

UBS Investment Research

GUD Holdings Limited

Global Equity Research

Australia

Auto Parts

Rating **Buy 2**
Unchanged

Price target **A\$7.81/US\$6.03**
Prior: A\$8.05/US\$6.21

Price **A\$5.85/US\$4.48**

RIC: GUD.AX BBG: GUD AU

13 May 2005

Trading data (local/US\$)

52-wk. range	A\$11.30-5.36/US\$8.88-4.16
Market cap.	A\$0.35bn/US\$0.27bn
Shares o/s	60.4m (ORD)
Free float	100%
Avg. daily volume ('000)	417
Avg. daily value (A\$m)	2.8

Balance sheet data 06/05E

Shareholders' equity	A\$0.15bn
P/BV (UBS)	2.5x
Net cash (debt)	(A\$0.03bn)

Forecast returns

Forecast price appreciation	+33.5%
Forecast dividend yield	10.3%
Forecast stock return	+43.8%
Market return assumption	10.2%
Forecast excess return	+33.6%

EPS (UBS, A\$)

	06/05E			06/04
	From	To	Cons.	Actual
H1	0.35	0.35	-	0.38
H2E	0.35	0.35	-	0.34
06/05E	0.71	0.71	0.66	
06/06E	0.77	0.73	0.72	

Near-term risk but medium-term value

■ Event: Still positive on outlook for medium-term growth

Between FY 90 and FY 04, GUD grew trading EBITA at a CAGR of 15%. Following a record result in FY 04, we expect earnings to fall in FY 05 as a result of deteriorating retail spending on domestic appliances and an increasingly competitive environment for Victa. We anticipate a recovery in the medium-term.

■ Impact: Trim earnings in FY 06E and FY 07E

We have reduced FY 06E NPAT by 6% and FY 07E NPAT by 3% on the basis of ongoing weakness in retail spending on domestic appliances, high crude oil prices (impacting plastic costs) and continued strength in the A\$ affecting the price-competitiveness of Victa's lawnmowers.

■ Action: Still rate GUD Buy 2

GUD has been re-rated downwards since its disappointing H1 05 result and subsequent profit warning. At a FY 06E P/E (n) of 8.0x, however, we believe that the increased risk profile is priced in. In our view GUD has a strong balance sheet and cash flows, and we believe that it will return to steady earnings growth in the medium-term. We retain a Buy 2 rating.

■ Valuation: \$9.06 per share, PT: \$7.81 per share

Our DCF valuation falls by 4% to \$9.06 per share as a result of the changes to our forecasts. Our PT (the average of our DCF and our P/E-based valuation of \$6.56 per share (using an implied multiple of 9.0x FY 06E EPS (n)) falls by 3% to \$7.81 per share.

Highlights (A\$m)	06/03	06/04	06/05E	06/06E	06/07E
Revenues	375.7	396.7	401.3	415.0	430.4
EBIT	44.3	62.6	58.8	60.5	66.1
Net income (UBS)	27.3	41.7	39.2	40.4	44.4
EPS (UBS, A\$)	0.47	0.72	0.71	0.73	0.79
Net DPS (UBS, A\$)	0.26	0.40	0.49	0.50	0.54

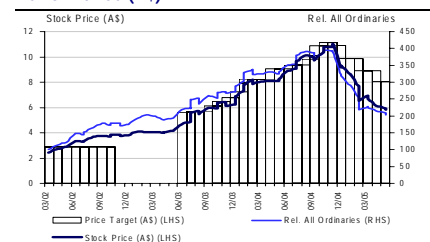
Profitability & Valuation	5-yr hist. av.	06/04	06/05E	06/06E	06/07E
EBIT margin %	-	15.8	14.6	14.6	15.4
ROIC (EBIT) %	-	36.5	33.0	34.5	38.7
EV/EBITDA x	-	5.9	5.4	5.2	4.7
PE (UBS) x	-	9.5	8.3	8.0	7.4
Net dividend yield %	-	5.8	8.4	8.5	9.2

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\$5.85 on 13 May 2005 18:10 AEST

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Performance (A\$)



