

# GUD Holdings Limited

## Sweeps up Oates



Wilson HTM  
INVESTMENT GROUP

19 July 2005

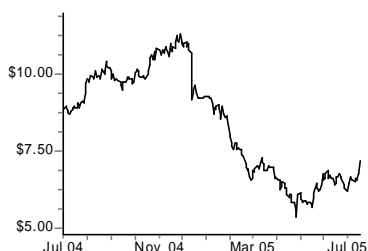
\$7.22

Short Term      Long Term  
BUY              BUY

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### Price Performance



### Security/Capital Details

ASX Code	GUD
Market Cap	\$405 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	-0.80 x
NTA / Share	\$ 1.25
DCF valuation	\$ 8.19
12 Mth Price Target	\$ 7.90

### Recommendation

We retain a BUY recommendation on GUD and have revised our 12 month share price target to \$7.90 p/share (previously \$7.40 p/share).

GUD has foreshadowed FY 2005 trading EBIT in the range of \$55.6M to \$59.9M. We retain our trading EBIT forecast of \$57.7M. GUD has also announced the acquisition of the Oates cleaning products group. Oates has forecast FY 2006 revenue of \$65M and EBIT of \$6M. The acquisition increases our FY 2006 EPS forecast by 5.3%. The acquisition is relatively small, and GUD retains capacity to fund further add-on acquisitions.

### Key Points

- GUD has foreshadowed that FY 2005 trading EBIT will be within the range of \$55.6M to \$59.9M. Our forecast remains unchanged at trading EBIT of \$57.7M (pcp: \$62.6M). This forecast is pre-restructuring charges of \$12.6M (pre-tax) relating to the closure of the Filtration division's Australian manufacturing plant.
- In addition to the earnings update, GUD announced the acquisition of ED Oates Holdings Pty Ltd ("Oates"), a supplier of household and commercial cleaning products and accessories marketed under the "OATES CLEAN" brand name.
- Oates is forecast to generate FY 2006 annualised revenue of \$65M and EBIT of \$6M (margin: 9.2%). The estimated acquisition price of \$35M will be dependent on Oates' FY 2005 earnings result, and will be funded from existing debt facilities. This represents an FY 2006 acquisition EV/EBIT multiple of 5.8x.
- We view the Oates acquisition as a sound add-on to GUD's existing consumer products portfolio (ie. Sunbeam and Victa). Good prospects for growth are underpinned by product range expansion and potential bolt-on acquisitions.
- GUD believes it can add value to Oates in the areas of manufacturing, supply chain management and marketing. Our forecasts do not include any cost or revenue synergies associated with the Oates acquisition.
- We forecast the Oates acquisition to add 3.8 cents (+5.3%) to EPS in FY 2006 to 76.1 cents. Our FY 2005 EPS forecast remains unchanged at 50.2 cents.
- Oates is a relatively small add-on acquisition, and GUD's balance sheet retains capacity to fund further add-on acquisitions. Gearing is expected to remain modest after funding the Oates acquisition (FY 2006 net debt/equity: 40%).
- With a strong balance sheet and additional cash generation from Oates, we expect GUD to reward shareholders with sustained dividend increases.
- We have revised our 12 month share price target to \$7.90 p/share (FY 2006 EV/EBITA of 7.0x, PER of 10.4x), and retain a BUY recommendation.

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	11.8	8.9	3.1	7.0	40.0	5.5	100
2005e	28.6	50.2	14.4	13.8	3.2	8.2	50.0	6.9	100
2006e	43.9	76.1	9.5	9.2	2.9	6.1	55.0	7.6	100
2007e	47.9	82.7	8.7	7.5	2.7	5.6	58.0	8.0	100

## Acquisition and Earnings summary

### Divisional summary

Y/e: 30 June	FY 2003	FY 2004	FY 2005e	FY 2006e	FY 2007e
<b>Revenue (\$M):</b>					
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
Oates (cleaning)				59.6	65.0
Unallocated	0.2	0.4	0.0	0.0	0.0
<b>Total revenue</b>	<b>373.3</b>	<b>395.8</b>	<b>420.6</b>	<b>492.9</b>	<b>514.4</b>
<b>EBIT (reported) (\$M):</b>					
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
Oates (cleaning)				5.5	6.0
Unallocated	-0.3	-0.6	-0.4	-0.4	-0.4
<b>Reported EBIT</b>	<b>37.3</b>	<b>53.7</b>	<b>45.1</b>	<b>68.4</b>	<b>72.7</b>
<b>Trading EBIT (\$M)</b>	<b>44.3</b>	<b>62.6</b>	<b>57.7</b>	<b>68.4</b>	<b>72.7</b>
- growth (%)	27%	41%	-8%	19%	6%
<b>NPAT (\$M)</b>	<b>21.8</b>	<b>35.5</b>	<b>28.6</b>	<b>43.9</b>	<b>47.9</b>
EPS (pre'g'will) (cents)	37.4	61.2	50.2	76.1	82.7
- growth (reported)	207%	64%	-18%	51%	9%
DPS (cents)	26.0	40.0	50.0	55.0	58.0
OCF (\$M)	41.5	49.4	31.6	47.3	57.5
Net debt (\$M)	20.9	17.6	34.2	59.2	43.0
- Net debt/equity (%)	16.5%	12.3%	25.3%	40.0%	26.5%

