UBS

Global Equity Research

Australia

Auto Parts

UBS Investment Research

GUD Holdings Limited

Rating	Buy 2
	Prior: Neutral 2
Price target	A$10.92/US$8.27
	Prior:A$11.15/US$8.44
Price	A$9.20/US$8.10

RIC: GUD.AX BBG: GUD AU

14 December 2004

Rating upgraded to Buy 2

■ Event: Negative reaction to earnings guidance an opportunity

GUD has guided that it expects to grow its FY 05 trading EBIT by less than the consensus of 9%. We continue to expect earnings to grow in FY 05 and believe today's 14% decline in the share price to be excessive. On our current forecasts, GUD's FY 06E P/E (n) is 11.0x. This represents around a 15% discount to the emerging industrial market.

■ Impact: Forecasts reduced slightly after guidance

We have reduced our FY 05E EBIT by 3% from $68.1m to $66.3m. This represents 6% growth (previously 9%). FY 06E EBIT falls 3% from $72.2m to $70.3m. Our downward revisions are based on the anticipated effects of higher raw material prices and import substitution. Our dividend forecast remains 49cps in FY 05, implying 22% growth.

■ Action: Rating upgraded to Buy 2

At $9.20 per share, the forecast excess return to our revised price target of $10.92 per share is 13.2% and we upgrade to a Buy 2 rating from Neutral 2 accordingly. We believe that this represents an opportunity to gain exposure to a well-run and increasingly efficient company at an attractive price.

■ Valuation: $10.92 per share

Our DCF valuation (WACC 10.6%, β 1.11) declines by 2% from $11.15 per share to $10.92 per share as a result of the changes to our forecasts. Our price target is equal to our valuation and implies a FY 06E P/E (n) of 13.0x.

Highlights (A$m)	06/03	06/04	06/05E	06/06E	06/07E
Revenues	375.7	396.7	437.9	464.0	481.2
EBIT	44.3	62.6	66.3	70.3	76.1
Net income (UBS)	27.3	41.7	45.8	48.6	52.6
EPS (UBS, A$)	0.47	0.72	0.79	0.84	0.90
Net DPS (UBS, A$)	0.26	0.40	0.49	0.50	0.55

Profitability & Valuation	5-yr hist. av.	06/04	06/05E	06/06E	06/07E
EBIT margin %	-	15.8	15.1	15.1	15.8
ROIC (EBIT) %	-	36.5	36.4	37.9	41.1
EV/EBITDA x	-	5.9	7.3	6.8	6.2
PE (UBS) x	-	9.5	11.6	11.0	10.2
Net dividend yield %	-	5.8	5.3	5.4	6.0

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$9.20 on 14 Dec 2004

Alexander Mees

alex.mees@ubs.com

+61-2-9324 2328

Trading data (local/US$)	
52-wk. range	A$11.30-6.33/US$8.88-4.70
Market cap.	A$0.56bn/US$0.49bn
Shares o/s	60.9m (ORD)
Free float	100%
Avg. daily volume ('000)	109
Avg. daily value (A$m)	1.1

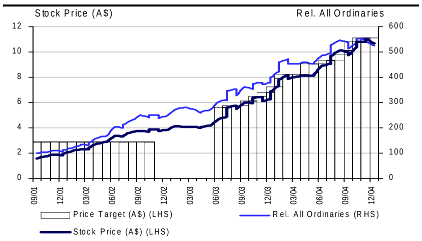
Balance sheet data 06/05E	
Shareholders' equity	A$0.18bn
P/BV (UBS)	4.1x
Net cash (debt)	(A$0.01bn)

Forecast returns	
Forecast price appreciation	+18.7%
Forecast dividend yield	4.6%
Forecast stock return	+23.3%
Market return assumption	10.1%
Forecast excess return	+13.2%

EPS (UBS, A$)

	06/05E			06/04
	From	To	Cons.	Actual
H1E	0.42	0.41	-	0.31
H2E	0.39	0.38	-	0.41
06/05E	0.81	0.79	*0.78*	
06/06E	0.86	0.84	*0.86*	