Source: UBS

www.ubs.com/investmentresearch

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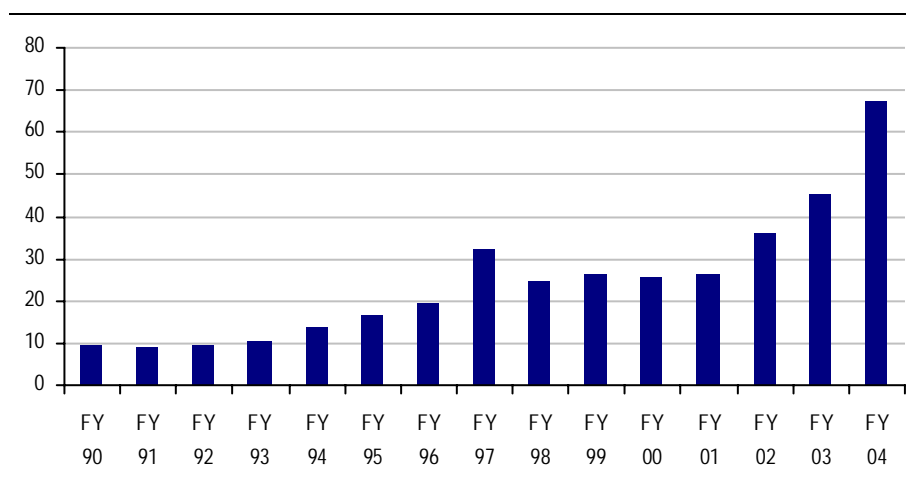
ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 5

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A recent history of growth

Since 1990, GUD Holdings (GUD.AX) has grown its trading EBITA by a CAGR of 15.1% (Chart 1).

Chart 1: GUD trading EBITA since FY 90 (A\$m)



Source: GUD Holdings

This has been achieved through a combination of organic growth and acquisitive expansion as shown in Table 1 below.

Table 1: GUD's history of earnings growth

Year	Trading EBITA (A\$m)	Events
FY 90	9.4	
FY 91	8.9	
FY 92	9.7	
FY 93	10.3	
FY 94	13.9	Lock Focus acquired
FY 95	16.7	Davey Pumps acquired
FY 96	19.4	
FY 97	32.3	Sunbeam Victa acquired
FY 98	24.7	
FY 99	26.6	
FY 00	25.4	
FY 01	26.6	
FY 02	36.2	Closure of Campsie completed
FY 03	45.3	
FY 04	67.1	

Source: GUD Holdings

GUD achieved 48% y/y growth in its trading EBITA in FY 04 (from \$45.3m to \$67.1m) based on a strong performance by Sunbeam Victa, which benefited from a substantial reduction in costs from closing its domestic manufacturing base, a successful new product program and sourcing from China (augmented by a stronger A\$) as well as relatively strong retail demand.

Growth interrupted

The strength of the A\$ against the US\$ has proved something of a double-edged sword for GUD. While it has reduced GUD's A\$ cost of importing manufactured product from China, it has also made it much more viable for other distributors of homewares to compete with GUD aggressively on the basis of price. In our view, the increased ability of importers to undercut GUD on price is the main reason behind the company's disappointing H1 05 result and its subsequent profit warning. It seems that nowhere is this more prevalent than in GUD's lawnmower division, Victa. Competitors' lawnmowers, that have been fully-imported from China, have increased their market share at the expense of more expensive Victa products (which are assembled in Australia). Combine this with reduced spending on domestic appliances and higher input costs (both of which affect Sunbeam), and we believe that the end-result is that GUD's steady growth profile is likely to be interrupted for a year or so.

Changes to earnings estimates

At the time of its (in our view, disappointing) H1 05 result, GUD stated that it expected its H2 05 trading EBITA to be "in line" with H2 04. Our forecast for H2 05 EBITA is \$30.5m (H2 04: \$30.7m). With continued softness in the Australian retail sector and no material decline in the price of crude oil (which impacts the pricing of plastics and, as a result, GUD's input costs) over the past few weeks, we have become increasingly cautious on the likelihood that GUD would be able to return to strong earnings growth in the near-term. As a result, we have reduced our FY 06 and FY 07 earnings estimates as shown in Table 2. FY 06E NPAT falls by 6% and FY 07E NPAT by 3%.