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

Source: GUD & WHTM

**Oates** is Australia's leading supplier of consumer and industrial cleaning products, with the leading market share in floor cleaning accessories. The majority of sales are to the consumer market (~67%), with the balance to the industrial market. The business has shown consistent sales growth over the past 5 years, with compound average sales growth of 7.5% per annum.

Oates is expected to generate FY 2006 annualised revenue of \$65M and EBIT of \$6M. Growth prospects for Oates are underpinned by product development and expansion, as well as potential bolt-on acquisitions.

Our **FY 2005 forecasts** remain unchanged, with trading EBIT of \$57.7M and normalised NPAT of \$37.4M (-10%). After allowing for restructuring charges of \$8.8M (post-tax) relating to the restructure of the Filtration division, reported NPAT is forecast at \$28.6M (-20%).

We have revised our **FY 2006 EPS forecast** up by 5.3% following the Oates acquisition. Our revised trading EBIT forecast is \$68.4M (+19%). Our FY 2006 forecast assumes an 11 month contribution from Oates, with a 12 month contribution incorporated in our FY 2007 forecasts.

GUD's **balance sheet** retains capacity to fund further acquisitions, and management have intimated that further bolt-on acquisitions are likely to be in the areas of industrial cleaning or water pumps (ie. bolt-on to Davey).

Gearing following the Oates acquisition is expected to remain modest, with forecast FY 2006 net debt of \$59.2M (net debt/equity: 40%). In light of strong free cash flow generation and strong balance sheet, GUD should continue to consistently increase annual dividends (refer forecasts above).

## GUD Holdings Limited (GUD : \$7.22)

## INVESTMENT FUNDAMENTALS

Yr Ending June	2003A	2004A	2005E	2006E	2007E
EPS Reported (c)	35.7	58.5	47.2	73.2	80.0
<b>EPS Normalised (c)</b>	<b>37.4</b>	<b>61.2</b>	<b>50.2</b>	<b>76.1</b>	<b>82.7</b>
EPS Growth (%)	N/A	63.6%	-19.2%	55.0%	9.2%
<b>PER Normalised (x)</b>	<b>19.3</b>	<b>11.8</b>	<b>14.4</b>	<b>9.5</b>	<b>8.7</b>
DPS (c)	26.0	40.0	50.0	55.0	58.0
Payout (%)	<b>72.8%</b>	<b>68.4%</b>	<b>105.8%</b>	<b>75.1%</b>	<b>72.5%</b>
Yield (%)	3.6%	5.5%	6.9%	7.6%	8.0%
Franking (%)	100%	100%	100%	100%	100%

## VALUATION DATA

Yr Ending June	2003A	2004A	2005E	2006E	2007E
EV / EBITA (x)	11.8	8.2	10.0	7.0	6.4
EV / EBITDA (x)	9.7	7.0	8.2	6.1	5.6
CFPS (c)	68.2	81.3	52.3	78.9	96.1
<b>Price / CF</b>	<b>10.6</b>	<b>8.9</b>	<b>13.8</b>	<b>9.2</b>	<b>7.5</b>
Book Value / Share (\$)	2.1	2.3	2.3	2.5	2.7
<b>Price / Book (x)</b>	<b>3.4</b>	<b>3.1</b>	<b>3.2</b>	<b>2.9</b>	<b>2.7</b>

## PROFIT &amp; LOSS (\$m)

Yr Ending June	2003A	2004A	2005E	2006E	2007E
Sales Revenue	372.4	393.8	420.7	492.9	514.4
EBITDA	47.3	65.6	57.0	80.8	85.6
Depreciation	8.4	9.6	10.1	10.6	11.3
<b>EBITA</b>	<b>38.8</b>	<b>56.0</b>	<b>46.9</b>	<b>70.2</b>	<b>74.3</b>
Amortisation	1.5	2.3	1.8	1.7	1.7
<b>EBIT</b>	<b>37.3</b>	<b>53.7</b>	<b>45.1</b>	<b>68.4</b>	<b>72.7</b>
Net Interest Expense	3.7	2.4	2.9	4.6	3.5
<b>Pre-tax Profit</b>	<b>33.6</b>	<b>51.3</b>	<b>42.2</b>	<b>63.9</b>	<b>69.1</b>
Tax	11.8	15.8	13.6	20.0	21.2
Tax rate (%)	35.1%	30.7%	32.3%	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
<b>Net Profit</b>	<b>21.8</b>	<b>35.5</b>	<b>28.6</b>	<b>43.9</b>	<b>47.9</b>
Abn's / Extraord's	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	21.8	35.5	28.6	43.9	47.9
Revenue Growth (%)	N/A	5.8%	6.8%	17.2%	4.4%
EBIT Growth (%)	N/A	44.0%	-16.0%	51.7%	6.2%
NPAT Growth (%)	N/A	63.2%	-19.6%	53.6%	9.3%

