

GUD Holdings Limited

Returns to a BUY



Wilson HTM
INVESTMENT GROUP

15 April 2005

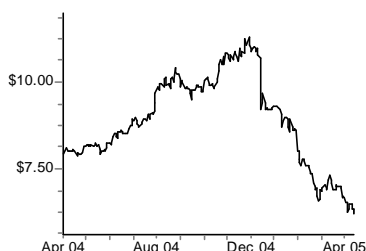
\$6.22

Short Term Long Term
BUY BUY

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Price Performance



Security/Capital Details

ASX Code	GUD
Market Cap	\$374 M
Issued Shares	60.1 M
Avg Mth T'over	2.91 M
12 Mth High – Low	\$11.30 - \$6.22

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	-0.97 x
NTA / Share	\$ 1.40
DCF	\$ 9.27
12 Mth Price Target	\$ 8.00

Recommendation

We endorse a **BUY** recommendation on GUD (previously **ST HOLD/LT BUY**). We have moderated our 12 month share price target to **\$8.00**.

GUD's share price has retreated 45% from a high of \$11.38 in November 2004. Trading in the 2H is tracking to plan, and our forecast for FY 2005 trading EBIT of \$60.7M remains unchanged. Based on FY 2006 forecasts, the shares are trading on an EV/EBITA multiple of 5.4x, PER of 8.1x, and yield of 8.4%. While sentiment towards retail related stocks is likely to remain weak in the short-term, value is offered taking a 12 month view.

Key Points

- Recent discussions with management provide us with confidence that the 2H FY 2005 is tracking to plan, and we see no reason to adjust our FY 2005 forecast for trading EBIT of \$60.7M.
- The slowdown of the retail economy has been well documented and was a major contributor to GUD's December 2004 profit warning. We recognise retail trading conditions remain difficult, however Sunbeam appears to have delivered a satisfactory trading performance so far in the 2H of FY 2005.
- Sunbeam has a well established electric blanket business, and while margins are not disclosed, we understand sales are highly profitable for the Group. Blanket sales are heavily skewed to the June quarter, and provided normal weather conditions prevail, our FY 2005 forecasts appear on track.
- Sunbeam Victa contributes ~50% of Group profit. Trading conditions for the other Divisions (ie. Davey, Filtration, Lock Focus) all appear to be satisfactory, notwithstanding more challenging trading environments over the past six months. Refer overleaf for divisional earnings forecasts.
- Our FY 2006 forecasts assume 10% growth in trading EBIT to \$66.9M. Underlying profit growth is supported by sound performances from Sunbeam Victa, Davey and Lock Focus. Cost savings from the restructure of the Filtration business and the non-repeat of the \$12.6M of restructuring charges incurred in FY 2005 underpin the improved profit outlook.
- The major risks to our earnings forecasts being achieved are in the event of a material and sustained downturn in retail trading conditions and/or a warm winter affecting electric blanket sales (for Sunbeam Victa). For FY 2006, earnings growth is reliant upon a successful restructuring of the Filtration business, and the delivery of cost savings from the closure of manufacturing activities (in early 2005) and sourcing of product from offshore suppliers.
- While investor sentiment towards retail related stocks is likely to remain weak within the short-term, we believe this has been factored in given the 45% reduction in the share price over the past 5 months.
- GUD should appeal to value based investors looking for a high level of franked income, supplemented by longer-term capital growth prospects.
- Our 12 month share price target is \$8.00 p/share (EV/EBITA 7x, PER 10.4x).

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	10.2	7.6	2.7	6.0	40.0	6.4	100
2005e	31.1	54.1	11.5	10.6	2.6	6.6	48.0	7.7	100
2006e	45.1	77.0	8.1	6.2	2.3	4.7	52.0	8.4	100
2007e	50.4	85.6	7.3	5.9	2.1	4.0	54.0	8.7	100

Earnings outlook

Divisional summary

Y/e: 30 June	FY 2003	FY 2004	FY 2005e	FY 2006e	FY 2007e
Revenue (\$M):					
Sunbeam Victa	201.8	223.2	232.1	243.7	255.9
Filtration	85.8	86.0	87.7	92.1	96.3
Davey (pumps)	71.9	72.8	91.1	96.6	102.4
Lock Focus (locks)	13.5	13.4	14.1	14.8	15.4
Unallocated	0.2	0.4	0.0	0.0	0.0
Total revenue	373.3	395.8	425.0	447.2	469.9
EBIT (reported) (\$M):					
Sunbeam Victa	13.8	28.5	28.3	32.9	37.2
Filtration	15.2	15.5	6.1	19.3	20.4
Davey (pumps)	7.4	8.3	11.8	12.9	13.6
Lock Focus (locks)	1.2	2.1	2.2	2.3	2.4
Unallocated	-0.3	-0.6	-0.4	-0.4	-0.4
Total EBIT	37.3	53.7	48.1	66.9	73.2
NPAT (\$M)					
	21.8	35.5	31.1	45.1	50.4
EPS (pre'g'will) (cents)					
	37.4	61.2	54.1	77.0	85.6
- growth (reported)					
	207%	64%	-12%	42%	11%
DPS (cents)					
	26.0	40.0	48.0	52.0	54.0
Earnings multiples:					
EV/EBITA (x)	10.4	7.2	8.2	5.4	4.6
PER (reported)	16.6	10.2	11.5	8.1	7.3
Yield (%)	4.2	6.4	7.7	8.4	8.7

Note: FY 2005 reported EBIT is post a \$12.6M restructure charge for the Filtration business

Source: GUD & WHTM

Key points:

- 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 \$66.9M (+10%).
- GUD's debt levels remain low, with forecast net debt of \$15.9M by the end of FY 2005 (net debt/equity: 11%) 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.

