

GUD Holdings Limited

Earnings update



Wilson HTM
INVESTMENT GROUP

24 May 2005

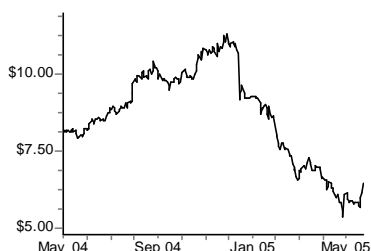
\$6.45

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

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Price Performance



Security/Capital Details

ASX Code GUD
Market Cap \$370 M
Issued Shares 59.9 M
Avg Mth T'over 2.91 M
12 Mth High – Low \$11.30 - \$5.36

Key Data/Ratios – FY 2005

EBITDA / Sales 13.6%
EBIT / Sales 10.7%
Net Debt / Equity 25.3%
Interest Cover 12.6 x
ROE 20.5%
EPS Growth -18.0%
PEG Ratio -0.71 x
NTA / Share \$ 1.25
DCF \$ 7.75
12 Mth Price Target \$ 8.00

Recommendation

We retain a BUY recommendation on GUD, but have moderated our 12 month share price target to \$7.40 p/share (previously \$8.00).

We have reduced our forecast for FY 2005 trading EBIT by 5%, largely due to the negative affect of the unseasonally warm weather conditions on the sale of Sunbeam electric blankets. On the positive side, we have increased our DPS forecasts by an additional 2.0 cents for FY 2005 and 3.0 cents for FY 2006. We retain a BUY recommendation on the basis that the shares are fundamentally oversold (FY 2006 PER of 8.9x, yield of 8.5%).

Key Points

- Our last note on GUD cautioned that weather conditions in the 4Q presented the main risk to our FY 2005 earnings forecasts being achieved. Since then, despite a promising early 'sell-in' of product, management have confirmed the unseasonally warm weather in April and May has negatively affected replenishment sales for electric blankets.
- In light of the warm weather we have moderated our FY 2005 trading EBIT forecast by 5% to \$57.7M (previously \$60.7M). This largely reflects a reduced EBIT contribution from the Sunbeam Victa Division, and (separately) a modest reduction in EBIT contribution from the Filtration Division given signs of softer sales.
- We have adopted a more cautious approach to FY 2006. Our revised FY 2006 forecasts assume 9% growth in trading EBIT to \$62.9M (previously \$66.9M). Reported profit should make a marked improvement in FY 2006, underpinned by cost savings from the restructure of the Filtration business and the non-repeat of \$12.6M of restructuring charges incurred in FY 2005.
- Cash flow for GUD should remain healthy, although inventory may be negatively affected by higher stocks of blankets at year end depending on weather conditions (and replenishment sales) during the month of June.
- In light of strong free cash flow generation and strong balance sheet, we have increased our DPS forecasts for FY 2005 and FY 2006 to 50 cents and 55 cents respectively (previously 48 cents and 52 cents).
- While the slowdown of the retail economy and unseasonal weather conditions have made trading conditions difficult for GUD, we believe these have been largely factored into the current share price.
- GUD should appeal to value based investors looking firstly for a high level of franked income, supplemented by long-term capital growth prospects. The shares offer a FY 2006 fully-franked dividend yield of 8.5%.
- We maintain a BUY recommendation, on the basis that the shares have been oversold.
- Our revised 12 month share price target is \$7.40 p/share (FY 2006 EV/EBITDA of 7.0x, PER of 10.3x).

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	10.5	7.9	2.8	6.3	40.0	6.2	100
2005e	28.6	50.2	12.8	12.3	2.9	7.4	50.0	7.7	100
2006e	41.6	72.3	8.9	6.8	2.7	5.3	55.0	8.5	100
2007e	45.5	78.6	8.2	6.9	2.5	4.9	58.0	9.0	100

