

GUD Holdings Limited

Victa mows down 1H result



Wilson HTM
INVESTMENT GROUP

1 February 2005

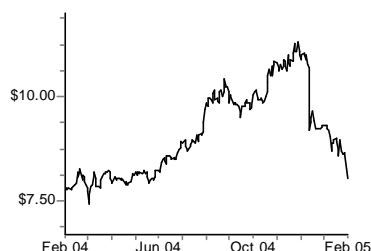
\$8.03

Short Term **Long Term**
Hold **BUY**

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Price Performance



Security/Capital Details

ASX Code	GUD
Market Cap	\$489 M
Issued Shares	60.9 M
Avg Mth T'over	2.91 M
12 Mth High – Low	\$11.30 - \$7.42

Key Data/Ratios – FY 2005

EBITDA / Sales	14.1%
EBIT / Sales	11.3%
Net Debt / Equity	10.9%
Interest Cover	16.7 x
ROE	21.5%
EPS Growth	-11.7%
PEG Ratio	-1.25 x
NTA / Share	\$ 1.40
DCF	\$ 9.10
12 Mth Price Target	\$ 9.40

Recommendation

We retain a ST Hold / LT BUY recommendation on GUD. Our revised 12 month share price target is \$9.40 p/share, and investors are reminded to take a 12 month view in order for a share price recovery to be delivered.

GUD's 1H profit was 10% below our forecast, however the interim DPS of 23.0 cents significantly exceeded our 19.0 cent forecast. We have reduced our trading EBIT forecast for FY 2005 by 10%, but forecast a 12% recovery in FY 2006. We expect share price 'softness' within the short-term, and retain a ST HOLD recommendation. BUY taking a 12 month view.

Key Points

- GUD has reported 1H NPAT of \$10.4M (pcp: \$20.3M), below our forecast of \$13.3M. The result included previously foreshadowed restructuring charges of \$8.8M (post tax) related to the Filtration division's closure of domestic manufacturing. Normalised NPAT was \$19.2M (-14%).
- The interim DPS of 23.0 cents (pcp: 17.0 cents), was a positive surprise compared with our forecast of 19.0 cents.
- Trading EBIT of \$30.1M (pcp: \$33.4M, -10%) reflects mixed trading results from GUD's operating divisions. In particular, a sound result from Sunbeam was offset by a weak contribution from Victa following the ongoing negative effect of the drought, as well as heightened import competition in the mass-merchant market.
- Davey delivered an improved result (EBIT of \$6.0M, +40%), assisted by a full 6 month contribution from Spa-Quip. Filtration's result (EBIT of negative \$4.0M) largely reflects a \$0.8M decline in trading profit, and \$12.6M related to the restructuring initiatives currently underway.
- Given the 1H trading result and management guidance of a similar 2H contribution, we have reduced our FY 2005 forecast trading EBIT by 10% to \$60.7M (previously \$67.2M).
- Reported earnings should show good improvement in FY 2006 as the benefits from the restructure of the Filtration division are realised. We have marginally reduced our FY 2006 trading EBIT forecast to \$68.1M (previously \$71M), providing growth of 12% in FY 2006.
- GUD's balance sheet remains strong, and GUD will continue to generate a high level of free cash flow. We have increased our DPS forecasts to 48 cents for FY 2005 and 52 cents for FY 2006 (previously 45 cents and 50 cents respectively).
- GUD should appeal to value style investors looking for a balance of high yield and sound capital growth. The share register is likely to see the further exit of growth based investors, and within the short-term we maintain a HOLD recommendation. We believe the recent share price retreat has been overdone, but investors should take a 12 month investment view for a recovery to the \$9.40 level to be delivered.

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	13.1	9.9	3.4	7.7	40.0	5.0	100
2005e	31.1	54.1	14.9	13.7	3.4	8.4	48.0	6.0	100
2006e	45.6	77.7	10.3	7.8	3.0	5.9	52.0	6.5	100
2007e	50.4	85.6	9.4	7.7	2.7	5.3	54.0	6.7	100

Earnings overview

A summary of GUD's 1H result, and our 3-year forecasts, is provided in the table below.

