

GUD Holdings Limited

AGM confirms positive outlook



Wilson HTM
INVESTMENT GROUP

21 October 2004

\$10.35

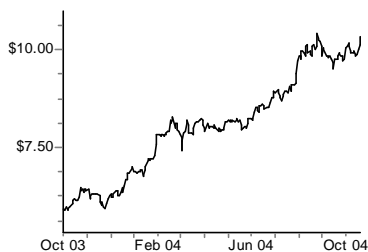
Short Term Long Term

HOLD HOLD

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Price Performance



Security/Capital Details

ASX Code	GUD
Market Cap	\$616 M
Issued Shares	60.9 M
Avg Mth T'over	2.61 M
12 Mth High – Low	\$10.43 - \$5.92

Key Data/Ratios – FY 2005

EBITDA / Sales	15.7%
EBIT / Sales	13.0%
Net Debt / Equity	0.1%
Interest Cover	24.7 x
ROE	25.2%
EPS Growth	5.7%
PEG Ratio	2.99 x
NTA / Share	\$ 1.55
12 Mth Price Target	\$ 10.30

Recommendation

GUD's has confirmed a strong start to the year, with 1Q trading profit tracking ahead of last year. Management has confirmed its expectation of further improvements in performance for FY 2005, which will also be reflected in increased dividends. Our previous forecasts were too low, and we have increased our normalised NPAT forecast to \$46.2M (+11%). Based on our FY 2006 forecasts, we believe GUD should trade on a EV/EBITA of 8.0x or PER of 12.5x. This implies a revised valuation of \$10.30 p/share, broadly in line with the current share price. We believe GUD is fairly priced. **HOLD**.

Key Points

- GUD held its AGM in Melbourne yesterday, with the Company confirming a strong start to the year, with trading profit in the 1Q tracking ahead of last year. Management expect this positive trading performance to continue for the 1H and expect further improvements for the balance of FY 2005.
- The earnings outlook for each of GUD's divisions remains positive and is underpinned by GUD's continued focus on product development and innovation to drive improved margins, supported by good cost management.
- The release of new and higher margin products by Sunbeam (including a new range for Christmas) and Victa is expected to sustain earnings growth in FY 2005
- Continued product development by Davey and Lock Focus should deliver growth from both divisions. Davey will also benefit from a full-year contribution from Spa-Quip which is performing ahead of expectations.
- GUD again confirmed the planned closure of its Australian filter manufacturing plant from February 2005, resulting in a \$12.3M pre-tax charge relating to employee redundancies (\$3.4M) and asset write-offs (\$8.9M). Associated margin improvements from the restructure underpin our forecast for improved earnings contributions from the Filtration division from FY 2006 onwards.
- GUD reaffirmed that it continues to seek further acquisitions, however suitable opportunities are scarce. Given the absence of suitable acquisitions, we expect GUD to continue to pay annual dividends to the extent that they can remain fully franked.
- We have increased our FY 2005 normalised NPAT forecast to \$46.2M (previously \$42.4M). Reported NPAT (of \$37.6M) will be reduced by \$8.6M of pre-tax restructuring costs related to the Filtration business. Our FY 2006 forecast is for 8% growth to \$49.2M (previously \$45.5M).
- Based on our revised forecasts, we value GUD at \$10.30 p/share based on the average of a FY 2006 EV/EBITA multiple of 8.0x and PER of 12.5x. We maintain our 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	16.9	12.7	4.4	9.9	40.0	3.9	100
2005e	37.6	64.7	16.0	12.9	4.1	9.2	45.0	4.3	100
2006e	49.2	83.7	12.4	9.6	3.6	7.1	50.0	4.8	100
2007e	52.9	89.7	11.5	9.5	3.2	6.5	54.0	5.2	100



Earnings Summary

The following table summarises our earnings forecasts for GUD.