Earnings forecasts

Divisional summary

Y/e: 30 June	FY 2003	FY 2004	FY 2005e	FY 2006e	FY 2007e
Revenue (\$M):					
Sunbeam Victa	201.8	223.2	227.6	233.3	240.3
Filtration	85.8	86.0	87.7	88.6	91.3
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	420.6	433.3	449.4
EBIT (reported) (\$M):					
Sunbeam Victa	13.8	28.5	27.1	31.5	33.2
Filtration	15.2	15.5	4.4	16.7	17.9
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
Reported EBIT	37.3	53.7	45.1	62.9	66.7
Trading EBIT	44.3	62.6	57.7	62.9	66.7
- growth (%)	27%	41%	-8%	9%	6%
NPAT (\$M)					
	21.8	35.5	28.6	41.6	45.5
EPS (pre'g'will) (cents)	37.4	61.2	50.2	72.3	78.6
- growth (reported)	207%	64%	-18%	44%	9%
DPS (cents)	26.0	40.0	50.0	55.0	58.0
Earnings multiples:					
EV/EBITA (x)	10.7	7.4	9.2	6.1	5.6
PER (reported)	17.3	10.5	12.8	8.9	8.2
Yield (%)	4.0	6.2	7.8	8.5	9.0

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

Source: GUD & WHTM

We have reduced our FY 2005 and FY 2006 trading EBIT forecasts by 5% and 6% respectively. The main contributors to our revised profit forecasts are summarised below.

- **Sunbeam Victa** - We have made modest reductions to our FY 2005 and FY 2006 EBIT contributions from Sunbeam Victa to reflect recent trading conditions, specifically relating to electric blanket sales. While sales of Sunbeam electric blankets were reasonable in the 3Q, we understand that replenishment orders in the 4Q have been slow due to unseasonably warm weather. The environment also remains challenging for Victa, with the drought persisting and heightened import competition.
- **Filtration** - We are taking a more conservative view on EBIT contributions from Filtration to reflect a more difficult sales environment for filters. We have reduced our forecast EBIT contribution from Filtration by 13% in FY 2006. The earnings recovery in FY 2006 is driven by the non-repeat of restructuring charges of \$12.6M (pre-tax) in FY 2005.

GUD's gearing remains low, with forecast net debt of \$34.2M by the end of FY 2005 (net debt/equity: 25.3%). This provides considerable capacity to fund add-on acquisitions, however suitable opportunities appear scarce. In the absence of a major acquisition being made, we expect GUD to continue to consistently increase annual dividends.

We have increased our DPS forecasts by 4% and 6% for FY 2005 and FY 2006 to 50 cents and 55 cents respectively (previously 48 cents and 52 cents).

GUD Holdings Limited (GUD : \$6.45)

INVESTMENT FUNDAMENTALS

Yr Ending June	2003A	2004A	2005E	2006E	2007E
EPS Reported (c)	35.7	58.5	47.2	69.4	75.9
EPS Normalised (c)	37.4	61.2	50.2	72.3	78.6
EPS Growth (%)	N/A	63.6%	-19.2%	46.9%	9.3%
PER Normalised (x)	17.3	10.5	12.8	8.9	8.2
DPS (c)	26.0	40.0	50.0	55.0	58.0
Payout (%)	72.8%	68.4%	105.8%	79.3%	76.4%
Yield (%)	4.0%	6.2%	7.7%	8.5%	9.0%
Franking (%)	100%	100%	100%	100%	100%

VALUATION DATA

Yr Ending June	2003A	2004A	2005E	2006E	2007E
EV / EBITA (x)	10.6	7.3	9.0	6.2	5.7
EV / EBITDA (x)	8.7	6.3	7.4	5.3	4.9
CFPS (c)	68.2	81.3	52.3	94.5	93.8
Price / CF	9.5	7.9	12.3	6.8	6.9
Book Value / Share (\$)	2.1	2.3	2.3	2.4	2.6
Price / Book (x)	3.1	2.8	2.9	2.7	2.5

PROFIT & LOSS (\$m)

Yr Ending June	2003A	2004A	2005E	2006E	2007E
Sales Revenue	372.4	393.8	420.7	433.3	449.4
EBITDA	47.3	65.6	57.0	75.3	79.6
Depreciation	8.4	9.6	10.1	10.6	11.3
EBITA	38.8	56.0	46.9	64.7	68.3
Amortisation	1.5	2.3	1.8	1.7	1.7
EBIT	37.3	53.7	45.1	62.9	66.7
Net Interest Expense	3.7	2.4	2.9	2.4	1.0
Pre-tax Profit	33.6	51.3	42.2	60.6	65.6
Tax	11.8	15.8	13.6	19.0	20.2
Tax rate (%)	35.1%	30.7%	32.3%	31.4%	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	28.6	41.6	45.5
Abn's / Extraord's	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	21.8	35.5	28.6	41.6	45.5
Revenue Growth (%)	N/A	5.8%	6.8%	3.0%	3.7%
EBIT Growth (%)	N/A	44.0%	-16.0%	39.6%	5.9%
NPAT Growth (%)	N/A	63.2%	-19.6%	45.6%	9.3%

