

UBS Investment Research

GUD Holdings Limited

H1 05 result: Disappointing but outlook remains one of growth

■ Event: H1 05 result

GUD has reported H1 05 earnings below the PCP and our expectations. Trading EBITA was \$31.9m, down 9% on the prior year. NPAT, excluding significant items, was \$19.2m, 14% down y/y and 19% below our forecast. In our opinion, this is a disappointing result, driven largely by underperformance in Victa, but the outlook is for improved earnings in FY 06E. The 23cps dividend was generous but expected.

■ Impact: FY 05E EPS (n) downgraded by 10%

Sunbeam Victa reported trading EBITA down 22% y/y, driven down by underperformance in Victa and possibly lacklustre Christmas trading at Sunbeam. Ryco lost revenue to import competition, but held margins. Debt levels and interest were higher, pushed up by higher receivables.

■ Action: FY 05E EPS (n) downgraded by 10%, Buy 2

While the result is a disappointment, we still expect margins to improve in FY 06 as the restructuring at Ryco and supply chain improvements in Sunbeam Victa are completed. But we are more cautious than before: our EPS (n) forecasts fall 10% in FY 05 and 8% in FY 06 and FY 07. Buy 2 maintained at the current price.

■ Valuation: Down 10% to \$9.86 per share

Our valuation falls by 9.7% from \$10.92 per share to \$9.86 per share. This follows the changes to our earnings estimates and a change in valuation methodology from DCF-only to DCF/sector-multiple composite.

Highlights (A\$m)	06/03	06/04	06/05E	06/06E	06/07E
Revenues	375.7	396.7	401.3	428.4	444.3
EBIT	44.3	62.6	58.8	64.3	68.2
Net income (UBS)	27.3	41.7	39.2	43.1	45.8
EPS (UBS, A\$)	0.47	0.72	0.71	0.77	0.82
Net DPS (UBS, A\$)	0.26	0.40	0.49	0.56	0.60

Profitability & Valuation	5-yr hist. av.	06/04	06/05E	06/06E	06/07E
EBIT margin %	-	15.8	14.6	15.0	15.4
ROIC (EBIT) %	-	36.5	33.0	36.8	40.4
EV/EBITDA x	-	5.9	6.1	5.7	5.3
PE (UBS) x	-	9.5	11.4	10.4	9.8
Net dividend yield %	-	5.8	6.1	7.0	7.5

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\$8.03 on 31 Jan 2005

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Global Equity Research

Australia

Auto Parts

Rating **Buy 2**
Unchanged

Price target **A\$9.86/US\$7.64**
Prior: A\$10.92/US\$8.46

Price **A\$8.03/US\$6.69**

RIC: GUD.AX BBG: GUD AU

31 January 2005

Trading data (local/US\$)

52-wk. range	A\$11.30-7.42/US\$8.88-5.52
Market cap.	A\$0.49bn/US\$0.41bn
Shares o/s	60.9m (ORD)
Free float	100%
Avg. daily volume ('000)	209
Avg. daily value (A\$m)	2.0

Balance sheet data 06/05E

Shareholders' equity	A\$0.15bn
P/BV (UBS)	3.7x
Net cash (debt)	(A\$0.03bn)

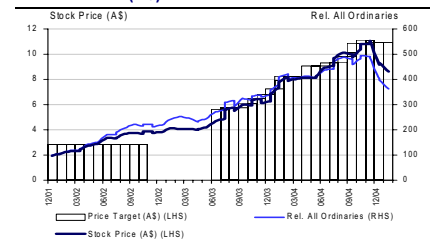
Forecast returns

Forecast price appreciation	+22.8%
Forecast dividend yield	6.3%
Forecast stock return	+29.1%
Market return assumption	10.3%
Forecast excess return	+18.8%

EPS (UBS, A\$)

	06/05E			06/04
	From	To	Cons.	Actual
H1E	0.40	0.35	-	0.38
H2E	0.38	0.35	-	0.34
06/05E	0.79	0.71	0.75	
06/06E	0.84	0.77	0.82	

Performance (A\$)



Source: UBS

www.ubs.com/investmentresearch

H1 05 result

GUD Holdings (GUD) has reported trading EBITA of \$31.9m in H1 05, 9% below the PCP and 6% below our forecast. NPAT, excluding significant items incurred during the restructuring of the Ryco business, was \$19.2m, 14% below the PCP and 19% below our forecast. In our opinion, this is a disappointing result, driven largely by underperformance in the Victa business, but the outlook is for an improvement profits in FY 06 and beyond. Higher raw materials prices appear also to have had an effect. The interim dividend was in line with our forecast of 23cps ff, 35% ahead of the PCP.

