangibles	57.9	55.6	53.3	51.1
Net Other	4.1	4.1	4.1	4.1
Operating Capital Employed	160.2	152.4	149.9	134.3
Investments	0.0	0.0	0.0	0.0
Capital Employed	160.2	152.4	149.9	134.3
Net Cash / (Net Debt)	(17.6)	10.3	32.4	68.3
Total Equity (excl minorities)	142.6	162.6	182.3	202.7
Minorities	0.0	0.0	0.0	0.0
...Net Debt / (Net Debt + Equity)	%	11.0	nm	nm
...Book Value Per Share	\$	2.3	2.7	3.0

■ GUD Holdings Limited

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■ Statement of Risk

We believe 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.