Performance (A$)



Source: UBS

www.ubs.com/investmentresearch

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 4

The outlook cools, but not by much

GUD Holdings (GUD) lodged an open briefing with the ASX discussing its current trading and the outlook for the year ahead. Key points are:

- Trading EBIT is expected to be above last year's record result but below "the consensus of broker forecasts which predict growth of 9%" (UBS were on 8.7%)

- The consensus of FY 06 trading EBIT of around $70m was described as "a reasonable target" (UBS were on $72.2m) given the "underlying momentum" in the business

- Key reasons for the cooler outlook include higher raw material prices (plastics, steel, polyester fibre), lower demand for lawnmowers as a result of water restrictions in eastern Australia and the effect of cheaper imports on auto filter and Victa businesses

- GUD expects to "sustain a double-digit percent increase" in the dividend in FY 05

Sunbeam continues to perform strongly and current indications suggest that sales during the Christmas period will increase y/y. Davey and Lock Focus are in line. Net debt at 30 June 2005 is expected to be below the level of 30 June 2004 ($17.6m). Although the outlook is clearly not as strong as GUD has expected a few months ago, we believe that it is only marginally cooler. We still expect growth in earnings in FY 05.

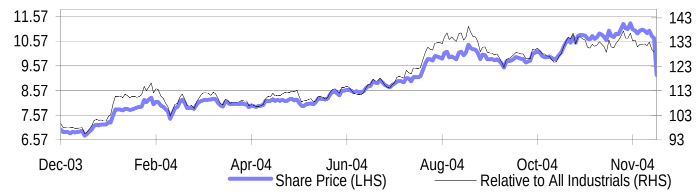
GUD Holdings (GUD.AX)

Alexander Mees
alex.mees@ubs.com

MARKET INFORMATION

Rating:	Buy 2
Price (as of 14-Dec-04):	$9.20
Valuation (Per Share):	-
Share Price Target (12 months):	$10.92
52 Week High:	$11.30
52 Week Low:	$6.33
Issued Capital:	61m
Market Capitalisation:	$560m

SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS

Year End Jun		2004	2005E	2006E	2007E
Net Profit [reported]	$m	35.5	45.8	48.6	52.6
Net Profit [reported excl abnormals]	$m	41.7	45.8	48.6	52.6
EPS [reported diluted]	¢	58.5	75.3	80.8	87.5
EPS [reported excl abnormals]	¢	68.7	75.3	80.8	87.5
EPS [normalised]	¢	72.4	79.0	83.6	90.2
....Growth	%	*53.3*	*9.1*	*5.8*	*7.9*
PER [normalised]	x	12.7	11.6	11.0	10.2
PER Relative [excl. financials weighted. avg]	%	72.1	76.3	74.1	65.4
Free Cash Flow per share	¢	73.5	69.6	83.4	92.9
Price/Free Cash Flow	x	12.5	13.2	11.0	9.9
Dividend	¢	40.0	49.0	50.0	55.0
Payout Ratio	%	58.2	65.1	61.9	62.9
Yield	%	4.3	5.3	5.4	6.0
Franking	%	100.0	100.0	100.0	100.0
Issued Shares (year end)	m	61.0	60.9	60.9	60.9

ENTERPRISE VALUE FUNDAMENTALS

		2004	2005E	2006E	2007E
Enterprise Value	$m	438.8	663.3	648.3	637.2
EV/EBITA	x	6.8	9.8	9.0	8.2
EV/EBITDA	x	5.9	8.5	7.9	7.2
EV/Sales	%	1.1	1.5	1.4	1.3
EV/Operating Free Cash Flow	x	7.5	10.6	9.0	8.0