Valuation update

Our 12 month **share price target is \$8.00 p/share** for GUD.

This valuation is on the basis of applying an FY 2006 EV/EBITA multiple of 7.0x. This implies an FY 2006 PER of 10.4x, and DPS yield of 6.5% (fully franked).

We recognise that investor sentiment towards retail related stocks is likely to remain subdued in the short-term given evidence of a slowing retail economy.

Notwithstanding weak investor sentiment, we have reinstated a BUY recommendation on GUD (previously ST Hold / LT BUY) on the basis that we remain comfortable with our earnings forecasts, and believe the recent share price decline sees the shares trading at a material discount to our assessment of fundamental value.

Break-up valuation assessment

Y/e: 30 June	FY 2006e EBIT (\$M)	EBIT multiple (x)	Valuation (\$M)
Sunbeam Victa	32.9	9.0	296.1
Filtration	19.3	7.5	144.4
Davey (pumps)	12.9	8.0	103.1
Lock Focus (locks)	2.3	7.0	16.1
Unallocated	-0.4	7.0	-2.8
Total	66.9	8.3	556.8
less Net debt (at 30/6/05)			15.9
Equity Value (\$M)			541.0
Shares on issue (M)			60.1
Value p/share			\$9.00
Implied FY 2006 PER (x)			11.7

Source: Wilson HTM

The table above provides a valuation assessment of GUD on a break-up valuation basis. Applying what we believe are low case valuation multiples for each division provides a valuation of \$9.00 p/share for the Group (excluding franking credits).

GUD Holdings Limited (GUD : \$6.22)

INVESTMENT FUNDAMENTALS

Yr Ending June	2003A	2004A	2005E	2006E	2007E
EPS Reported (c)	35.7	58.5	51.1	74.2	82.9
EPS Normalised (c)	37.4	61.2	54.1	77.0	85.6
EPS Growth (%)	N/A	63.6%	-12.6%	45.2%	11.8%
PER Normalised (x)	16.7	10.2	11.5	8.1	7.3
DPS (c)	26.0	40.0	48.0	52.0	54.0
Payout (%)	72.8%	68.4%	94.0%	70.1%	65.2%
Yield (%)	4.2%	6.4%	7.7%	8.4%	8.7%
Franking (%)	100%	100%	100%	100%	100%

VALUATION DATA

Yr Ending June	2003A	2004A	2005E	2006E	2007E
EV / EBITA (x)	10.2	7.1	7.9	5.4	4.6
EV / EBITDA (x)	8.4	6.0	6.6	4.7	4.0
CFPS (c)	68.2	81.3	58.4	100.9	105.7
Price / CF	9.1	7.6	10.6	6.2	5.9
Book Value / Share (\$)	2.1	2.3	2.4	2.6	3.0
Price / Book (x)	3.0	2.7	2.6	2.3	2.1

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	79.3	86.2
Depreciation	8.4	9.6	10.1	10.6	11.3
EBITA	38.8	56.0	49.9	68.7	74.9
Amortisation	1.5	2.3	1.8	1.7	1.7
EBIT	37.3	53.7	48.1	66.9	73.2
Net Interest Expense	3.7	2.4	2.2	1.2	0.5
Pre-tax Profit	33.6	51.3	45.9	65.7	72.8
Tax	11.8	15.8	14.8	20.6	22.3
Tax rate (%)	35.1%	30.7%	32.2%	31.3%	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	45.1	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	45.1	50.4
Revenue Growth (%)	N/A	5.8%	8.0%	5.2%	5.1%
EBIT Growth (%)	N/A	44.0%	-10.5%	39.2%	9.4%
NPAT Growth (%)	N/A	63.2%	-12.5%	45.2%	11.8%

PROFITABILITY RATIOS

Yr Ending June	2003A	2004A	2005E	2006E	2007E
EBIT / Sales (%)	10.0%	13.6%	11.3%	15.0%	15.6%
ROA (%)	N/A	24.7%	20.8%	28.3%	30.8%
ROE (%)	N/A	26.4%	21.5%	29.4%	29.6%
ROFE (%)	N/A	36.4%	30.9%	43.9%	50.5%

BALANCE SHEET (\$m)

Yr Ending June	2003A	2004A	2005E	2006E	2007E
Cash	21.8	29.7	16.4	30.0	44.9
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	175.7	197.7
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	266.9	284.1
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	42.5	48.6
Total Liabilities	105.6	112.1	106.8	105.8	104.2
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	53.4	72.2
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	126.8	142.6	145.8	161.1	179.9
Total Funds Employed	147.7	160.2	161.7	151.5	145.4

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2003A	2004A	2005E	2006E	2007E
Net Debt (Cash) (\$m)	20.9	17.6	15.9	-9.7	-34.5
Net Debt / Equity (%)	16.5%	12.3%	10.9%	-6.0%	-19.2%
Interest Cover (x)	9.4	18.8	16.7	32.8	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	66.9	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	-16.4
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	61.4	64.3
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	-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	13.5	14.9

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