Table 2: Changes to earnings estimates (A\$m)

	Current	Previous		Current	Previous		Current	Previous	
	FY 05E	FY 05E	Change	FY 06E	FY 06E	Change	FY 07E	FY 07E	Change
Revenue	401.3	401.3	0%	415.0	428.4	-3%	430.4	444.3	-3%
EBITDA	70.2	70.2	0%	72.0	75.8	-5%	77.6	79.7	-3%
EBITA	60.6	60.6	0%	62.3	66.1	-6%	67.9	70.0	-3%
EBITA margin	15.1%	15.1%	0%	15.0%	15.4%	-3%	15.8%	15.8%	0%
EBIT	58.8	58.8	0%	60.5	64.3	-6%	66.1	68.2	-3%
Reported NPAT	30.3	30.3	0%	40.4	43.1	-6%	44.4	45.8	-3%
Reported EPS	49.0	49.0	0%	67.3	71.7	-6%	73.8	76.2	-3%
Normalised EPS	70.5	70.5	0%	72.8	77.2	-6%	79.3	81.8	-3%
Dividend	49.0	49.0	0%	50.0	56.0	-11%	54.0	60.0	-10%

Source: UBS estimates

We also note that relatively warm weather in Sydney and Melbourne over the past few weeks may have reduced the demand for electric blankets and heaters, putting further pressure on the revenue of Sunbeam.

Still a Buy 2 rating

GUD's share price has fallen by 48% since touching a record high of \$11.30 per share on 29 November 2004. At that time, the stock was trading at a forward P/E (based on consensus estimates) of 14.5x. At current levels, the forward P/E has

fallen to 8.5x on the basis of consensus estimates (UBS's: FY 06E P/E (n) = 8.0x) (Chart 2).

Chart 2: GUD's price and forward P/E (based on consensus estimates)



Source: IRESS Market Technology, Thomson Financial Datastream

In our view, the deterioration in retail spending on domestic appliances, the increase in US\$ input costs and the increasingly aggressive pricing strategies of some competitors has increased the risk profile of GUD's earnings significantly. At a FY 06E P/E (n) of 8.0x, however, we believe that this increased risk profile is priced in. In our view GUD has a strong balance sheet and cash flows, is likely to pay an increased dividend in FY 05E (and greater still in FY 06E) and strong brands and market positions (particularly in Sunbeam and Victa). We believe that GUD should return to steady earnings growth in the medium-term (maybe boosted by future acquisitions) and at current prices, we retain a Buy 2 rating. GUD is our preferred exposure to the homewares sector in Australia.

■ 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.

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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	37%	30%
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	52%	32%
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	11%	25%

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 31 March 2005.

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.