Financial summary

Y/e: 30 June		FY 2002	FY 2003	FY 2004	FY 2005e	FY 2006e	FY 2007e
Sales revenue	(\$M)	365.9	372.4	393.8	435.4	458.1	481.4
- growth		7%	2%	6%	11%	5%	5%
Group EBIT		34.9	44.3	62.6	68.9	72.1	75.8
- growth		39%	27%	41%	10%	5%	5%
NPAT (normalised)		20.8	27.4	41.7	46.2	49.2	52.9
- growth		79%	32%	52%	11%	7%	8%
Significant items (net)		-14.4	-5.6	-6.2	-8.6	0.0	0.0
NPAT (reported)		6.4	21.8	35.5	37.6	49.2	52.9
EPS (normalised)*	(cents)	34.9	46.6	71.4	78.9	83.7	89.7
- growth	(%)	79%	34%	53%	10%	6%	7%
EPS (reported) *	(cents)	12.2	37.4	61.2	64.7	83.7	89.7
- growth	(%)	-38%	207%	64%	6%	29%	7%
DPS	(cents)	16.5	26.0	40.0	45.0	50.0	54.0

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

Divisional earnings are detailed in the table below. The forecasts are presented on a 'reported' basis, which for FY 2005 includes previously foreshadowed restructuring costs of \$12.3M (pre-tax) related to the Filtration business.

Divisional summary

Y/e: 30 June	FY 2002	FY 2003	FY 2004	1h'05(e)	2h'05(e)	FY 2005e	FY 2006e	FY 2007e
Revenue:								
Sunbeam Victa	205.6	201.8	223.2	131.9	108.0	239.9	251.9	264.5
Filtration	84.2	85.8	86.0	46.1	44.3	90.3	94.8	99.1
Davey (pumps)	63.7	71.9	72.8	51.9	39.2	91.1	96.6	102.4
Lock Focus (locks)	12.4	13.5	13.4	7.2	6.9	14.1	14.8	15.4
Unallocated	0.0	0.2	0.4	0.0	0.0	0.0	0.0	0.0
Total revenue	365.9	373.3	395.8	237.1	198.3	435.4	458.1	481.4
EBIT (reported):								
Sunbeam Victa	15.9	13.8	28.5	20.2	15.1	35.3	37.0	38.9
Filtration	12.7	15.2	15.5	-3.3	10.9	7.7	20.4	21.3
Davey (pumps)	5.6	7.4	8.3	6.3	5.5	11.8	12.8	13.6
Lock Focus (locks)	1.8	1.2	2.1	1.1	1.1	2.2	2.3	2.4
Unallocated	-1.1	-0.3	-0.6	-0.2	-0.2	-0.4	-0.4	-0.4
Total EBIT	34.9	37.3	53.7	24.2	32.4	56.6	72.1	75.8

Source: GUD & WHTM

INVESTMENT FUNDAMENTALS

Yr Ending June	2003A	2004A	2005E	2006E	2007E
EPS Reported (c)	35.7	58.5	61.7	80.9	87.0
EPS Normalised (c)	37.4	61.2	64.7	83.7	89.7
EPS Growth (%)		63.9	5.7	29.3	7.1
PER Normalised (x)	27.7	16.9	16.0	12.4	11.5
DPS (c)	26.0	40.0	45.0	50.0	54.0
Payout (%)	72.8%	68.4%	72.9%	61.8%	62.1%
Yield (%)	2.5%	3.9%	4.3%	4.8%	5.2%
Franking (%)	100%	100%	100%	100%	100%

VALUATION DATA

Yr Ending June	2003A	2004A	2005E	2006E	2007E
EV / EBITA (x)	16.7	11.6	10.8	8.1	7.4
EV / EBITDA (x)	13.7	9.9	9.2	7.1	6.5
CFPS (c)	68.2	81.3	80.3	108.0	108.9
Price / CF	15.2	12.7	12.9	9.6	9.5
Book Value / Share (\$)	2.10	2.34	2.54	2.87	3.22
Price / Book (x)	4.9	4.4	4.1	3.6	3.2

PROFIT & LOSS (\$m)

