

GUD Holdings Limited

An over-reaction



WilsonHTM
INVESTMENT GROUP

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\$9.20

Short Term Long Term

HOLD BUY

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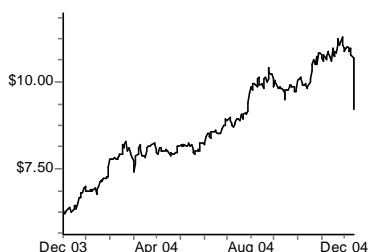
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Price Performance



Security/Capital Details

ASX Code	GUD
Market Cap	\$560 M
Issued Shares	60.9 M
Avg Mth T'over	2.61 M
12 Mth High – Low	\$11.30 - \$6.33

Key Data/Ratios – FY 2005

EBITDA / Sales	15.3%
EBIT / Sales	12.6%
Net Debt / Equity	1.3%
Interest Cover	24.0 x
ROE	24.5%
EPS Growth	2.5%
PEG Ratio	6.66 x
NTA / Share	\$ 1.53
DCF	\$ 9.51
12 Mth Price Target	\$ 10.00

Recommendation

We endorse a long-term BUY recommendation for GUD on the basis that yesterday's share price retreat (-14%) was an over-reaction. We believe the shares should recover to the \$10.00 level.

Following Monday's trading update, our FY 2006 forecasts are essentially unchanged, while our FY 2005 EBIT forecast has been reduced only slightly (ie. -2%). We view yesterday's share price fall as an over-reaction, and have increased our recommendation from HOLD to a short-term BUY, and expect the shares to recover to the \$10.00 level.

Key Points

- GUD has provided a trading performance and earnings update.
- At the divisional level, GUD confirmed the continuation of strong trading for Sunbeam, while Davey and Lock Focus are trading in line with expectations. Victa is trading below expectations due to the ongoing affects of water restrictions, and competition from low quality, low value imports. Ryco sales continue to be pressured by ongoing import competition, however margins are understood to have remained stable.
- Overall, the trading performance update is essentially in-line with our expectations for GUD.
- With respect to financial performance, GUD expects FY 2005 trading EBIT to be ahead of last year's trading EBIT of \$62.6M, but below consensus broker forecasts of 9% growth. The Company views trading EBIT of \$70M as a 'reasonable target' for FY 2006.
- Our previous forecast for FY 2005 assumed trading EBIT of \$68.9M (+10%), and we have reduced this slightly to \$67.2M (+7%). With respect to FY 2006, our forecast for EBIT is essentially unchanged at \$71.2M.
- Whilst some of GUD's divisions are experiencing more difficult trading conditions, on balance, the earnings outlook for GUD remains positive. This is underpinned by GUD's continued focus on new and higher margin product development, as well as margin improvement from the Filtration division's move to offshore sourcing (which will become evident from FY 2006).
- Double-digit growth of dividends is expected, and we remain comfortable with our FY 2005 DPS forecast of 45.0 cents (+12%), increasing in FY 2006 to 50.0 cents (+11%). Given a near debt-free balance sheet, and in the absence of a major acquisition, 'dividend surprises' are likely.
- We endorse a valuation of \$10.00 p/share for GUD based on a FY 2006 EV/EBITDA multiple of 8.0x. This reflects a PER of 12.0x, and yield of 5.0%.
- GUD's shares were oversold yesterday (-14%), and we expect the shares to recover to the \$10.00 level.

June	NPAT (Rep) \$M	EPS (Norm) c	PER x	P/CF x	P/BV x	EV/EBITDA x	DPS c	Div Yld %	Franking %
2004a	35.5	61.2	15.0	11.3	3.9	8.8	40.0	4.4	100
2005e	36.4	62.8	14.7	11.9	3.6	8.4	45.0	4.9	100
2006e	48.6	82.7	11.1	8.6	3.2	6.4	50.0	5.4	100
2007e	52.4	88.8	10.4	8.5	2.9	5.7	54.0	5.9	100

Equities Research – Industrials

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Earnings Summary

The following table summarises our revised 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	67.2	71.2	75.1
- growth		39%	27%	41%	7%	6%	6%
NPAT (normalised)		20.8	27.4	41.7	45.0	48.6	52.4
- growth		79%	32%	52%	8%	8%	8%
Significant items (net)		-14.4	-5.6	-6.2	-8.6	0.0	0.0
NPAT (reported)		6.4	21.8	35.5	36.4	48.6	52.4
EPS (normalised)*	(cents)	34.9	46.6	71.4	76.9	82.7	88.8
- growth	(%)	79%	34%	53%	8%	7%	7%
EPS (reported) *	(cents)	12.2	37.4	61.2	62.8	82.7	88.8
- growth	(%)	-38%	207%	64%	3%	32%	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