Financial summary

Y/e: 30 June		1h'04	FY 2004	1h'05	Chg (%)	FY 2005e	FY 2006e	FY 2007e
Sales revenue	(\$M)	211.7	393.8	211.1	(0.3%)	425.0	447.2	469.9
Trading EBIT		33.4	62.6	30.1	(9.8%)	60.7	68.1	73.2
NPAT (normalised)		22.3	41.7	19.2	(14.0%)	39.9	45.6	50.4
Significant items (net)		-2.1	-6.2	-8.8		-8.8	0.0	0.0
NPAT (reported)		20.3	35.5	10.4	(48.7%)	31.1	45.6	50.4
DPS	(cents)	17.0	40.0	23.0	35.3%	48.0	52.0	54.0

Source: GUD & WHTM.

Result overview

- GUD has reported 1H NPAT of \$10.4M (-49%). After adding back previously foreshadowed (post-tax) restructuring charges of \$8.8M relating to the Filtration division, normalised NPAT was \$19.2M (-14%).
- Trading EBIT of \$30.1M (-10%) reflects a weaker contribution from the Sunbeam-Victa and Filtration divisions, while Davey posted an improved EBIT of \$6.0M (+40%). Lock Focus' EBIT contribution of \$1.2M was consistent with last year.
- A sound result from Sunbeam was offset by a weak contribution from a drought-affected Victa. Low-cost import competition also negatively impacted both Victa and the Filtration Division. Further divisional comments are provided overleaf.
- OCF in the 1H was negative \$11.3M (pcp: \$10.9M). This reflects a \$21M increase in working capital compared to the 1H last year, mainly consisting of a \$15M increase in receivables related to the consolidation of Spa-Quip receivables and extension of credit terms by Sunbeam during the Christmas trading period. Furthermore, there was an \$8.5M build-up of inventory, largely to support the transition from manufacturing in Australia to sourcing product offshore by the Filtration division.
- With strong cash flow expected in the 2H, net debt at year-end is expected to be \$15.9M (pcp: \$17.6M).

Earnings outlook

- Management provided guidance that 2H trading EBIT will be essentially in-line with last year's trading EBIT of \$29.2M. In light of this, we are forecasting FY 2005 trading EBIT of \$60.7M (-3%).
- Underpinning the outlook for the balance of FY 2005 are the initial benefits from the Filtration division's restructure, and growth from Sunbeam's high-margin electric blankets. We expect Victa to remain an ongoing issue over the next 12-18 months, with the drought and import competition continuing to challenge the business.
- Reported profit is expected to make a marked recovery in FY 2006 upon realising the benefits of restructuring the filtration division during FY 2005. Sunbeam and Davey should also continue to grow through new product development. In addition, Victa's contribution is expected to show some improvement with the release of a new entry-level product to compete with low-cost imports. Our forecasts assume FY 2006 trading EBIT of \$68.1M (+12%) and normalised EPS growth of 13%.
- GUD's debt levels remain low, with forecast net debt of \$15.9M by the end of FY 2005 (net debt/equity: 10%) providing considerable capacity to internally fund add-on acquisitions. In the absence of a major acquisition being made, we expect the Board to continue to consistently increase annual dividends.

Divisional overview

Divisional earnings (reported) are detailed in the table below, followed by commentary.