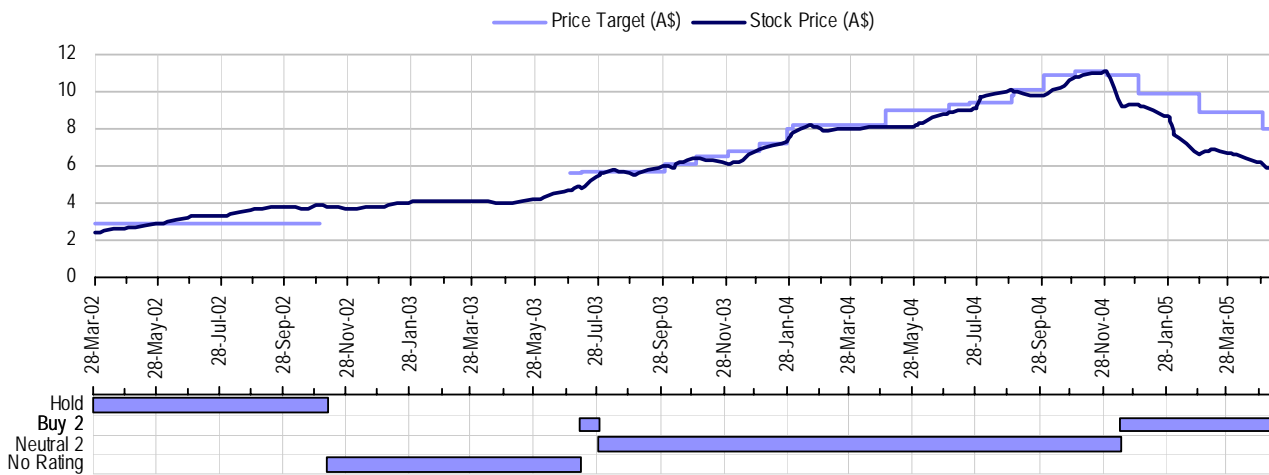
Companies mentioned

Company Name	Reuters	Rating	Price	Price date/time
GUD Holdings Limited	GUD.AX	Buy 2	A\$5.84	12 May 2005 21:10 AEST

Source: UBS. AEST: Australian eastern standard time.

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 12 May 2005.

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.

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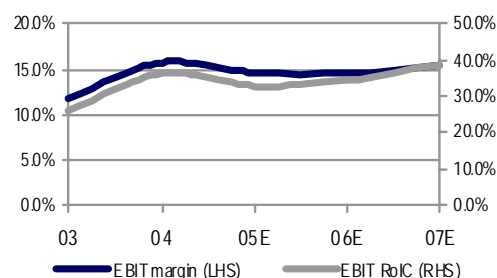