Table 1: The interim result in brief

	H1 04A	H1 05A	% Change	H1 05E	% Variance
Trading EBITA	35.1	31.9	-9%	33.8	-6%
NPAT before significant items	22.4	19.2	-14%	23.8	-19%
Interim dividend	17.0	23.0	35%	23.0	0%

Source: GUD Holdings, UBS estimates

Earnings

Trading EBITA was down 9% y/y to \$31.9m, on flat sales. Average EBITA margins fell from 16.6% to 15.1%. Net interest was higher than the PCP and substantially higher than our forecasts due to the increase in debt levels towards the end of the year to fund the higher working capital. Significant items of \$12.6m before tax (\$8.8m after tax) related to restructuring at Ryco, where domestic manufacturing is being terminated and the supply channel switching to import-only. We expect this restructuring to be complete in the next month or so (Table 2).

Table 2: Interim earnings

	H1 04A	H1 05A	% Change	H1 05E	% Variance
Operating revenue	211.8	211.8	0%	234.2	-10%
Trading EBITA	35.1	31.9	-9%	33.8	-6%
EBIT	33.4	30.1	-10%	34.4	-13%
Net interest expense	(1.4)	(1.7)	-20%	(0.1)	N/A
Earnings before tax & significant items	32.0	28.4	-11%	34.4	-17%
Significant items before tax	(3.0)	(12.6)	N/A	0.0	N/A
Reported NPAT	20.3	10.4	-49%	23.8	-56%
Significant items after tax	(2.1)	(8.8)	N/A	0.0	N/A
NPAT before significant items	22.4	19.2	-14%	23.8	-19%
Reported EPS (cps)	33.4	17.0	-49%	39.1	-57%
Normalised EPS (cps)	38.1	34.5	-9%	40.4	-14%
DPS (cps)	17.0	23.0	35%	23.0	0%
Dividend franking (%)	100.0	100.0	0%	100.0	0%

Source: GUD Holdings, UBS estimates

Divisional earnings

Sunbeam Victa

Sunbeam Victa reported trading EBITA down 22% y/y, based on 4% lower sales and margins that were 3 percentage points lower (Table 3).

Table 3: Revenue and earnings by division

Division	Revenue			Trading EBITA			Trading EBITA margin		
	H1 04	H1 05	% Move	H1 04	H1 05	% Move	H1 04	H1 05	% Move
Sunbeam Victa	121.7	117.0	-4%	19.4	15.1	-22%	15.9%	12.9%	-19%
Ryco Wesfil	44.2	40.2	-9%	9.6	8.7	-9%	21.7%	21.6%	0%
Davey Pumps	38.6	46.6	21%	4.5	6.3	40%	11.7%	13.5%	16%
Lock Focus	7.1	7.2	1%	1.6	1.5	-6%	22.5%	20.8%	-8%
Unallocated	-	-	-	0.1	0.2	100%	-	-	-
Total	211.6	210.9	0%	35.1	31.9	-9%	16.6%	15.1%	-9%

Source: GUD Holdings

Although the Sunbeam electrical appliances business and the Victa mowers business are not reported separately, we understand that the main driver for the poor performance of this division was Victa. Demand for products from independent lawnmower dealers (Victa's main distribution channel, particularly for premium products such as the *Razor*) has fallen significantly following last year's drought and the detrimental effects on dealer cash flows. In the mass retail channels such as Bunnings, Victa's entry-level products struggled to compete against cheaper imports. Sunbeam itself seems likely to have reported earnings below last year given the positive effect of the rising A\$ in H1 04. Christmas trading was thought to be reasonable, with Sunbeam picking up market share in a soft general environment.

Ryco Wesfil

The filters business held up well in a period of restructuring and intensifying import competition. GUD has followed a strategy of holding prices and were successful in maintaining EBITA margins above 21%. The 9% revenue decline is testament to the challenging conditions the business faces.