## PROFITABILITY RATIOS

Yr Ending June	2003A	2004A	2005E	2006E	2007E
<b>EBIT / Sales (%)</b>	<b>10.0%</b>	<b>13.6%</b>	<b>10.7%</b>	<b>13.9%</b>	<b>14.1%</b>
ROA (%)	N/A	24.7%	19.4%	25.8%	24.9%
<b>ROE (%)</b>	<b>N/A</b>	<b>26.4%</b>	<b>20.5%</b>	<b>31.0%</b>	<b>30.9%</b>
ROFE (%)	N/A	36.4%	28.4%	37.2%	36.0%

## BALANCE SHEET (\$m)

Yr Ending June	2003A	2004A	2005E	2006E	2007E
Cash	21.8	29.7	18.1	13.1	16.3
Receivables	49.9	51.1	56.6	66.3	69.2
Inventories	60.0	66.5	73.0	85.6	89.3
Other	5.7	4.7	5.9	5.9	5.9
<b>Current Assets</b>	<b>137.3</b>	<b>152.0</b>	<b>153.6</b>	<b>170.9</b>	<b>180.7</b>
Net PPE	37.5	36.8	32.6	28.1	24.6
Investments	0.0	0.0	6.5	41.5	41.5
Intangibles	50.8	57.9	56.1	54.3	52.7
Other	6.7	8.1	8.6	9.3	9.6
<b>Non-current Assets</b>	<b>95.1</b>	<b>102.8</b>	<b>103.8</b>	<b>133.2</b>	<b>128.4</b>
<b>Total Assets</b>	<b>232.4</b>	<b>254.7</b>	<b>257.4</b>	<b>304.1</b>	<b>309.1</b>
Current Payables	40.0	37.9	40.5	47.4	49.5
Current Debt	20.3	27.1	32.1	52.1	52.1
Non-Current Debt	22.4	20.2	20.2	20.2	7.2
Provisions	0.0	0.0	0.0	0.0	0.0
Other	22.9	26.9	29.3	36.3	37.9
<b>Total Liabilities</b>	<b>105.6</b>	<b>112.1</b>	<b>122.1</b>	<b>156.1</b>	<b>146.7</b>
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	48.3	62.6
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>126.8</b>	<b>142.6</b>	<b>135.4</b>	<b>148.1</b>	<b>162.4</b>
<b>Total Funds Employed</b>	<b>147.7</b>	<b>160.2</b>	<b>169.6</b>	<b>207.3</b>	<b>205.4</b>

## LIQUIDITY &amp; LEVERAGE RATIOS

Yr Ending June	2003A	2004A	2005E	2006E	2007E
Net Debt (Cash) (\$m)	20.9	17.6	34.2	59.2	43.0
<b>Net Debt / Equity (%)</b>	<b>16.5%</b>	<b>12.3%</b>	<b>25.3%</b>	<b>40.0%</b>	<b>26.5%</b>
Interest Cover (x)	9.4	18.8	12.6	13.5	18.6
<b>Debt / CashFlow (x)</b>	<b>1.0</b>	<b>1.0</b>	<b>1.7</b>	<b>1.5</b>	<b>1.0</b>

## CASHFLOW (\$m)

Yr Ending June	2003A	2004A	2005E	2006E	2007E
EBIT	37.3	53.7	45.1	68.4	72.7
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	-4.6	-3.5
Tax Paid	-9.0	-11.3	-15.8	-13.6	-20.0
Dec / (Inc) W'kg Cap	6.5	-9.9	-9.4	-15.3	-4.5
Other	0.5	7.4	2.7	0.0	0.0
<b>Operating Cash Flow</b>	<b>41.5</b>	<b>49.4</b>	<b>31.6</b>	<b>47.3</b>	<b>57.5</b>
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	-35.0	0.0
Other Inv. Flows	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>-7.4</b>	<b>-20.1</b>	<b>-12.4</b>	<b>-41.1</b>	<b>-7.8</b>
Equity Raised	-4.7	-0.7	-7.9	0.0	0.0
Inc / (Dec) in Loans	-6.4	-1.4	5.0	20.0	-13.0
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
<b>Financing Cash Flow</b>	<b>-23.3</b>	<b>-21.5</b>	<b>-30.8</b>	<b>-11.2</b>	<b>-46.6</b>
<b>Net Cash Flow</b>	<b>10.9</b>	<b>7.8</b>	<b>-11.6</b>	<b>-5.0</b>	<b>3.2</b>

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 4,125 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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