GUD Holdings Limited

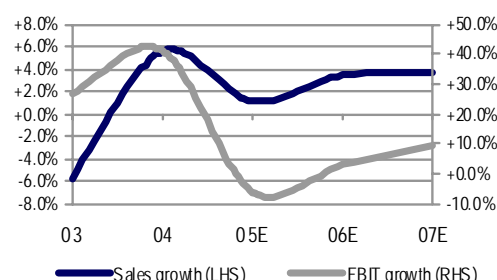
Per share (A\$)	6/03	6/04	6/05E	6/06E	6/07E
EPS (pre-abnormal)	0.47	0.72	0.71	0.73	0.79
CEPS	0.61	0.88	0.83	0.86	0.92
Net DPS	0.26	0.40	0.49	0.50	0.54
BVPS	2.10	2.34	2.32	2.49	2.70
Profit & loss (A\$ m)					
Sales	375.7	396.7	401.3	415.0	430.4
EBITDA	54.3	74.4	70.2	72.0	77.6
Operating income (EBIT)	44.3	62.6	58.8	60.5	66.1
Pre-tax profit	40.6	60.2	56.0	57.8	63.4
Net profit (pre-abnormal)	27.3	41.7	39.2	40.4	44.4
Cash flow (A\$ m)					
Operating income (EBIT)	44.3	62.6	58.8	60.5	66.1
Depreciation & amortisation	10.0	11.9	11.4	11.4	11.4
Net change in working capital	8.4	(8.8)	(10.8)	(3.3)	(3.5)
Other (operating)	(7.4)	(2.5)	(5.5)	(0.0)	(0.0)
Operational cash flow	55.2	63.1	54.0	68.6	74.1
Tax paid	(9.0)	(11.3)	(13.0)	(17.3)	(19.0)
Capital expenditure	(7.6)	(9.2)	(7.6)	(7.5)	(7.5)
Net interest	(3.7)	(2.4)	(2.8)	(2.7)	(2.7)
Dividends paid	(12.2)	(19.4)	(27.9)	(30.2)	(32.1)
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	(3.5)	11.7	13.5
Operating free cash flow (OpFCF) (A\$ m)					
EBITDA (core)	54.3	74.4	70.2	72.0	77.6
Less maintenance capital expenditure	(3.8)	(4.6)	(3.8)	(3.8)	(3.8)
<u>Less maintenance net working capital</u>	<u>0.9</u>	<u>(11.3)</u>	<u>(16.3)</u>	<u>(3.3)</u>	<u>(3.5)</u>
OpFCF	51.4	58.5	50.2	64.9	70.3
Balance sheet (A\$ m)					
Net tangible fixed assets	37.5	36.8	25.5	21.4	17.2
Net intangible fixed assets	50.8	57.9	56.8	53.2	49.6
<u>Net working capital</u>	<u>75.6</u>	<u>84.4</u>	<u>95.1</u>	<u>98.5</u>	<u>102.0</u>
Total invested capital (IC)	163.9	179.1	177.5	173.1	168.9
Financial & other fixed assets	6.7	8.1	11.8	11.8	11.8
Net cash / (debt)	(20.9)	(17.6)	(27.5)	(12.6)	4.1
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	159.5	172.0
Profitability					
EBITDA margin	14.4%	18.8%	17.5%	17.3%	18.0%
EBIT margin	11.8%	15.8%	14.6%	14.6%	15.4%
EBIT RoIC	26.1%	36.5%	33.0%	34.5%	38.7%
Net RoE	21.9%	31.0%	26.9%	26.2%	26.8%
Interest cover (EBIT)	11.8x	25.8x	21.0x	22.0x	24.1x
Dividend cover (net)	1.3x	1.3x	1.0x	1.0x	1.0x
Productivity					
Labour % sales					
Depreciation % sales	2.7%	3.0%	2.9%	2.8%	2.7%
Capex % sales	2.0%	2.3%	1.9%	1.8%	1.7%
Invested capital turnover	2.2x	2.3x	2.3x	2.4x	2.5x
Tax rate	29.1%	26.2%	23.2%	30.0%	30.0%
Net debt / total equity	16.5%	12.3%	18.4%	7.9%	Cash
Momentum					
Sales growth	-5.7%	+5.6%	+12.2%	+3.4%	+3.7%
EBIT growth	+27.0%	+41.3%	-6.1%	+3.0%	+9.3%
Net earnings growth	+31.2%	+53.1%	-6.1%	+3.2%	+9.7%
Dividend growth	+57.6%	+53.8%	+22.5%	+2.0%	+8.0%
Value*					
Market capitalisation (A\$m)	237.3	419.5	353.5	353.5	353.5
Plus: Core net debt / (cash)	29.4	19.2	22.5	20.1	11.7
Plus: Pension provisions	-	-	-	-	-
Plus: Buy out of minorities	-	-	-	-	-
Less: Non-core assets	-	-	-	-	-
Enterprise value (EV, avg)	266.7	438.8	376.1	373.6	365.2
EV/Sales (core)	0.71x	1.11x	0.94x	0.90x	0.85x
EV/EBITDA (core)	4.9x	5.9x	5.4x	5.2x	4.7x
EV/EBIT (core)	6.0x	7.0x	6.4x	6.2x	5.5x
EV/OpFCF	5.2x	7.5x	7.5x	5.8x	5.2x
EV/Invested capital	1.6x	2.6x	2.1x	2.1x	2.1x
P/CE	6.4x	7.8x	7.0x	6.8x	6.3x
P/E	8.2x	9.5x	8.3x	8.0x	7.4x
Dividend yield (net)	6.69%	5.79%	8.38%	8.55%	9.23%
P/BV (average)	1.9x	3.0x	2.5x	2.3x	2.2x

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, Victoria lawnmowers, Ryco filters and Davey pumps. GUD was formed in 1940 and first listed in 1959.

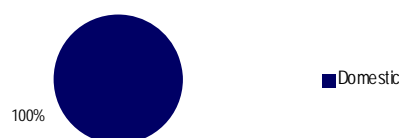
Profitability (EBIT margins & RoIC)



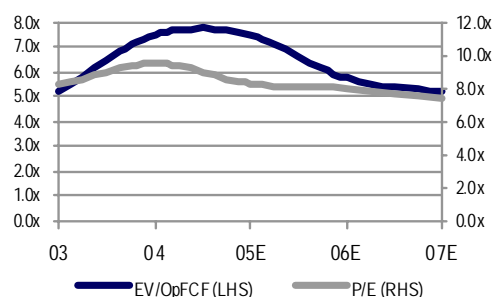
Momentum (Sales & EBIT growth)



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\$5.85 on 13/05/2005