Yr Ending June	2003A	2004A	2005E	2006E	2007E
Sales Revenue	372.4	393.8	435.4	458.1	481.4
EBITDA	47.3	65.6	68.5	84.4	88.8
Depreciation	8.4	9.6	10.1	10.6	11.3
EBITA	38.8	56.0	58.4	73.8	77.5
Amortisation	1.5	2.3	1.8	1.7	1.7
EBIT	37.3	53.7	56.6	72.1	75.8
Net Interest Expense	3.7	2.4	1.3	-0.1	-0.5
Pre-tax Profit	33.6	51.3	55.3	72.1	76.3
Tax	11.8	15.8	17.7	22.9	23.4
Tax rate (%)	35.1%	30.7%	32.0%	31.7%	30.6%
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
Net Profit	21.8	35.5	37.6	49.2	52.9
Abn's / Extraord's	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	21.8	35.5	37.6	49.2	52.9
Revenue Growth (%)		5.8%	10.6%	5.2%	5.1%
EBIT Growth (%)		44.0%	5.3%	27.4%	5.2%
NPAT Growth (%)		63.2%	5.8%	31.0%	7.5%

PROFITABILITY RATIOS

Yr Ending June	2003A	2004A	2005E	2006E	2007E
EBIT / Sales (%)	10.0%	13.6%	13.0%	15.7%	15.7%
ROA (%)		24.7%	24.6%	30.8%	32.3%
ROE (%)		26.4%	25.2%	29.9%	28.6%
ROFE (%)		36.4%	37.0%	49.3%	54.7%

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	237.1	198.3	249.5
EBIT	30.4	23.4	24.2	32.4	36.9
Net Profit	20.3	15.3	15.0	22.5	24.8
EBIT / Sales (%)	14.3%	12.8%	10.2%	16.3%	14.8%

BALANCE SHEET (\$m)

Yr Ending June	2003A	2004A	2005E	2006E	2007E
Cash	21.8	29.7	32.1	50.5	67.3
Receivables	49.9	51.1	56.5	59.5	62.5
Inventories	60.0	66.5	73.5	77.4	81.3
Other	5.7	4.7	5.9	5.9	5.9
Current Assets	137.3	152.0	168.1	193.2	217.0
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	8.7	8.9	9.2
Non-current Assets	95.1	102.8	97.3	91.3	86.5
Total Assets	232.4	254.7	265.4	284.5	303.5
Current Payables	40.0	37.9	41.9	44.1	46.3
Current Debt	20.3	27.1	12.1	0.1	0.1
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	36.5	45.5	50.9
Total Liabilities	105.6	112.1	110.7	109.8	107.5
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	46.9	66.9	88.2
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	126.8	142.6	154.7	174.7	196.0
Total Funds Employed	147.7	160.2	154.9	144.5	138.9

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2003A	2004A	2005E	2006E	2007E
Net Debt (Cash) (\$m)	20.9	17.6	0.2	-30.2	-57.0
Net Debt / Equity (%)	16.5%	12.3%	0.1%	-17.3%	-29.1%
Interest Cover (x)	9.4	18.8	24.7	53.7	70.8
Debt / CashFlow (x)	1.0	1.0	0.7	0.3	0.2

CASHFLOW (\$m)

Yr Ending June	2003A	2004A	2005E	2006E	2007E
EBIT	37.3	53.7	56.6	72.1	75.8
Dep'n and Amort'n	10.0	11.9	11.9	12.4	13.0
Net Int Rec'd (Paid)	-3.7	-2.4	-1.3	0.1	0.5
Tax Paid	-9.0	-11.3	-12.6	-14.2	-18.3
Dec / (Inc) W'kg Cap	6.5	-9.9	-8.4	-4.6	-4.7
Other	0.5	7.4	2.7	0.0	0.0
Operating Cash Flow	41.5	49.4	48.8	65.7	66.3
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	-12.0	-10.0
Dividends Paid	-12.2	-19.4	-25.6	-29.2	-31.7
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	-23.3	-21.5	-40.6	-41.2	-41.7
Net Cash Flow	10.9	7.8	2.4	18.4	16.8

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