PROFITABILITY RATIOS

Yr Ending June	2003A	2004A	2005E	2006E	2007E
EBIT / Sales (%)	10.0%	13.6%	10.7%	14.5%	14.8%
ROA (%)	N/A	24.7%	19.4%	26.4%	28.1%
ROE (%)	N/A	26.4%	20.5%	29.6%	30.0%
ROFE (%)	N/A	36.4%	28.4%	39.2%	42.9%

BALANCE SHEET (\$m)

Yr Ending June	2003A	2004A	2005E	2006E	2007E
Cash	21.8	29.7	18.1	17.4	14.3
Receivables	49.9	51.1	56.6	58.3	60.5
Inventories	60.0	66.5	73.0	75.2	78.0
Other	5.7	4.7	5.9	5.9	5.9
Current Assets	137.3	152.0	153.6	156.9	158.7
Net PPE	37.5	36.8	32.6	28.1	24.6
Investments	0.0	0.0	6.5	6.5	6.5
Intangibles	50.8	57.9	56.1	54.3	52.7
Other	6.7	8.1	8.6	8.7	8.9
Non-current Assets	95.1	102.8	103.8	97.6	92.7
Total Assets	232.4	254.7	257.4	254.5	251.3
Current Payables	40.0	37.9	40.5	41.7	43.2
Current Debt	20.3	27.1	32.1	12.1	12.1
Non-Current Debt	22.4	20.2	20.2	20.2	2.2
Provisions	0.0	0.0	0.0	0.0	0.0
Other	22.9	26.9	29.3	34.7	36.1
Total Liabilities	105.6	112.1	122.1	108.7	93.6
Equity	107.1	106.4	98.4	98.4	98.4
Reserves	0.9	1.4	1.4	1.4	1.4
Retained Profits	18.8	34.9	35.6	46.0	57.9
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	126.8	142.6	135.4	145.8	157.7
Total Funds Employed	147.7	160.2	169.6	160.7	157.7

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2003A	2004A	2005E	2006E	2007E
Net Debt (Cash) (\$m)	20.9	17.6	34.2	14.9	0.0
Net Debt / Equity (%)	16.5%	12.3%	25.3%	10.2%	0.0%
Interest Cover (x)	9.4	18.8	12.6	19.9	29.9
Debt / CashFlow (x)	1.0	1.0	1.7	0.6	0.3

CASHFLOW (\$m)

Yr Ending June	2003A	2004A	2005E	2006E	2007E
EBIT	37.3	53.7	45.1	62.9	66.7
Dep'n and Amort'n	10.0	11.9	11.9	12.4	13.0
Net Int Rec'd (Paid)	-3.7	-2.4	-2.9	-2.4	-1.0
Tax Paid	-9.0	-11.3	-15.8	-13.6	-19.0
Dec / (Inc) W'kg Cap	6.5	-9.9	-9.4	-2.7	-3.4
Other	0.5	7.4	2.7	0.0	0.0
Operating Cash Flow	41.5	49.4	31.6	56.6	56.2
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	-6.5	0.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	-7.4	-20.1	-12.4	-6.1	-7.8
Equity Raised	-4.7	-0.7	-7.9	0.0	0.0
Inc / (Dec) in Loans	-6.4	-1.4	5.0	-20.0	-18.0
Dividends Paid	-12.2	-19.4	-27.9	-31.2	-33.6
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	-23.3	-21.5	-30.8	-51.2	-51.6
Net Cash Flow	10.9	7.8	-11.6	-0.7	-3.2

Disclosure of Interest. The Directors of Wilson HTM Ltd advise that at the date of this report they and their associates have relevant interests in 14,125 securities in GUD Holdings Limited. They also advise that Wilson HTM Ltd and Wilson HTM Corporate Finance Ltd A.B.N. 65 057 547 323 and their associates have received and may receive commissions or fees from GUD Holdings Limited in relation to advice or dealings in securities. Some or all of Wilson HTM Ltd authorised representatives may be remunerated wholly or partly by way of commission.



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