HALF YEARLY ANALYSIS

(A$m)		1H04	2H04	1H05E	2H05E
Sales		211.8	184.9	234.2	203.8
Operating EBITDA		38.8	35.6	40.5	37.7
Depreciation		(05.0)	(05.2)	(05.1)	(05.2)
Operating EBITA		33.8	30.4	35.4	32.5
Investment Income/Non Operating Items		00.0	00.0	00.0	00.0
Goodwill Amortisation		(00.5)	(01.2)	(00.5)	(01.2)
EBIT		33.3	29.2	34.9	31.3
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	34.9	31.3
Tax Expense		(08.7)	(07.0)	(10.7)	(09.6)
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	24.1	21.7
Abnormal Gain/(Loss) after Tax		02.2	(08.4)	00.0	00.0
Net Profit [reported pre abnormals]		18.1	23.6	24.1	21.7
EPS [reported diluted]	¢	33.4	25.1	39.7	35.6
EPS [normalised]	¢	31.1	41.3	40.9	38.1
DPS	¢	17.0	23.0	24.0	25.0

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	437.9	464.0	481.2
Operating EBITDA		74.4	78.3	82.3	88.1
Depreciation		(10.2)	(10.3)	(10.3)	(10.3)
Operating EBITA		64.3	67.9	72.0	77.8
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	66.3	70.3	76.1
Division 1		28.5	34.4	36.4	40.6
Division 2		15.5	17.1	18.2	19.2
Division 3		8.3	12.7	13.4	13.9
Division 4		2.1	2.6	2.8	2.8
Division 5		(0.6)	(0.5)	(0.5)	(0.5)
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	66.1	70.1	76.0
Tax Expense		(15.8)	(20.3)	(21.6)	(23.4)
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	45.8	48.6	52.6
Abnormal Gain/(Loss) after Tax		(6.2)	0.0	0.0	0.0
Net Profit [reported pre abnormals]		41.7	45.8	48.6	52.6
Net Profit [normalised]		44.0	48.1	50.9	54.9
...Sales Growth	%	5.6	10.4	6.0	3.7
...EBITDA Margin	%	18.8	17.9	17.7	18.3
...EBITA Margin	%	16.2	15.5	15.5	16.2
...Net Interest Cover	x	25.1	556.6	591.2	641.3
...Tax Rate	%	30.7	30.7	30.7	30.7
...Return on Assets	%	24.6	23.5	23.0	23.4
...Return On Equity	%	32.7	31.8	30.0	28.9
...Operating EBITA/Av. Op. CE	%	43.9	43.8	45.4	49.3
...EBITA/Avg Capital Employed	%	41.7	41.6	43.2	46.9

CASH FLOW ANALYSIS

(A$m)	2004	2005E	2006E	2007E
EBITDA	74.4	78.3	82.3	88.1
Net Working Capital Inflation	(11.3)	(11.1)	(5.5)	(3.7)
Maintenance Capital Expenditure	(4.6)	(4.4)	(4.4)	(4.4)
Operating Free Cash Flow	58.5	62.8	72.4	80.0
Net Interest Paid	(2.4)	(0.1)	(0.1)	(0.1)
Tax Paid	(11.3)	(20.3)	(21.6)	(23.4)
Free Cash Flow	44.8	42.4	50.7	56.6
Non-Maintenance Capital Expenditure	(4.6)	(4.4)	(4.4)	(4.4)
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	38.8	47.3	53.0
Gross Dividends Paid	(19.4)	(28.6)	(29.8)	(32.3)
Equity issues [incl. DRP]	1.1	0.0	0.0	0.0
Change in Net Debt [decrease/(increase)]	9.1	10.2	17.4	20.7

BALANCE SHEET ANALYSIS

(A$m)		2004	2005E	2006E	2007E
Receivables		51.1	56.3	59.8	62.0
Inventories		66.5	73.8	78.2	81.2
Creditors & Provisions		(56.2)	(57.6)	(60.1)	(61.5)
Fixed Assets		36.8	34.1	31.4	28.7
Intangibles		57.9	55.6	53.3	51.1
Net Other		4.1	4.1	4.1	4.1
Operating Capital Employed		160.2	166.3	166.8	165.6
Investments		0.0	0.0	0.0	0.0
Capital Employed		160.2	166.3	166.8	165.6
Net Cash / (Net Debt)		(17.6)	(6.5)	12.4	34.6
Total Equity (excl minorities)		142.6	159.8	179.2	200.2
Minorities		0.0	0.0	0.0	0.0
...Net Debt / (Net Debt + Equity)	%	11.0	3.9	nm	nm
...Book Value Per Share	$	2.3	2.6	2.9	3.3

■ GUD Holdings Limited

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.