Divisional summary

Y/e: 30 June	1h'04	FY 2004	1h'05	Chg (%)	FY 2005e	FY 2006e	FY 2007e
Revenue:							
Sunbeam Victa	121.7	223.2	117.0	-3.9%	232.1	243.7	255.9
Filtration	44.2	86.0	40.2	-9.0%	87.7	92.1	96.3
Davey (pumps)	38.6	72.8	46.6	20.7%	91.1	96.6	102.4
Lock Focus (locks)	7.1	13.4	7.2	1.4%	14.1	14.8	15.4
Unallocated	0.0	0.4	0.0	n/a	0.0	0.0	0.0
Total revenue	211.6	395.8	211.0	-0.3%	425.0	447.2	469.9
EBIT (reported):							
Sunbeam Victa	18.2	28.5	14.0	-23.1%	28.3	34.6	37.2
Filtration	6.5	15.5	-4.0	-161.5%	6.1	18.7	20.4
Davey (pumps)	4.3	8.3	6.0	39.5%	11.8	12.9	13.6
Lock Focus (locks)	1.3	2.1	1.2	-7.7%	2.2	2.3	2.4
Unallocated	0.1	-0.6	0.2	lge	-0.4	-0.4	-0.4
Total EBIT	30.4	53.7	17.4	-42.8%	48.1	68.1	73.2

Source: GUD & WHTM

Sunbeam-Victa delivered EBIT of \$14.0M (-23%) on sales of \$117.0M (-4%). While Sunbeam traded strongly, sales revenue and EBIT were held back by a weaker performance from Victa. The ongoing drought and heightened low-cost import competition in the mass-merchant market negatively impacted Victa's performance in the 1H. Sunbeam, on the other hand, grew market share with successful new products, especially in the irons, haircare, novelty and juicers segments. Continued growth from Sunbeam and the commencement of a recovery by Victa from FY 2006 underpin our forecasts for the division.

The **Filtration Division** (Ryco, Wesfil) contributed negative EBIT of \$4.0M (-162%) after accounting for a foreshadowed restructuring charge of \$12.6M (pre-tax). Import competition and relatively soft demand in the automotive aftermarket underpinned the weaker trading result (trading EBIT of \$8.6M versus pcp of \$9.4M). However, trading EBIT margins were maintained (21.3% versus pcp of 21.2%), and are expected to be sustained over the forecast period. The division will cease all manufacturing activities in Australia from the end of February and source all product offshore. The associated benefits are expected to be evident from FY 2006 and underpin positive growth over the forecast period.

Davey (pumps) posted an improved EBIT contribution of \$6.0M (+40%), assisted by a full 6-month contribution from Spa-Quip as well as tight cost controls and an improved product mix. The outlook remains positive for Davey, underpinned by new product development and new sourcing strategies.

Lock Focus contributed EBIT of \$1.2M (pcp: \$1.3M) supported by strong export sales. The division is expected to continue to deliver consistent results going forward.

GUD Holdings Limited (GUD : \$8.03)

INVESTMENT FUNDAMENTALS

Yr Ending June	2003A	2004A	2005E	2006E	2007E
EPS Reported (c)	35.7	58.5	51.1	74.9	82.9
EPS Normalised (c)	37.4	61.2	54.1	77.7	85.6
EPS Growth (%)	N/A	63.6%	-12.6%	46.6%	10.7%
PER Normalised (x)	21.5	13.1	14.9	10.3	9.4
DPS (c)	26.0	40.0	48.0	52.0	54.0
Payout (%)	72.8%	68.4%	94.0%	69.4%	65.2%
Yield (%)	3.2%	5.0%	6.0%	6.5%	6.7%
Franking (%)	100%	100%	100%	100%	100%

VALUATION DATA

Yr Ending June	2003A	2004A	2005E	2006E	2007E
EV / EBITA (x)	13.0	9.0	10.1	6.8	6.1
EV / EBITDA (x)	10.7	7.7	8.4	5.9	5.3
CFPS (c)	68.2	81.3	58.4	102.8	104.8
Price / CF	11.8	9.9	13.7	7.8	7.7
Book Value / Share (\$)	2.1	2.3	2.4	2.7	3.0
Price / Book (x)	3.8	3.4	3.4	3.0	2.7

PROFIT & LOSS (\$m)