Davey Pumps and Lock Focus

Davey Pumps bucked the overall trend and performed well. Margins picked up well as costs came under tighter control and the integration of Spa-Quip was well executed. Revenue grew, largely reflecting the inclusion of Spa-Quip. Lock Focus was flat y/y.

Balance sheet and cash flow

The key feature of the 31 December 2004 balance sheet was the higher receivables balance, accompanied by weaker cash flow and higher debt levels. Current receivables lifted 21% to \$83.0m (H1 04: \$68.4m) as a result of a conscious strategy to offer some of its clients extended terms. This increase in working capital was felt in cash flow: operating cash flow was an outflow of \$11.4m compared to an inflow of \$10.9m in the PCP. Net debt lifted to fund the

higher working capital. At the year-end, it stood at \$53.1m, compared to \$23.6m a year before. Gearing (net debt/equity) was 39% from 17% the previous year.

Dividend

GUD declared a 23cps ff dividend, in line with our forecasts, but up 35% y/y. This represents a 67% payout of normalised EPS, compared with 45% the year before. We expect GUD to continue to pay a high dividend. Our forecast for the FY 05 full year DPS is 49cps.

Changes to investment case

GUD has stated that it expects H2 05 trading profit to be in line with the prior year's second half. We believe that this is achievable given the closure of the Ryco factory and our understanding that January trading for Sunbeam has been quite good. Our forecast trading EBITA for H2 05 is \$30.5m, compared to \$30.7m in H2 04.

Changes to earnings estimates

We have taken a more cautious view on the outlook for the business following the result and have downgraded our EBIT forecasts by 11% in FY 05 to \$58.8m. We continue to believe that margins will improve in subsequent years, but are more cautious than before. FY 06E and FY 07E EBIT both fall 9% (Table 4 and Chart 1).

Table 4: Changes to key earnings estimates

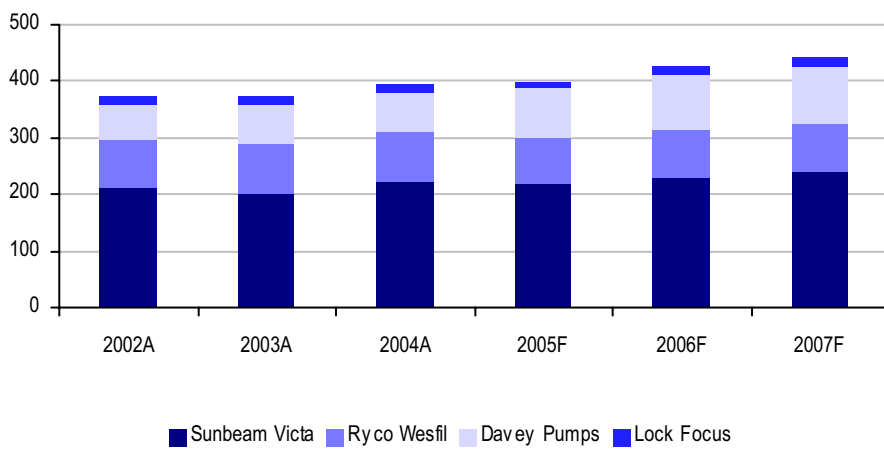
	Current	Previous	%	Current	Previous	%	Current	Previous	%
	FY 05E	FY 05E	Change	FY 06E	FY 06E	Change	FY 07E	FY 07E	Change
Revenue	401.3	437.9	-8%	428.4	464.0	-8%	444.3	481.2	-8%
EBITDA	84.4	78.1	8%	89.9	82.5	9%	93.8	86.6	8%
EBIT	58.8	66.0	-11%	64.3	70.5	-9%	68.2	74.6	-9%
EBIT margin	14.6%	15.1%	-3%	15.0%	15.2%	-1%	15.4%	15.5%	-1%
Reported NPAT	30.3	45.7	-34%	43.1	48.8	-12%	45.8	51.6	-11%
Significant items after tax	8.8	0.0	N/A	0.0	0.0	N/A	0.0	0.0	N/A
NPAT before significant items	39.2	45.7	-14%	43.1	48.8	-12%	45.8	51.6	-11%
Reported EPS (cps)	49.0	75.0	-35%	71.7	81.1	-12%	76.2	85.8	-11%
Adjusted EPS (cps)	70.5	78.8	-10%	77.2	83.9	-8%	81.8	88.5	-8%
DPS (cps)	49.0	48.0	2%	56.0	51.0	10%	60.0	54.0	11%