Our divisional earnings forecasts 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	FY 2005e	FY 2006e	FY 2007e
Revenue:	(\$M)						
Sunbeam Victa		205.6	201.8	223.2	239.9	251.9	264.5
Filtration		84.2	85.8	86.0	90.3	94.8	99.1
Davey (pumps)		63.7	71.9	72.8	91.1	96.6	102.4
Lock Focus (locks)		12.4	13.5	13.4	14.1	14.8	15.4
Unallocated		0.0	0.2	0.4	0.0	0.0	0.0
Total revenue		365.9	373.3	395.8	435.4	458.1	481.4
EBIT (reported):	(\$M)						
Sunbeam Victa		15.9	13.8	28.5	33.9	36.3	38.5
Filtration		12.7	15.2	15.5	7.3	20.1	21.0
Davey (pumps)		5.6	7.4	8.3	11.8	12.9	13.6
Lock Focus (locks)		1.8	1.2	2.1	2.2	2.3	2.4
Unallocated		-1.1	-0.3	-0.6	-0.4	-0.4	-0.4
Total EBIT		34.9	37.3	53.7	54.9	71.2	75.1

Source: GUD & WHTM

The **main risk** to our forecasts is in the event of a material downturn in consumer sentiment.

INVESTMENT FUNDAMENTALS

Yr Ending June	2003A	2004A	2005E	2006E	2007E
EPS Reported (c)	35.7	58.5	59.8	79.9	86.2
EPS Normalised (c)	37.4	61.2	62.8	82.7	88.8
EPS Growth (%)		63.9	2.5	31.7	7.5
PER Normalised (x)	24.6	15.0	14.7	11.1	10.4
DPS (c)	26.0	40.0	45.0	50.0	54.0
Payout (%)	72.8%	68.4%	75.2%	62.6%	62.7%
Yield (%)	2.8%	4.4%	4.9%	5.4%	5.9%
Franking (%)	100%	100%	100%	100%	100%

VALUATION DATA

Yr Ending June	2003A	2004A	2005E	2006E	2007E
EV / EBITA (x)	14.9	10.3	9.9	7.3	6.6
EV / EBITDA (x)	12.2	8.8	8.4	6.4	5.7
CFPS (c)	68.2	81.3	77.5	107.2	108.1
Price / CF	13.5	11.3	11.9	8.6	8.5
Book Value / Share (\$)	2.10	2.34	2.52	2.84	3.18
Price / Book (x)	4.4	3.9	3.6	3.2	2.9

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	66.8	83.5	88.0
Depreciation	8.4	9.6	10.1	10.6	11.3
EBITA	38.8	56.0	56.7	72.9	76.7
Amortisation	1.5	2.3	1.8	1.7	1.7
EBIT	37.3	53.7	54.9	71.2	75.1
Net Interest Expense	3.7	2.4	1.3	-0.1	-0.5
Pre-tax Profit	33.6	51.3	53.6	71.2	75.6
Tax	11.8	15.8	17.2	22.6	23.2
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	36.4	48.6	52.4
Abn's / Extraord's	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	21.8	35.5	36.4	48.6	52.4
Revenue Growth (%)		5.8%	10.6%	5.2%	5.1%
EBIT Growth (%)		44.0%	2.1%	29.7%	5.5%
NPAT Growth (%)		63.2%	2.5%	33.5%	7.9%

PROFITABILITY RATIOS

Yr Ending June	2003A	2004A	2005E	2006E	2007E
EBIT / Sales (%)	10.0%	13.6%	12.6%	15.5%	15.6%
ROA (%)	24.7%	23.9%	30.5%	31.9%	
ROE (%)	26.4%	24.5%	29.8%	28.6%	
ROFE (%)		36.4%	35.8%	48.6%	54.0%

BALANCE SHEET (\$m)

Yr Ending June	2003A	2004A	2005E	2006E	2007E
Cash	21.8	29.7	30.4	48.3	64.6
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	166.3	191.1	214.3
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	97.4	91.3	86.5
Total Assets	232.4	254.7	263.7	282.3	300.8
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	36.0	45.1	50.5
Total Liabilities	105.6	112.1	110.2	109.5	107.1
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	45.7	65.1	85.9
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	126.8	142.6	153.5	172.9	193.7
Total Funds Employed	147.7	160.2	155.4	144.9	139.3

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2003A	2004A	2005E	2006E	2007E
Net Debt (Cash) (\$m)	20.9	17.6	1.9	-28.0	-54.3
Net Debt / Equity (%)	16.5%	12.3%	1.3%	-16.2%	-28.1%
Interest Cover (x)	9.4	18.8	24.0	53.0	70.1
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	54.9	71.2	75.1
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	-13.7	-18.1
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	47.1	65.3	65.8
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	0.7	17.9	16.3

Disclosure of Interest. The Directors of Wilson HTM Ltd advise that at the date of this report they and their associates have relevant interests in 1,500 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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