Yr Ending June	2003A	2004A	2005E	2006E	2007E
Sales Revenue	372.4	393.8	425.2	447.2	469.9
EBITDA	47.3	65.6	60.0	80.4	86.2
Depreciation	8.4	9.6	10.1	10.6	11.3
EBITA	38.8	56.0	49.9	69.8	74.9
Amortisation	1.5	2.3	1.8	1.7	1.7
EBIT	37.3	53.7	48.1	68.1	73.2
Net Interest Expense	3.7	2.4	2.2	1.2	0.5
Pre-tax Profit	33.6	51.3	45.9	66.8	72.8
Tax	11.8	15.8	14.8	21.3	22.3
Tax rate (%)	35.1%	30.7%	32.2%	31.8%	30.7%
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	31.1	45.6	50.4
Abn's / Extraord's	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	21.8	35.5	31.1	45.6	50.4
Revenue Growth (%)	N/A	5.8%	8.0%	5.2%	5.1%
EBIT Growth (%)	N/A	44.0%	-10.5%	41.6%	7.6%
NPAT Growth (%)	N/A	63.2%	-12.5%	46.6%	10.7%

PROFITABILITY RATIOS

Yr Ending June	2003A	2004A	2005E	2006E	2007E
EBIT / Sales (%)	10.0%	13.6%	11.3%	15.2%	15.6%
ROA (%)	N/A	24.7%	20.8%	28.8%	30.8%
ROE (%)	N/A	26.4%	21.5%	29.7%	29.5%
ROFE (%)	N/A	36.4%	30.9%	44.7%	50.6%

INTERIMS (\$m)

Yr Ending June	Dec 03		Jun 04		Dec 04	
	1H A	2H A	1H A	2H A	1H E	2H E
Sales Revenue	211.7	182.1	211.1	214.0	243.6	
EBIT	30.4	23.4	17.4	30.7	35.9	
Net Profit	20.3	15.3	10.4	20.7	23.9	
EBIT / Sales (%)	14.3%	12.8%	8.2%	14.3%	14.7%	

BALANCE SHEET (\$m)

Yr Ending June	2003A	2004A	2005E	2006E	2007E
Cash	21.8	29.7	16.4	31.1	45.4
Receivables	49.9	51.1	61.2	64.4	67.6
Inventories	60.0	66.5	71.8	75.5	79.4
Other	5.7	4.7	5.9	5.9	5.9
Current Assets	137.3	152.0	155.3	176.9	198.3
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	8.8	9.1
Non-current Assets	95.1	102.8	97.3	91.2	86.3
Total Assets	232.4	254.7	252.6	268.1	284.7
Current Payables	40.0	37.9	40.9	43.0	45.2
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	33.6	43.1	48.8
Total Liabilities	105.6	112.1	106.8	106.5	104.3
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	38.1	53.9	72.7
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	126.8	142.6	145.8	161.6	180.4
Total Funds Employed	147.7	160.2	161.7	150.8	145.2

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2003A	2004A	2005E	2006E	2007E
Net Debt (Cash) (\$m)	20.9	17.6	15.9	-10.8	-35.1
Net Debt / Equity (%)	16.5%	12.3%	10.9%	-6.7%	-19.5%
Interest Cover (x)	9.4	18.8	16.7	33.3	43.8
Debt / CashFlow (x)	1.0	1.0	0.9	0.3	0.2

CASHFLOW (\$m)

Yr Ending June	2003A	2004A	2005E	2006E	2007E
EBIT	37.3	53.7	48.1	68.1	73.2
Dep'n and Amort'n	10.0	11.9	11.9	12.4	13.0
Net Int Rec'd (Paid)	-3.7	-2.4	-2.2	-1.2	-0.5
Tax Paid	-9.0	-11.3	-12.6	-11.8	-17.0
Dec / (Inc) W'kg Cap	6.5	-9.9	-12.3	-4.8	-4.9
Other	0.5	7.4	2.7	0.0	0.0
Operating Cash Flow	41.5	49.4	35.5	62.6	63.8
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	-27.9	-29.8	-31.7
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	-23.3	-21.5	-42.9	-41.8	-41.7
Net Cash Flow	10.9	7.8	-13.3	14.7	14.3

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