Source: UBS estimates

Valuation, price target and rating

Our valuation falls by 9.7% from \$10.92 per share to \$9.86 per share. This follows the changes to our earnings estimates and a change in valuation methodology from DCF-only to DCF/sector-multiple composite. We now take the arithmetic average of our DCF valuation (which falls from \$10.92 to \$10.45 per share) and a 12.0x FY 06E EPS (n) multiple (\$9.27 per share). Our price target is equal to our valuation and implies a 12.8x FY 06E P/E (n). Our rating remains Buy 2.

Chart 1: Revenue performance by division (A\$m)



Source: GUD Holdings, UBS estimates

■ 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 that risks to our investment case include a loss of sales due to a downturn in consumer spending and greater competitive pressure from imported goods.

■ Analyst Certification

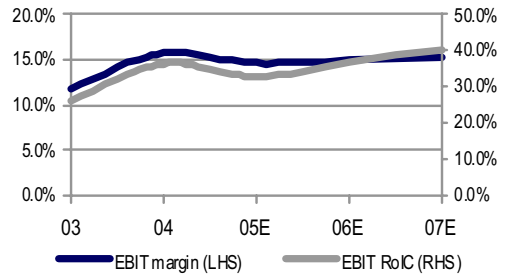
Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities 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.

GUD Holdings Limited

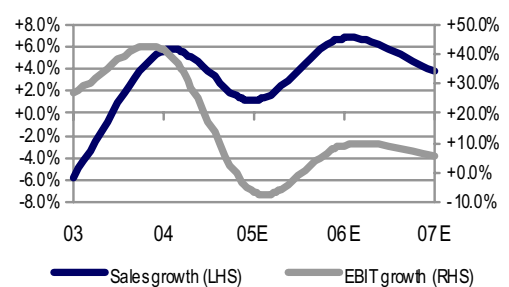
Per share (A\$)	6/03	6/04	6/05E	6/06E	6/07E
EPS (pre-abnormal)	0.47	0.72	0.71	0.77	0.82
CEPS	0.61	0.88	1.07	1.14	1.18
Net DPS	0.26	0.40	0.49	0.56	0.60
BVPS	2.10	2.34	2.32	2.50	2.68
Profit & loss (A\$ m)					
Sales	375.7	396.7	401.3	428.4	444.3
EBITDA	54.3	74.4	84.4	89.9	93.8
Operating income (EBIT)	44.3	62.6	58.8	64.3	68.2
Pre-tax profit	40.6	60.2	56.0	61.6	65.5
Net profit (pre-abnormal)	27.3	41.7	39.2	43.1	45.8
Cash flow (A\$ m)					
Operating income (EBIT)	44.3	62.6	58.8	64.3	68.2
Depreciation & amortisation	10.0	11.9	25.6	25.6	25.6
Net change in working capital	8.4	(8.8)	(12.2)	(5.9)	(3.6)
Other (operating)	(7.4)	(2.5)	(13.7)	0.0	0.0
Operational cash flow	55.2	63.1	58.5	84.0	90.2
Tax paid	(9.0)	(11.3)	(13.0)	(18.5)	(19.6)
Capital expenditure	(7.6)	(9.2)	(12.1)	(16.5)	(16.5)
Net interest	(3.7)	(2.4)	(2.8)	(2.7)	(2.7)
Dividends paid	(12.2)	(19.4)	(27.9)	(32.7)	(35.1)
Net (acquisitions) / disposals	0.0	(9.3)	0.0	0.0	0.0
Other items	(4.4)	(2.3)	(6.2)	0.9	0.7
Increase (decrease) in net debt	18.1	9.1	(3.4)	14.5	17.0
Operating free cash flow (OpFCF) (A\$ m)					
EBITDA (core)	54.3	74.4	84.4	89.9	93.8
Less maintenance capital expenditure	(3.8)	(4.6)	(6.0)	(8.3)	(8.3)
Less maintenance net working capital	0.9	(11.3)	(25.8)	(5.9)	(3.6)