■ 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.

Required Disclosures

This report has been prepared by UBS Securities Australia Ltd, an affiliate of UBS AG (UBS).

UBS Investment Research: Global Equity Ratings Definitions and Allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage[1]	IB services[2]
Buy 1	FSR is > 10% above the MRA, higher degree of predictability	**Buy 2**	FSR is > 10% above the MRA, lower degree of predictability	**Buy**	41%	33%
Neutral 1	FSR is between -10% and 10% of the MRA, higher degree of predictability	**Neutral 2**	FSR is between -10% and 10% of the MRA, lower degree of predictability	**Hold/Neutral**	50%	33%
Reduce 1	FSR is > 10% below the MRA, higher degree of predictability	**Reduce 2**	FSR is > 10% below the MRA, lower degree of predictability	**Sell**	9%	27%

1: Percentage of companies under coverage globally within this rating category.
2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS; as of 30 September 2004.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (an approximation of the equity risk premium).
Predictability Level The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Rating/Return Divergence (RRD) This qualifier is automatically appended to the rating when stock price movement has caused the prevailing rating to differ from that which would be assigned according to the rating system and will be removed when there is no longer a divergence, either through market movement or analyst intervention.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.
UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.
Core Banding Exceptions (CBE): Exceptions to the standard +/-10% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned table in the relevant research piece.

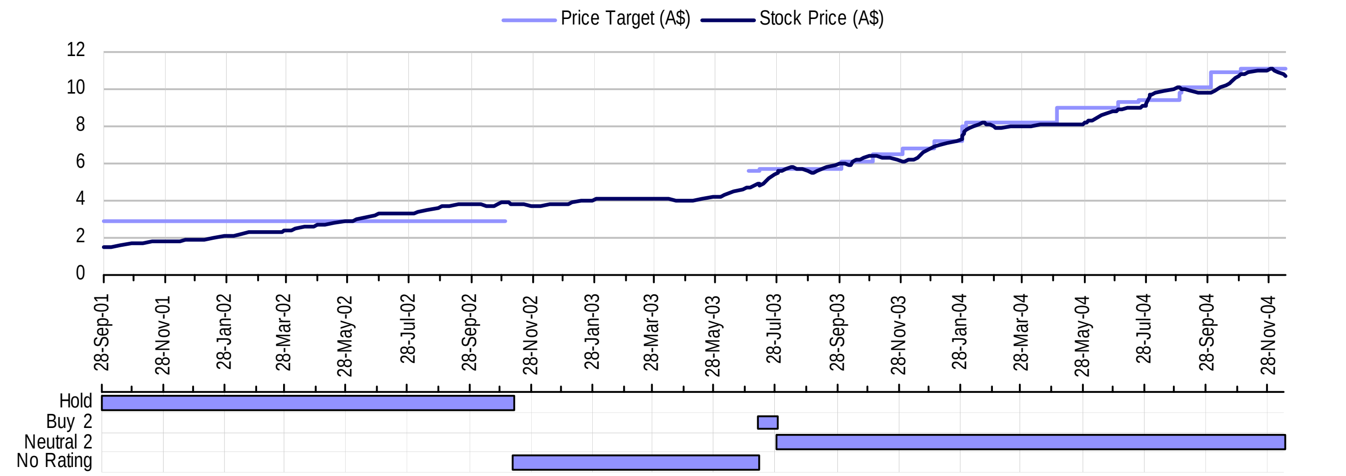
Companies mentioned

Company Name	Reuters	Rating	Price
GUD Holdings Limited	GUD.AX	Buy 2	A$10.70

Price(s) as of 13 December 2004. Source: UBS.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

GUD Holdings Limited (A$)



Source: UBS; as of 13 December 2004.