OpFCF	51.4	58.5	52.5	75.8	81.9
Balance sheet (A\$ m)					
Net tangible fixed assets	37.5	36.8	24.0	16.9	9.7
Net intangible fixed assets	50.8	57.9	56.8	53.2	49.6
Net working capital	75.6	84.4	96.6	102.5	106.1
Total invested capital (IC)	163.9	179.1	177.4	172.6	165.5
Financial & other fixed assets	6.7	8.1	11.8	11.8	11.8
Net cash / (debt)	(20.9)	(17.6)	(27.4)	(11.9)	6.2
Provisions	(18.5)	(18.3)	(17.2)	(17.2)	(17.2)
Minority interests	0.0	0.0	0.0	0.0	0.0
Shareholders' funds	126.8	142.6	149.0	159.7	170.7
Profitability					
EBITDA margin	14.4%	18.8%	21.0%	21.0%	21.1%
EBIT margin	11.8%	15.8%	14.6%	15.0%	15.4%
EBIT RoIC	26.1%	36.5%	33.0%	36.8%	40.4%
Net RoE	21.9%	31.0%	26.9%	27.9%	27.7%
Interest cover (EBIT)	11.8x	25.8x	21.0x	23.4x	24.9x
Dividend cover (net)	1.8x	1.8x	1.4x	1.4x	1.4x
Productivity					
Labour % sales					
Depreciation % sales	2.7%	3.0%	6.4%	6.0%	5.8%
Capex % sales	2.0%	2.3%	3.0%	3.9%	3.7%
Invested capital turnover	2.2x	2.3x	2.3x	2.4x	2.6x
Tax rate	29.1%	26.2%	23.2%	30.0%	30.0%
Net debt / total equity	16.5%	12.3%	18.4%	7.4%	Cash
Momentum					
Sales growth	-5.7%	+5.6%	+1.2%	+6.8%	+3.7%
EBIT growth	+27.0%	+41.3%	-6.1%	+9.4%	+6.1%
Net earnings growth	+31.2%	+53.1%	-6.1%	+10.0%	+6.4%
Dividend growth	+57.6%	+53.8%	+22.5%	+14.3%	+7.1%
Value*					
Market capitalisation (A\$ m)	237.3	419.5	485.6	485.6	485.6
Plus: Core net debt / (cash)	29.4	19.2	22.5	19.6	10.6
Plus: Pension provisions	-	-	-	-	-
Plus: Buy out of minorities	-	-	-	-	-
Less: Non-core assets	-	-	-	-	-
Enterprise value (EV, avg)	266.7	438.8	508.1	505.3	496.2
EV/Sales (core)	0.71x	1.11x	1.27x	1.18x	1.12x
EV/EBITDA (core)	4.9x	5.9x	6.0x	5.6x	5.3x
EV/EBIT (core)	6.0x	7.0x	8.6x	7.9x	7.3x
EV/OpFCF	5.2x	7.5x	9.7x	6.7x	6.1x
EV/Invested capital	1.6x	2.6x	2.9x	2.9x	2.9x
P/CE	6.4x	7.8x	7.5x	7.1x	6.8x
P/E	8.2x	9.5x	11.4x	10.4x	9.8x
Dividend yield (net)	6.69%	5.79%	6.10%	6.97%	7.47%
P/BV (average)	1.9x	3.0x	3.5x	3.2x	3.0x

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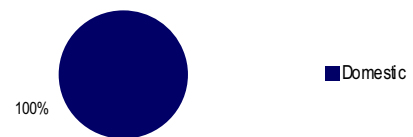
Profitability (EBIT margins & RoIC)



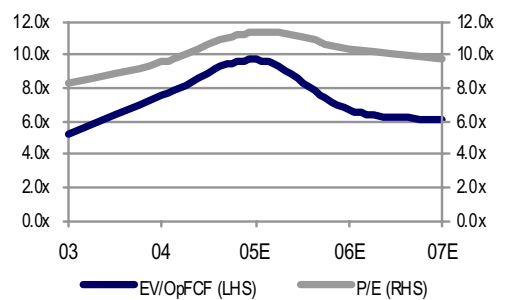
Momentum (Sales & EBIT growth)



Geographic exposure (Sales)



Value (EV/OpFCF & P/E)



Source: UBS estimates * Historical valuations are based on an average for the year share price. Current & future valuations are based on a share price of A\$8.03 on 31/01/2005