Note: On October 13, 2003, UBS adopted new definition criteria for its rating system. (See 'UBS Investment Research: Global Equity Ratings Definitions and Allocations' table for details.) Between January 11 and October 12, 2003, the UBS ratings and their definitions were: Buy 1: Excess return potential > 15%, smaller range around price target; Buy 2: Excess return potential > 15%, larger range around price target; Neutral 1: Excess return potential between -15% and 15%, smaller range around price target; Neutral 2: Excess return potential between -15% and 15%, larger range around price target; Reduce 1: Excess return potential < -15%, smaller range around price target; Reduce 2: Excess return potential < -15%, larger range around price target. Prior to January 11, 2003, the UBS ratings and definitions were: Strong Buy: Greater than 20% excess return potential, high degree of confidence; Buy: Positive excess return potential; Hold: Low excess return potential, low degree of confidence; Reduce: Negative excess return potential; Sell: Greater than 20% negative excess return potential, high degree of confidence. Under both ratings systems, excess return is defined as the difference between the FSR and the one-year local market interest rate.

Global Disclaimer

This report was produced by:UBS Securities Australia Ltd, an affiliate of UBS AG (UBS).

Head Office: UBS Limited, 1 Finsbury Avenue, London, EC2M 2PP, UK Phone: +44-20-7567 8000

Local Office: UBS Securities Australia Ltd, Level 25, Governor Phillip Tower, 1 Farrer Place, Sydney, NSW 2000 Phone: +61-2-9324 2000

This report has been prepared by UBS AG or an affiliate thereof ("UBS"). In certain countries UBS AG is referred to as UBS SA.

This report is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning UBS AG, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. The report should not be regarded by recipients as a substitute for the exercise of their own judgement. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS as a result of using different assumptions and criteria. UBS is under no obligation to update or keep current the information contained herein. UBS, its directors, officers and employees (excluding the US broker-dealer unless specifically disclosed under required disclosures) or clients may have or have had interests or long or short positions in the securities or other financial instruments referred to herein, and may at any time make purchases and/or sales in them as principal or agent. UBS (excluding the US broker-dealer unless specifically disclosed under Required Disclosures) may act or have acted as market-maker in the securities or other financial instruments discussed in this report, and may have or have had a relationship with or may provide or has provided investment banking, capital markets and/or other financial services to the relevant companies. Employees of UBS may serve or have served as officers or directors of the relevant companies. UBS may rely on information barriers, such as "Chinese Walls," to control the flow of information contained in one or more areas within UBS, into other areas, units, groups or affiliates of UBS.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither UBS nor any of its affiliates, nor any of UBS' or any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. **Additional information will be made available upon request.**

United Kingdom and rest of Europe: Except as otherwise specified herein, this material is communicated by UBS Limited, a subsidiary of UBS AG, to persons who are market counterparties or intermediate customers (as detailed in the FSA Rules) and is only available to such persons. The information contained herein does not apply to, and should not be relied upon by, private customers. **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. **Italy:** Should persons receiving this research in Italy require additional information or wish to effect transactions in the relevant securities, they should contact Giubergia UBS SIM SpA, an associate of UBS SA, in Milan. **South Africa:** UBS South Africa (Pty) Ltd (incorporating J.D. Anderson & Co.) is a member of the JSE Securities Exchange SA. **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a "non-US affiliate"), to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a report prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this report must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. **Canada:** Distributed by UBS Securities Canada Inc., a subsidiary of UBS AG and a member of the principal Canadian stock exchanges & CIPF. A statement of its financial condition and a list of its directors and senior officers will be provided upon request. **Hong Kong:** Distributed by UBS Securities Asia Limited. **Singapore:** Distributed by UBS Securities Singapore Pte. Ltd. **Japan:** Distributed by UBS Securities Japan Ltd to institutional investors only. **Australia:** Distributed by UBS AG (Holder of Australian Financial Services Licence No. 231087) and UBS Securities Australia Ltd (Holder of Australian Financial Services Licence No. 231098) only to "Wholesale" clients as defined by s761G of the Corporations Act 2001. **New Zealand:** Distributed by UBS New Zealand Ltd.

UBS